IMPORTANT

If you are in any doubt *about this prospectus, you should consult your stockbroker, bank manager, solicitor, professional accountant or other professional adviser.*

China Wireless Technologies Limited

中 國 無 線 科 技 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

LISTING ON THE MAIN BOARD OF THE STOCK EXCHANGE OF HONG KONG LIMITED BY WAY OF PLACING AND PUBLIC OFFER

Number of Offer Shares	**:**	**132,000,000 Offer Shares (subject to the Over-allotment Option)**
Number of Public Offer Shares	**:**	**13,200,000 New Shares (subject to reallocation)**
Number of Placing Shares	**:**	**118,800,000 Offer Shares comprising 86,800,000 New Shares and 32,000,000 Sale Shares (subject to the Over-allotment Option and reallocation)**
Offer Price	**:**	**Not more than HK$0.87 per Offer Share (payable in full upon application and subject to refund)**
Nominal value	**:**	**HK$0.01 each**
Stock code	**:**	**2369**

Sponsor, Bookrunner and Lead Manager

DBS

The Stock Exchange of Hong Kong Limited and the Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever, for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, together with the documents specified under "Documents delivered to the Registrar of Companies and available for public inspection in Hong Kong" in Appendix VII to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies Ordinance. The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any other documents referred to above.

The Offer Price is expected to be fixed by agreement between DBS Asia (acting for itself and on behalf of the other Underwriters), the Vendor and the Company on the Price Determination Date which is expected to be on 6 December 2004 and, in any event, not later than 7 December 2004. The Offer Price will be not more than HK$0.87 and is currently expected to be not less than HK$0.79. Applicants for Public Offer Shares are required to pay, on application, the maximum Offer Price of HK$0.87 for each Public Offer Share together with brokerage of 1%, SFC transaction levy of 0.005%, investor compensation levy of 0.002% and the Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price should be lower than HK$0.87.

DBS Asia (for itself and on behalf of the other Underwriters, and with the consent of the Company and of the Vendor) may reduce the indicative Offer Price range stated in this prospectus (which is HK$0.79 to HK$0.87) at any time prior to the morning of the last day for lodging applications under the Public Offer. In such a case, a notice of the reduction in the indicative Offer Price range will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) not later than the morning of the last day for lodging applications under the Public Offer. If applications for Public Offer Shares have been submitted prior to the last day for lodging applications under the Public Offer, then even if the indicative Offer Price range is so reduced, such applications cannot be subsequently withdrawn.

If, for whatever reason, the Company, the Vendor and DBS Asia are not able to agree on the final Offer Price, the Share Offer (including the Public Offer) will not proceed and will lapse.

The obligations of the Public Offer Underwriters under the Public Offer Underwriting Agreement to subscribe for and to procure applicants for the subscription for the Pubic Offer Shares are subject to termination by DBS Asia (for itself and on behalf of the other Public Offer Underwriters) if certain grounds arise prior to 8:00 a.m. on the Listing Date. Such grounds are set out in the section headed "Underwriting" in this prospectus. It is important that you refer to that section for further details.

30 November 2004

If there is any change in the following expected timetable, the Company will issue a separate announcement.

	2004 *(Note 1)*
Application lists of the Public Offer open *(Note 2)*	11:45 a.m. on 3 December
Latest time for lodging **WHITE** and **YELLOW** Application Forms	12:00 noon on 3 December
Application lists of the Public Offer close *(Note 2)*	12:00 noon on 3 December
Price Determination Date *(Note 3)*	6 December
Announcement of final Offer Price, indication of the level of interests in the Placing, results of applications under the Public Offer and the basis of allotment of the Public Offer Shares (with successful applicants' identification numbers, where appropriate) to be published in South China Morning Post in English and Hong Kong Economic Times in Chinese on	8 December
Despatch or collection of Share certificates and/or refund cheques to wholly or partially unsuccessful applicants and in respect of excess application monies if the final Offer Price is less than the maximum Offer Price on *(Note 4)*	8 December
Dealings in the Shares on the Main Board commence on	9 December

Notes:—

1. All times refer to Hong Kong local time.

2. If there is a "**black**" rainstorm warning or a tropical cyclone warning signal number 8 or above in force at any time between 9:00 a.m. to 12:00 noon on 3 December 2004, the application lists of the Public Offer will not open on that day. Particulars of the arrangements are set forth under "Effect of bad weather on the opening of the application lists of the Public Offer" in the section headed "How to apply for the Public Offer Shares" in this prospectus.

3. The Price Determination Date is expected to be on 6 December 2004 and, in any event, not later than 7 December 2004. If, for whatever reason, DBS Asia (for itself and on behalf of the other Underwriters), the Company and the Vendor are not able to agree on the final Offer Price, the Share Offer will not proceed and will lapse.

4. If an applicant is using a **WHITE** Application Form to apply for 1,000,000 Public Offer Shares or more and has indicated on the relevant Application Form to collect the Share certificate and/or refund cheque (if applicable) in person, such Share certificate and/or refund cheque (if applicable) may be collected in person from the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17/F, Hopewell Centre, 183 Queen's Road East, Hong Kong, between 9:00 a.m. and 1:00 p.m. on 8 December, 2004 or on the date notified by the Company as the date of despatch of the Share certificates and refund cheques. Applicants being individuals who opt for collection in person must not authorise any other person to make their collection on their behalf. Applicants being corporations who opt for collection in person must attend by their authorised representatives bearing letters of authorisation from their corporations stamped with the corporations' chops. Both individuals and authorised representatives, as the case may be, must

produce, at the time of collection, evidence of identity acceptable to Computershare Hong Kong Investor Services Limited. If an applicant has opted for collection in person but does not collect the Share certificate and/or refund cheque (if applicable) personally within the time specified for collection, the Share certificate and/or refund cheque (if applicable) will be sent to the address as appeared on the relevant Application Form in the afternoon on the date of despatch by ordinary post at the applicant's own risk. If an applicant applies for 1,000,000 Public Offer Shares or more and has not indicated on the Application Form that the Shares certificate and/or refund cheque (if applicable) will be collected in person, then the Share certificate and/or refund cheque (if applicable) will be sent to the address as appeared on the relevant Application Form on the date of despatch by ordinary post at the applicant's own risk.

Part of the applicant's Hong Kong Identity Card number/passport number, or, in the case of joint applicants, part of the Hong Kong Identity Card number/passport number of the first-named applicant, provided by the applicant(s) may be printed on the applicant's refund cheque, if any. Such data would also be transferred to a third party for refund purpose. The applicant's banker may require verification of the applicant's Hong Kong Identity Card number/passport number before encashment of the refund cheque. Inaccurate completion of the applicant's Hong Kong Identity Card number/passport number may lead to delay in encashment of or may invalidate the refund cheque.

If an applicant is using a **YELLOW** Application Form, the relevant arrangements are set forth under "Collection/posting of Share certificates/refund cheques and deposit of Share certificates into CCASS" in the section headed "How to apply for the Public Offer Shares" in this prospectus.

Particulars of the conditions of the Share Offer are set forth in the section headed "Structure and conditions of the Share Offer" in this prospectus.

Share certificates will only become valid certificates of title if (i) the Public Offer has become unconditional and (ii) neither of the Underwriting Agreements has been terminated in accordance with its terms at or before 8:00 a.m. on the Listing Date. Investors who trade Shares on the basis of publicly available allocation details prior to the receipt of the Share certificates or prior to the Share certificates becoming valid certificates of title do so entirely at their own risk.

You should rely only on the information contained in this prospectus and the related Application Forms to make your investment decision.

The Company has not authorised anyone to provide you with information that is different from what is contained in this prospectus.

Any information or representation not made in this prospectus and the related Application Forms must not be relied on by you as having been authorised by the Company, the Vendor, the Sponsor, any of the Underwriters, the respective directors, officers, employees, agents or representatives of any of them or any other parties involved in the Share Offer.

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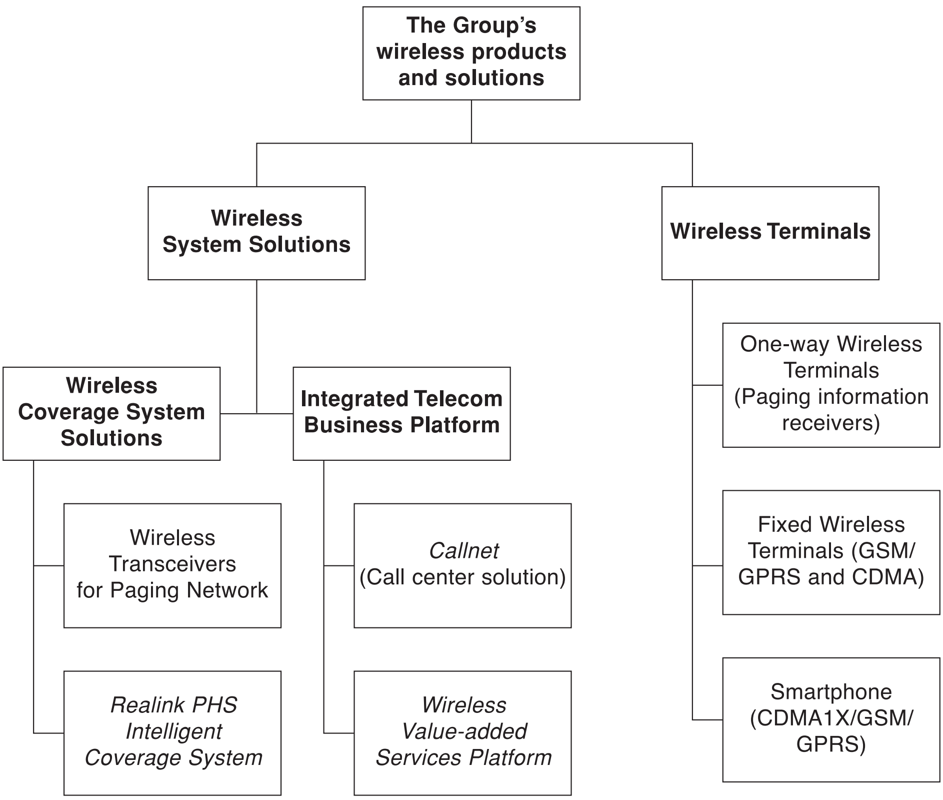
This summary aims to give you an overview of the information contained in this prospectus. As it is a summary, it does not contain all the information that is important to you. You should read the whole prospectus before you decide to invest in the Offer Shares.

There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set forth in the section headed "Risk factors" in this prospectus. You should read that section carefully before making any decision to invest in the Offer Shares.

OVERVIEW

The Group is a wireless solution and equipment provider in the PRC. Capitalising on its technological know-how in wireless telecommunication across multiple wireless telecommunication network standards including paging, GSM, GPRS, CDMA1X, and PHS (or "*Xiaolingtong*" as called in the PRC), the Group has delivered solutions and equipment for wireless telecommunication from back-end system to front-end user level. To date, the Group's wireless system solutions are mainly used by telecommunication operators for enhancing network coverage and provision of value-added services and corporate user as part of in-house wireless communication platform. The Group also supplies wireless terminal products such as fixed wireless terminals and smartphones based on operating system developed by the Group's in-house R&D team. The Group's terminal products are promoted under its own "*Coolpad*" brand name.

The chart below illustrates the Group's current portfolio of products and solutions:—



Synergistic effects created by Group's products and solutions

Combining its technological know-how and its portfolio of products and solutions, the Group is well positioned to provide innovative industry applications (comprising customised wireless system solutions and wireless terminal products) for enhancing internal and external communication of its customers, and thereby creating business opportunities.

For example, the Group provides industry application solution to China Galaxy Securities Limited (中國銀河證券有限責任公司) with an aim of enabling stock trading through wireless telecommunication network. The application comprises a back-end wireless system solution to support stock trading, and supply of smartphones for use of stock account customer. Based in Beijing, China Galaxy Securities Limited is one of the leading securities brokerages in the PRC. The group companies of China Galaxy Securities Limited are engaged in a wide range of financial services including securities brokerage, investment banking, asset management, fund management, and foreign exchange. As at the Latest Practicable Date, the Group had also provided industry application solutions to customers engaged in aviation, land transportation and public security. The Group has been in discussion with potential customers in relation to industry application for banking and insurance. The Group will also explore other industry applications in future.

The Group could either combine its portfolio of wireless system solutions and wireless terminal products for industry applications as stated above, or sell its products and solutions individually. Further information of the Group's products and solutions are set out below.

WIRELESS SYSTEM SOLUTION

The Group's wireless system solution are mainly provided to telecommunication operators with the objective of increasing sources of revenue through enlarging their network coverage and scope of value added services. The wireless system solution can also be modified for use of corporate users.

Evolution of the Group's wireless system solution business

During the past decade, telecommunication operators in the PRC concentrated on the development of GSM/GPRS network, and then value-added services (such as SMS and call centre services). The Group's provision of wireless system solutions was in line with such developments. In 1990s and early 2000s, the Group supplied to telecommunication operators wireless coverage system solution for paging network. As the paging network became mature, demand for such solution slowed down. It is the current policy of the Group to supply wireless transceivers for paging network only based on specific orders from earlier customers and will not actively market this product line. With the emergence of PHS technology in the PRC, the Group commenced R&D on PHS network coverage solution in April 2002 and launched its wireless coverage solution for PHS network (namely *Realink PHS Intelligent Coverage System*) in December 2003. On the other hand, the Group completed R&D on its core module for enabling telecommunication services and the related database management, namely "*Uniswitch*" in 1999 and based on "*Uniswitch*", launched *Wireless Value-added Services Platform* and *Callnet* in June 2001 and June 2002, respectively aiming to enable management functions of and provision of value-added service by telecommunication operators.

The Directors believe that the Group are among the preferred wireless system solution providers to major telecommunication operators in the PRC, which is evidenced by the fact that the Group was enlisted as one of the approved suppliers of various equipment to the China Unicom Group, with whom the Group has maintained more than seven years of business relationship. However, as the number of major telecommunication operators in the

PRC is limited, the number of potential customers for the Group's wireless system solutions is also limited. Moreover, due to their substantial size and business coverage, telecommunication operators are typically in a stronger bargaining position.

During the Track Record Period, revenue from provision of wireless system solutions accounted for more than 90% of the turnover of the Group in 2001 and 2002; and dropped to approximately 30% and 18% in 2003 and the five months ended 31 May 2004, respectively. The Directors believe that the trend was in line with the development trend of the telecommunication industry in the PRC, whereby the telecommunication operators gradually shifted the bulk of their investments from building infrastructure of telecommunication networks to enhancing value-added services and user interface. Moreover, for the five months ended 31 May 2004, the Group did not deliver any wireless transceiver for paging network, and the average selling price of *Realink PHS Intelligent Coverage System, Callnet* and *Wireless Value-added Service Platform* declined compared to those in 2003, mainly as a result of the smaller size of projects delivered during the period.

Based on the Directors' observation on the development of the telecommunication industry in the PRC, the Directors expect that the financial contribution of wireless system solutions to the Group's turnover would either become stable or decrease gradually till the emergence of new technology or standard. For example, in the past, the emergence of the PHS standard in the PRC led to additional investments in network solutions by the telecommunication operators and the Group was then able to capitalise on the development by promoting new network coverage solution.

In the past, the Group has focused its R&D and marketing activities for the promotion of its wireless system solutions. The Directors believe that the Group's earlier investment and the experience accumulated in the R&D and marketing of wireless system solutions served as foundation for development of its wireless terminal business, and more importantly for the development of industry applications in the following ways:—

(i) telecommunication operators, which are the major customers of the Group's wireless system solutions, are also important clientele for the Group's wireless terminal products;

(ii) continuous provision of wireless system solutions to telecommunication operators would not only allow the Group to maintain relationship with telecommunication operators but also allow the Group to gain insight of technological development and system requirements of telecommunication operators. The Directors believe that such developments will likely shape the behavior of wireless service users and consider them as important considerations in designing wireless terminal products; and

(iii) under one of the current business models of promoting industry applications, the Group would design an industry application, supply wireless system solution directly to corporate users, and at the same time supply the wireless terminals to telecommunication operators. The telecommunication operators would then resell the wireless terminals together with network usage packages to the corporate users to encourage higher network usage. This model has already been used by customers of the Group and the Group has been and is engaged in promotion of the industry application jointly with one of the major telecommunication operators in the PRC.

In view of the above, the Directors expect that the Group would continue to engage in the provision of wireless system solutions along with the provision of wireless terminals. Given the same core technologies for wireless telecommunication and the commercial considerations cited above, notwithstanding the change in contribution of different products and solutions to the turnover of the Group, the Directors consider that there was no significant change in key functional units of the Group, namely management, R&D, marketing and sales, during the Track Record Period.

Wireless coverage system solutions

The Group's wireless coverage system solutions are generally used by telecommunication operators to extend and enhance transmission quality of their telecommunication network. These solutions are sold on project basis and can be modified in accordance with customers' specifications. Currently, the Group's wireless coverage system solutions can be used for paging or PHS networks.

Wireless transceivers for paging network

The Group's wireless transceivers are designed to provide outdoor coverage of a paging network. This solution supports one-way transmission of wireless data and is used by telecommunication operators in the PRC. The principal function of this solution is for converting data signal to wireless signal, which is received by a pager. In view of the shrinking paging market in the PRC, the Group intends not to put material resources in the R&D or marketing of this solution. Instead, the Group will only deliver wireless transceivers based on specific order from earlier customers.

Realink PHS Intelligent Coverage System

The Group launched its wireless coverage system solution for PHS networks under the name of *Realink PHS Intelligent Coverage System* in December 2003. *Realink PHS Intelligent Coverage System* is a multiple-channel PHS coverage system solution designed to extend the coverage of a PHS network and to enhance voice quality.

Integrated telecom business platform

The Group's integrated telecom business platform is primarily used by telecommunication operators to support telecommunication services with centralised management functions and user interface that could provide value-added services to subscribers. The solution is able to automatically prioritise information flow and request. These solutions are sold on project basis and are modified in accordance with customers' specifications.

Currently, the Group's integrated telecom business platform comprises two solutions, namely *Callnet* and *Wireless Value-added Services Platform*.

Callnet

The Group's *Callnet* is a solution for supporting operation of a call centre, including those operated on WAN IP. The key function of a call centre is to receive and process audio and data requests via telephone, fax, computers or the Internet. The *Callnet*'s PBX/ACD will decide whether the data received should be processed under an IVR system or a team of human operators. Once the request is recognised, the system will then retrieve the data through its database and transmit the content to the appropriate recipients via various gateway mediums, such as the mobile network, wireless data network or corporate network.

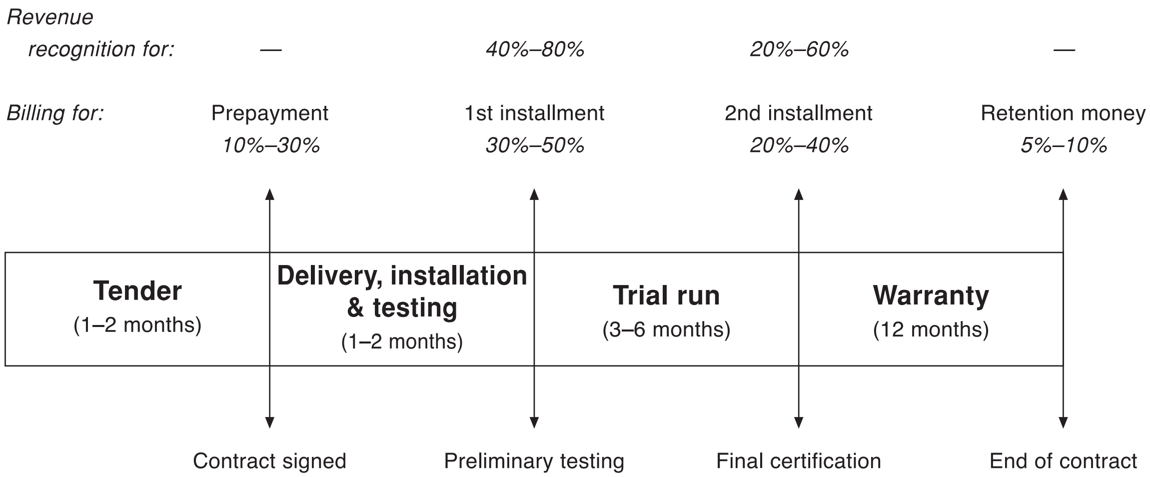
During the Track Record Period, the Group delivered its *Callnet* solutions to major telecommunication operators in the PRC for the establishment of their own in-house call centres or to enable the telecommunication operators to provide contracted call centre services to their own customers. The contracted call centre services are designed to enable the telecommunication operators to support call centre functions for their clients according to clients' specifications. Moreover, the Group also delivered *Callnet* as corporate solution to corporations such as TCL. The Directors believe that the system is able to assist corporations to provide a cohesive CRM interface and would be of great value to corporations that operate in competitive environment with large amount of customers.

Wireless Value-added Services Platform

The Group's *Wireless Value-added Services Platform* is a solution designed to enable telecommunication operators to offer to subscribers interactive wireless data services, such as SMS, Internet paging and wireless game. The platform can also provide IVR services to various telecommunication media such as fixed line, mobile network, and Internet simultaneously. With the Group's *Wireless Value-added Services Platform*, telecommunication operators can offer various services such as real-time stock quotation, news, dating services, weather report and lottery results to their subscribers.

Business model for provision of wireless system solutions

Under the current business model, the Group's wireless system solutions are mainly provided directly to telecommunication operators on project basis. The Group provides design, delivery and installation, testing and inspection, maintenance and after-sales services for its wireless system solution customers. Following the final certification, the customer would be responsible for the ongoing operation of the wireless system solution. A wireless system solution project could take about one to two years from the commencement of tender to the end of the warranty period, depending on the complexity and size of the project. The following chart illustrates the typical stages of a wireless system solution project:—



The Group normally requires prepayment for its wireless system solutions, although the percentage of prepayment decreased substantially during the Track Record Period from about 30% to 10% as a result of the increasing bargaining power of the telecommunication operators. Payments from the customers are normally made by installment upon completion of installation, testing and trial run, with retention money of about 5% to 10% paid to the Group at the end of the warranty period.

Some of the Group's *Realink PHS Intelligent Coverage Systems* are sold to telecommunication equipment or solution distributors, which then resell to telecommunication operators. The distributors are responsible for installation, testing and maintenance, with the Group providing technical and marketing support. The distributors are typically required to settle the purchase price upon delivery, while in some cases, the Group may offer credit terms up to three months to distributors with good payment record. Revenue is recognised by the Group upon delivery of the products.

WIRELESS TERMINAL

The Group distributes wireless terminals under its own brand name *Coolpad*. The wireless terminals enable one-way or two-way transmission of wireless data. The Group's wireless terminals are mainly sold to branch companies of telecommunication operators and telecommunication equipment distributors in the PRC. The Group also promotes its wireless terminal products as part of its industry application.

Evolution of the Group's wireless terminal business

The Group commenced its supply of wireless terminals as early as 1995 when the Group supplied mainly paging information receivers together with PPS high speed wireless data transmission system to telecommunication operators in the PRC. As the paging network became mature, demand for the paging information receivers slowed down. On the other hand, in view of the increasing data transmission capabilities of telecommunication network, the Group decided to capitalise on market opportunities by developing its own wireless terminal products and commenced R&D on the operating system of wireless terminals in August 1999. In December 2002 and January 2003, the Group explored the market of fixed wireless terminal by launching such products for GSM/GPRS and CDMA networks respectively. In March 2002, the Group started hardware design of its smartphone products. The Group's smartphone for CDMA1X and GSM/GPRS network was launched to market in December 2003 and September 2004 respectively. Combining its expertise and experience in wireless system solution, the Group promoted industry applications of its smartphone products together with back-end wireless system solution at the same time.

During the Track Record Period, wireless terminal products contributed less than 10% to the Group's turnover in 2001 and 2002. In 2003 and the five months ended 31 May 2004, revenue from wireless terminal products accounted for approximately 70% and 82% of the Group's turnover, mainly due to the launch of fixed wireless terminals and smartphone. For the five months ended 31 May 2004, the average selling price of one-way wireless terminal and fixed wireless terminals declined compared to those in 2003, mainly as a result of shrinking paging market in the PRC and the pricing pressure on the fixed wireless terminals due to increasing market competition; while the average price of the smartphone maintained at similar level as that in 2003.

The Directors believe that the significant contribution of revenue from wireless terminal products was firstly due to the product quality and marketing activities undertaken by the Group, and secondly the promotion policy of telecommunication operators. Telecommunication operators are the Group's major customers of wireless terminals and typically resell the products to subscribers as part of incentive package for using their telecommunication networks. The Directors expect that the Group's fixed wireless terminals will continue to be sold mainly to telecommunication operators and telecommunication equipment distributors who usually resell such products to the telecommunication operators, and future sales of fixed wireless terminals will continue to depend on product quality and promotion policy of telecommunication operators. On the other hand, it is the policy of the Group to promote its smartphones not only to telecommunication operators and telecommunication equipment distributors but also to potential users of its industry applications. With a much diversified distribution channel, the Directors expect that the sales of its smartphone will principally depend on product quality and effectiveness of the Group's marketing activities. Given the huge size and population of the PRC, the increasing use of wireless services and requirement for more sophiscated data handling capability of wireless terminals, the Directors envisage the potential of the Group's wireless terminal products, particularly smartphone, to be substantial.

One-way wireless terminal

The Group's one-way wireless terminals operate on the Group's proprietary operating system and are designed for paging network to transmit information such as stock quote, news and weather forecast. In view of the shrinking paging market in the PRC, the Directors expect that one-way wireless terminals would not represent main stream of revenue in future and do not intend to put substantial R&D or marketing resources in this product. Instead, the Group will only deliver this type of products based on specific order from existing customers.

Fixed wireless terminal

The Group's fixed wireless terminal functions like a desktop phone but is designed to operate on a mobile network. The fixed wireless terminals are promoted mainly to operators of mobile telecommunication network in the PRC, as the fixed wireless terminal encourage usage of mobile network even in a stationary environment such as office and home.

The Group's CDMA fixed wireless terminal passed the field test conducted by the China Unicom Group and is enlisted by the China Unicom Group as one of its approved CDMA fixed wireless terminal providers. As at the Latest Practicable Date, the Directors understand that there were 15 CDMA fixed wireless terminal providers approved by the China Unicom Group in the PRC, including the Group.

Smartphone

The Group's smartphone was developed based on the Group's self-developed operating system. The Group's smartphone integrates a mobile phone and a PDA with wireless applications such as email, Internet browsing, and instant messaging. As at the Latest Practicable Date, the Group offered smartphones that operate on the CDMA1X and GSM/GPRS networks in the PRC and has finished the field trialing of its CDMA-GSM dual-mode smartphone.

The Group aims to position its smartphone as a wireless communication device for high-end market. The Directors intend the target users of the Group's smartphone to be high-end users requiring sophisticated data functions or corporations using the Group's industry applications. The Directors believe that with the enhancement of wireless telecommunication network, more sophisticated wireless services will become available to the market. Smartphone with ability to support various data related functions such as email, database management, and multi-media functions such as video viewing and recording, Internet browsing, and camera function will be of demand. On the other hand, the Directors understand that the competition in this area is intense with various local and overseas competitors. Some of them have very strong market position and technical background.

With its expertise in wireless system solution for back-end operations, the Group has provided industry applications for stock trading businesses and customers engaged in land transportation, aviation and public security. The Group has been in discussion with potential customers in relation to industry application for banking and insurance. The Group will also explore other industry applications in the future.

Business model for provision of wireless terminal product

The Group provides design and after-sales services for its wireless terminals customers which are typically telecommunication equipment distributors and telecommunication operators. Sales are typically made on cash on delivery basis or credit term of up to three months in general. However, in some cases, wireless equipment distributors would make prepayment to the Group before delivery of products.

Breakdown of turnover

Breakdown of the Group's turnover by products and solutions during the Track Record Period is as follows:—

	For the year ended 31 December						For the five months ended 31 May			
	2001		2002		2003		2003 (unaudited)		2004	
	RMB'000	*% of turnover*	*RMB'000*	*% of turnover*	*RMB'000*	*% of turnover*	*RMB'000*	*% of turnover*	*RMB'000*	*% of turnover*
Wireless system solutions										
Wireless transceivers for paging network	83,363	98.3	73,431	72.5	20,608	12.8	18,029	38.3	—	—
Realink PHS Intelligent Coverage System	—	—	—	—	10,034	6.2	—	—	11,424	13.6
Sub-total for wireless coverage system	83,363	98.3	73,431	72.5	30,642	19.0	18,029	38.3	11,424	13.6
Callnet	—	—	13,343	13.1	11,967	7.4	8,121	17.3	2,448	2.9
Wireless Value-added Service Platform	836	1.0	8,176	8.1	6,190	3.8	5,721	12.2	1,488	1.8
Sub-total for integrated telecom business platform	836	1.0	21,519	21.2	18,157	11.2	13,842	29.5	3,936	4.7
Sub-total	84,199	99.3	94,950	93.7	48,799	30.2	31,871	67.8	15,360	18.3
Wireless terminals										
One-way wireless terminals	568	0.7	4,887	4.8	4,220	2.6	2,927	6.2	39	—
Fixed wireless terminals	—	—	1,492	1.5	89,248	55.3	12,230	26.0	22,538	26.8
Smartphone	—	—	—	—	19,241	11.9	—	—	46,252	54.9
Sub-total	568	0.7	6,379	6.3	112,709	69.8	15,157	32.2	68,829	81.7
Total	84,767	100.0	101,329	100.0	161,508	100.0	47,028	100.0	84,189	100.0

The number of projects delivered or units of wireless terminals sold by the Group during the Track Record Period are as follows:

	Year ended 2001	Year ended 2002	Year ended 2003	Five months ended 31 May 2003	Five months ended 31 May 2004
	Unit	*Unit*	*Unit*	*Unit*	*Unit*
Wireless system solutions					
Wireless transceiver for paging network	107	58	15	9	—
Realink PHS Intelligent Coverage System	—	—	6	—	30
Callnet	—	3	3	2	1
Wireless Value-added Services Platform	2	11	9	6	5
Wireless terminals					
One-way wireless terminal	1,761	8,233	9,841	8,026	206
Fixed wireless terminal	—	1,025	52,265	8,595	30,321
Smartphone	—	—	5,002	—	12,023

IMPLICATION OF ADJUSTMENT OF THE GROUP'S PORTFOLIO OF PRODUCT AND SOLUTION

As evidenced by the evolution of the Group's businesses, the Group has been adjusting its business strategies in light of the changing market conditions by making use of its core technologies. The results of the adjustment are reflected in change in customer composition, and also the change in contribution to overall sales and profit margin by different product and solution. During the Track Record Period, the contribution of turnover from sales to the telecommunication operators and sales of wireless system solution decreased, whilst that from wireless terminals, in particular smartphones, increased significantly. Meanwhile, due to market competition, the average contract size or selling price of some of the Group's products and solutions, such as the *Callnet* and fixed wireless terminal also decreased during the period. Despite the decrease, the Group intended to continue the provision of wireless system solutions and products to telecommunication operators in order to gain in-depth understanding of system requirements of telecommunication operators. The Directors believe that such understanding to be of importance for shaping the overall telecommunication market and the development strategies of the Group. As such, the Directors expect that whilst the contribution of the wireless system solutions business would either be stable or decrease, the smartphone business would be the key growth area for the Group in the short to medium term.

The Directors expect that due to different business terms incidental to sales of smartphone, as compared to provision of wireless system solutions and other wireless terminals, the Group would enjoy benefit such as relatively shorter cash collection period due to relatively shorter settlement cycle. On the other hand, the Group would have to take a more proactive approach in launching new models of products to capture market interest, which would be reflected in the substantial input in R&D on smartphone products in the future.

RESEARCH AND DEVELOPMENT

During the Track Record Period, the Group's products and solutions are designed and developed by the Group's R&D team. The Group places strong emphasis on the R&D for product and innovations in order to capture opportunities emerged from the rapid development and advancement in the telecommunication industry.

As at 31 December, 2001, 2002 and 2003, and as at the Latest Practicable Date, the Group had R&D staff of 191, 162, 202, and 231 respectively. Most of the Group's R&D professionals have obtained bachelor's degree or above, specialising in communications technology, electronics engineering and/or other wireless telecommunication related subjects. Currently, the Group's R&D is organised into four function groups, namely, hardware group, software group, testing group; and 3G/multi-media group. Mr. Guo is responsible for overseeing the overall strategic R&D direction; and Mr. LI Ming and Mr. DONG Yongquan are responsible for overseeing the daily R&D functions. All of them have over 10 year experience in R&D in telecommunication industry in the PRC and received relevant academic qualifications. Particularly, Mr. LI Ming and Mr. DONG Yongquan had prior experience in R&D of smartphone and fixed wireless terminal products.

NATION-WIDE COVERAGE IN THE PRC

The following map shows the provinces and direct-controlled municipalities in the PRC which the Group's products and solutions have been sold to or deployed in.

To provide timely and quality services, the Group has established a nation-wide services network with headquarters in Shenzhen, a representative office in Beijing, sales liaison points in Shanghai, Chongqing, Tianjin and 20 provinces in the PRC (namely Anhui, Fujian, Gansu, Guangdong, Guangxi, Guizhou, Hebei, Heilongjiang, Henan, Hubei, Jiangsu, Liaoning, Ningxia, Shaanxi, Shandong, Shanxi, Sichuan, Xinjiang, Yunnan and Zhejiang).

ACCREDITATION

Since its establishment, the Group has positioned itself as a wireless solution and equipment developer and has been focusing on the development of innovative wireless communication technologies in the PRC. The Group is one of the earlier providers of ingenious wireless paging system solutions comprising wireless transceiver, back-end operation support system and front-end terminals in the PRC.

As a result of its efforts, the Group was accredited as 深圳市高新技術企業 (Shenzhen Hi-tech Enterprise) in July 1999, 軟件企業 (Software Enterprise) by 深圳市信息化辦公室 (Shenzhen Informatisation Office) in August 2001, 深圳市300最具成長性企業 (300 Fastest Growing Enterprise in Shenzhen) by 深圳市企業評價協會 (Shenzhen Enterprise Appraisal Association) in September 2001, and 深圳市青年科技創新(示範)基地 (Shenzhen Young Technology Innovation Organisation) by 深圳市人民政府 (Shenzhen Municipal People's Government) in July 2003. In July 2004, the Group's *Coolpad* 手機嵌入式軟件 VI.10 (mobile phone embedded software) was accredited gold medal in 第八屆中國國際軟件博覽會 (The 8th INT'L SOFT CHINA). Details of other awards and honours received by the Group are set in the paragraph headed "Accreditation and official recognitions" in the section headed "Business" in this prospectus. In May 2003, the Group was also awarded the ISO9001: 2000 management process quality certificate.

COMPETITIVE STRENGTHS

The Directors consider the Group's competitive strengths to be as follows:—

- **Understanding of the PRC's wireless communication industry**

  Founded in 1993, the Group has been providing wireless solutions and equipment to telecommunication operators in the PRC. During the years, PRC's wireless telecommunication industry witnesses quick advancement in technology and de-regulation. The Group has accumulated expertise and experience in multiple wireless networks, including paging, GSM, GPRS, CDMA and PHS. The Directors believe that such expertise and experience are not common attributes among wireless communication solution providers in the PRC and could offer the Group significant competitive edge over its competitors in the future.

- **Proximity to local market**

  As a domestic enterprise with years of business relationships with PRC's major telecommunication operators, the Group has nurtured close relationships with its customers. This enables the Group to have a good understanding of the requirements of the telecommunication operators so as to provide timely responses to market changes.

- **Nimble and cost-effective R&D**

The Directors believe that the Group's R&D activities are both nimble and cost-effective, and the Group has a very strong R&D team. As at 31 December 2001, 2002, 2003 and the Latest Practicable Date, the Group had 191, 162, 202 and 231 staff respectively responsible for R&D with most of them obtained bachelor's degree or above. During the Track Record Periods, all of the Group's products and solutions are designed and developed by the Group's R&D team. During each of the three years ended 31 December 2003 and the five months ended 31 May 2004, the Group's R&D expenses were approximately RMB8.5 million (approximately HK$8.0 million), RMB10.7 million (approximately HK$10.0 million), RMB11.3 million (approximately HK$10.7 million) and RMB6.3 million (approximately HK$5.9 million) respectively, representing approximately 10%, 11%, 7% and 8% of the Group's turnover respectively. With such R&D expenditure, the Group has been able to develop and design its own products and solutions in line with the development trend of the wireless telecommunication industry in the PRC and have received a number of awards and official recognitions from a number of PRC authorities and professional bodies as set out in the paragraph headed "Accreditation and official recognitions" in the section headed "Business" in this prospectus. The Directors believe that this has enabled the Group to provide a variety of R&D intensive products and to launch innovative products and solutions at competitive costs.

- **Portfolio of core technologies**

Through years of experience of offering solutions ranging from back-end to front-end applications for wireless telecommunication, the Group has developed and accumulated core technologies in the areas of telecommunication protocol software development, RF system design, embedded real-time control and proprietary operating system for wireless terminals.

- **Recognition and reputation**

The Group has been providing products and solutions for wireless telecommunication and support services in the PRC for years. The Group's products and solutions have been recognised and accredited by various authorities. The Directors believe that the Group has gained a reputation for quality products and solutions among many of its customers.

- **Extensive sales, after sales support and technical support services**

The Group has delivered wireless telecommunication solutions covering extensive parts of the PRC. As at the Latest Practicable Date, the Group employed a sales team comprising 105 people, who stationed in the Group's headquarters in Shenzhen, representative office in Beijing and sales liaison points in Shanghai, Chongqing, Tianjin and 20 provinces in the PRC. The team provides installation and maintenance services, and after sales support services to the Group's customers.

MARKET OPPORTUNITIES

The Directors believe that the Group is well positioned to capitalise on the opportunities arising from telecommunication industry de-regulation, technology advancement, as well as increasing popularity of wireless applications in the PRC.

1. **Industry de-regulation** — With the restructuring of the telecommunication sector in the PRC, mobile and fixed-line telecommunication operators are not only providing voice services. More value-added and data services and services based on network standard with both mobile and fixed-line features such as PHS have been launched in recent years. As a result, competition among telecommunication operators intensifies. To enhance competitiveness and to introduce additional revenue sources, telecommunication operators seek to provide more comprehensive value-added services and to develop innovative industry applications of wireless services on top of basic voice services. The Directors believe that these developments will continue to create opportunities for solution and equipment providers with technical expertise, track records and nation-wide services network.

2. **Technology advancement in wireless technologies** — As higher bandwidth digital mobile network (such as 2.5G and 3G) and particularly the CDMA1X (referred to as 2.5G or 2.8G) network are being or expected to be used in the PRC on a nationwide scale, telecommunication operators are able to offer more sophisticated services and would need to market such services to subscribers in the shortest possible time frame to recover the investment in network infrastructure. This and the need for the offering of more data centric services are expected to create substantially more demand for the Group's products and solutions.

   The Directors believe that the emergence of 3G standards in the PRC signifies potential new markets for full range of the Group's products and solutions, including network coverage solutions, back-end system solutions for telecommunication operators and terminal products. All the designs of the Group's existing products have been developed with consideration of further upgrade to 3G standards.

   The Directors understand that 3G testing was first carried out in the PRC in 2002. In November 2003, the second stage of 3G testing were conducted by six telecommunication operators and equipment providers on three major 3G standards, being WCDMA, CDMA2000 and TD-SCDMA. 3G inter-vendor equipment operability, network coverage and system capacity tests have been conducted in selected regions in 2004. In light of these developments, the Directors believe that 3G could be launched in the PRC no early than 2005, though no concrete timetable, rules or regulations have been issued by the State as at the Latest Practicable Date. The Directors believe that, with the deployment of 3G technology in the PRC, mobile operators in the PRC will increase their investment on wireless peripheral equipment so as to extend the functionality of their network coverage and terminal products to achieve 3G compatibility. Accordingly, in order to build up the Group's ability and readiness to provide 3G wireless coverage system solutions and 3G compatible wireless terminals, the Group has set up a 3G/multi-media project team in its R&D department. In order to follow 3G technologies development and study on application of 3G technologies, in March and October 2004, the Group entered into strategic partnership agreements with a 3G module developer which is engaged in the design and manufacturing of CDMA wireless modules, and a wireless telecom component and system provider, respectively. The Group's 3G/multimedia team has also been in frequent contact with and is in negotiation with a core 3G technology developer in the PRC for collaboration in R&D of 3G technologies. The Group plans to upgrade its existing wireless system solutions and terminal products to be 3G compatible.

3. **Unique requirements of the PRC market** — The Directors believe that the Group has acquired substantial knowledge on the requirements of customers in the PRC. Capitalising on its local expertise, the Group developed its own operating system for its smartphone products for the PRC market. Such operating system relieves the Group from paying licensing fee to third party technology provider. In addition, it allows the Group to have autonomy in designing and refining functions of the smartphone products and in developing industry applications so as to meet changing requirements of the market and technology innovations in a timely manner.

GROWTH STRATEGY

During the Track Record Period, based on its know-how on core wireless telecommunication technologies, the Group was able to effectively adjust its product and solution portfolio in line with the investment focus of telecommunication industry in the PRC. During the Track Record Period, the Group's major source of turnover changed from sales of wireless system solutions to wireless terminals. The contribution from wireless system solutions decreased from approximately 99.3% in 2001 to approximately 18.3% in the five months ended 31 May 2004, while that from wireless terminals increased from approximately 0.7% in 2001 to approximately 81.7% in the five months ended 31 May 2004.

As basic infrastructure of the existing telecommunication networks in the PRC matures and the competition among telecommunication operators intensifies, the Directors expect that the telecommunication operators will continue to focus on enhancing user interface and promote more value-added services to reinforce customer royalty. Under the current market condition, the Group expects to maintain the provision of wireless system solutions and to derive growth from wireless terminal products, particularly smartphone. In the long term, the Group will continue to generate growth by providing products and solutions in response to the emergence of new technology and the increasing requirements of the telecommunication operators and corporate clients by utilising its core wireless technologies. To achieve growth in such direction, the Group has formulated development plans as follows.

DEVELOPMENT PLANS

Further development of the smartphone business and development of the potential smartphone operating system licensing business

The Directors believe that the Group is one of the leaders among the many technology companies in the PRC which have successfully developed their own operating system for wireless terminals. In July 2004, the Group's *Coolpad* 手機嵌入式軟件 VI.10 (mobile phone embedded software) was accredited gold medal in 第八屆中國國際軟件博覽會 (The 8th INT'L SOFT CHINA). With its self-developed operating system, the Group does not need to pay licence fee to third party technology provider and has the autonomy to enhance the functions of its wireless terminal products. The Group has also been in discussions with certain major handset manufacturers in the PRC about licensing the Group's proprietary operating system with the aim of penetrating into the smartphone operating system market.

Coupled with its experience in wireless system solution development, the Group is well positioned to extend the application of its wireless terminals, particularly smartphone, to provide tailor made industry applications. The Group intends to promote industry applications either on its own or in partnership with other services/application providers or telecommunication operators. The Group has taken steps to market the industry applications for stock trading, aviation, banking, insurance, land transportation and public security industries. Details of the industry applications are set out in the paragraphs headed "Industry applications developed based on the Group's wireless terminal products" in the section headed "Business" in this prospectus.

Further empowering of R&D

To support future expansion, the Directors consider it crucial to further strengthen the Group's R&D team. The Group plans to recruit additional professionals to join its R&D team, purchase more R&D equipment, and provide continuous training to improve the R&D team's technical know-how. The Group will also continue to participate in exhibitions and workshops in order to keep abreast of latest wireless technologies. In order to accommodate the growing R&D team, the Directors consider that it would be useful for the Group to build its own R&D centre in the future. However, the Directors further confirmed that as at the Latest Practicable Date, the Group has not committed to any third party for purchase of land for such purpose, nor the Group has any fixed timetable for doing so.

It is the Group's strategy to focus on a few core areas of wireless communication technologies related to its proprietary operating system for wireless terminal products and its industry applications, wireless coverage system for PHS network and applications of 3G technologies. Besides investing in research on the applications of core 3G technologies, the Group plans to upgrade its existing products and solutions to be 3G compatible. Details on the Group's R&D directions are set forth under the paragraph headed "Research and development" in the section headed "Business" in this prospectus.

Brand awareness and products/solutions promotion

With its core technical competence in wireless technologies, the Group aims to position itself as a preferred partner for telecommunication operators and corporate subscribers. To this end, the Group aims to maintain close contact with major telecommunication operators in the PRC on both headquarters level and provincial branch level. The Group's technical staff will continue to liaise closely with the representatives of telecommunication operators to keep itself abreast of technical requirements as well as market development directions. The Directors expect that the Group would continue to partner with telecommunication operators, other telecommunication solution or equipment providers in promoting its wireless terminal products as core component of industry applications. The promotion is expected to be done primarily through direct marketing. The Group will participate in various trade shows and technical conferences in the PRC to enhance the publicity of its brandname. Advertisements will also be placed in selected professional and general magazines as well as outdoor media in major PRC cities such as Beijing, Shanghai, Guangzhou, Hangzhou and Shenzhen to enhance the awareness of products and solutions and the image of the Group.

Expansion in sales, distribution and services network coverage

The Group is headquartered in Shenzhen of the PRC and has one representative office in Beijing and sales liaison points in Shanghai, Chongqing, Tianjin and 20 provinces in the PRC. In order to strengthen the Group's market position, the Group intends to upgrade some of its sale liaison points and the representative office in future. In doing so, the Group expects to enlarge the sales team, expand the office space and upgrade office facilities. In addition, the Group also intends to increase the number of experienced sales engineers in order to support the increasing volume of marketing activities and to provide better services to its customers.

TRADING RECORD

The following table summarises the Group's audited combined results for the Track Record Period, which are prepared on the assumption that the Group's current corporate structure had been in existence throughout the periods under review and is extracted from, and has been prepared in accordance with the basis set forth in section I of the accountants' report, the text of which is set forth in Appendix I to this prospectus:—

	Year ended 31 December			Five months ended 31 May	
	2001	**2002**	**2003**	**2003**	**2004**
	(audited)	**(audited)**	**(audited)**	**(unaudited)**	**(audited)**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Turnover[(1)]	84,767	101,329	161,508	47,028	84,189
Cost of sales	(34,317)	(40,454)	(92,845)	(25,151)	(52,372)
Gross profit	50,450	60,875	68,663	21,877	31,817
Other revenues	1,063	3,551	3,271	1,540	1,885
Selling and distribution expenses	(15,716)	(10,155)	(11,818)	(4,620)	(7,503)
Administrative expenses	(18,295)	(16,825)	(15,110)	(5,068)	(7,367)
Net other operating expenses	(1,293)	(890)	(494)	(98)	(255)
Operating profit	16,209	36,556	44,512	13,631	18,577
Finance costs	(857)	(1,127)	(1,951)	(372)	(828)
Share of losses of an associate	(718)	(315)	(43)	(23)	—
PROFIT BEFORE TAX	14,634	35,114	42,518	13,236	17,749
Taxation	(1,422)	(2,446)	(3,301)	(895)	(2,316)
PROFIT BEFORE MINORITY INTEREST	13,212	32,668	39,217	12,341	15,433
Minority Interest	343	—	—	—	—
NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS	13,555	32,668	39,217	12,341	15,433
Dividends	—	(20,198)	—	—	—
Earnings per Share *(RMB cent)*[(2)]	4.52	10.89	13.07	4.11	5.14

Notes:—

1. Turnover represents the net invoiced value of goods sold and services rendered during the Track Record Period, after deducting allowances for returns and trade discounts and net of sales tax and value-added tax.

2. The computation of earnings per Share is based on the Group's combined net profit attributable to Shareholders for the Track Record Period and on the basis of a total of 300,000,000 Shares in issue and expected to be issued immediately following the completion of the Capitalisation Issue.

A detailed discussion of the results of the Group during the Track Record Period is set forth under the paragraph headed "Management's discussion and analysis of results" in the section headed "Financial information" in this prospectus.

PROFIT FORECAST FOR THE YEAR ENDING 31 DECEMBER 2004

The following sets forth the profit forecast for the year ending 31 December 2004:—

Forecast consolidated profit after taxation but before extraordinary items(1)	not less than RMB46.0 million (approximately HK$43.4 million)
Forecast fully diluted earnings per Share (2)	not less than 11.5 RMB cents (or 10.9 HK cents)

1. The profit forecast has been prepared based on the audited results of the Group for the five months ended 31 May 2004, the unaudited results of the Group for the five months ended 31 October 2004 and a forecast of the results of the Group for the remaining two months ending 31 December 2004 on the basis that the current Group structure had been in existence throughout the whole financial year ending 31 December 2004. For details, please refer to Appendix III to this prospectus.

2. The calculation of the forecast earnings per Share on a fully diluted basis is based on the forecast consolidated profit after taxation but before extraordinary items for the year ending 31 December 2004 and on the basis of a total of 400,000,000 Shares in issue and expected to be issued immediately following completion of the Share Offer and the Capitalisation Issue but does not take into account any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any options that may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandates for the allotment and issue or repurchase of the Shares referred to under "Written resolutions of all the shareholders of the Company passed on 21 November 2004" in Appendix VI to this prospectus.

STATISTICS OF THE SHARE OFFER

	Based on the Offer Price of HK$0.79	**Based on the Offer Price of HK$0.87**
Market capitalisation *(Note 1)*. .	approximately HK$316 million	approximately HK$348 million
Unaudited adjusted net tangible asset value per Share *(Note 2)*.	approximately 44.8 RMB cents (approximately 42.2 HK cents)	approximately 46.9 RMB cents (approximately 44.2 HK cents)
Prospective fully diluted price/ earnings multiple *(Note 3)* . .	approximately 7.3 times	approximately 8.0 times

Notes:—

1. The market capitalisation does not take into account any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any options that may be granted under the Share Option Scheme.

2. The unaudited adjusted net tangible asset value per Share is arrived at after making the adjustments set forth under "Unaudited adjusted net tangible assets" in the section headed "Financial information" in this prospectus and on the basis of a total of 400,000,000 Shares in issue and expected to be issued immediately following completion of the Share Offer and the Capitalisation Issue but does not take into account any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any options that may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandates for the allotment and issue or repurchase of the Shares referred to under "Written resolutions of all the shareholders of the Company passed on 21 November 2004" in Appendix VI to this prospectus.

3. The prospective fully diluted price/earnings multiple is based on the forecast earnings per Share on a fully diluted basis of approximately 11.5 RMB cents (approximately 10.9 HK cents) for the financial year ending 31 December 2004 and the Offer Price.

If the Over-allotment Option is exercised in full or in part, the unaudited adjusted net tangible asset value per Share will increase, while earnings per Share will be diluted correspondingly. The Directors believe that such increase and dilution will not be material.

PROPOSED USE OF THE NET PROCEEDS FROM THE NEW ISSUE

The Directors intend to use the net proceeds from the New Issue to implement the Group's future development plans. Assuming that the Over-allotment Option is not exercised, and based on the Offer Price of HK$0.83 (being the mid-point of the indicative Offer Price range between HK$0.79 and HK$0.87), the net proceeds from the New Issue, after deduction of underwriting commission and estimated expenses payable by the Company, are estimated to be approximately HK$70.7 million. The Directors currently plan to use such net proceeds as follows:—

— as to approximately HK$25 million for strengthening R&D capabilities, of which approximately HK$16 million will be used in R&D of smartphone and related industry application, approximately HK$2 million in R&D for enhancement of wireless coverage solution for PHS network, approximately HK$2 million in R&D for enhancement of the Group's integrated telecom business platform, approximately HK$2 million for R&D on 3G technologies and upgrading of existing products and solutions to be 3G compatible, and approximately HK$3 million in further R&D of core technologies of wireless telecommunication;

— as to approximately HK$25 million for the manufacturing and marketing of smartphones, of which approximately HK$18 million will be used for financing purchase of materials, approximately HK$2 million for manufacturing activities, and approximately HK$5 million for marketing activities;

— as to approximately HK$9 million for promotion of overall corporate image, of which approximately HK$4 million for television advertising, HK$3 million for newspaper and out-door media advertising, and HK$2 million for other promotion;

— as to approximately HK$5 million for strategic investments in wireless technologies companies. It is intended that the target company should have strong technology development capability in wireless industry application in banking, stock brokerage or public security industry, as well as multi-media technology, which is synergistic with the Group's plan for devoting to wireless industry application and 3G solution. The Directors confirm that as at the Latest Practicable Date there was no specific target, negotiation, concrete plan in relation to the proposed strategic investments;

— as to approximately HK$5 million for enhancing the Group's network for sales and provision of customer support services; and

— as to the remaining balance to be used as general working capital of the Group, mainly to finance the purchase of materials, manufacturing and marketing of the Group's products and solutions.

In the event that the Over-allotment Option is exercised in full, and based on the Offer Price of HK$0.83 (being the mid-point of the indicative Offer Price range between HK$0.79 and HK$0.87), the Company will receive additional net proceeds of approximately HK$16.0 million which the Directors intend to use as additional general working capital.

To the extent that the net proceeds from the New Issue and the issue of new Shares under the Over-allotment Option are not immediately applied for the above purposes, or if the Group is not able to effect any part of its future development plans as intended, it is the present intention of the Directors that such net proceeds be placed on short-term deposits.

RISK FACTORS

The Directors consider that the Group's business and operations are subject to a number of risk factors that may be broadly categorised into: (i) risks associated with the Group's business; (ii) risks associated with the industry; (iii) risks associated with the PRC; (iv) risks relating to the Shares; and (v) reliability of statistics, which are summarised as follows:—

Risks associated with the Group's business

— Reliance on senior management and key technical personnel

— Reliance on the PRC market

— Relationship with certain major customers

— Reliance on the cooperation with the Smartphone Manufacturing Partner for manufacturing of smartphone

— Reliance on certain major suppliers

— Long settlement cycle

— Recoverability of trade receivables

— Risks related to the Group's smartphone products

— Capital requirement

— Sustainability of gross profit margin

— Term of Yulong Shenzhen's business licence

— Renewal of Network Access Licence

— Risks related to newly launched products or solutions

— R&D risks

— Risks related to the use of the trade name "*Coolpad*"

— Intellectual property rights

— Dividends

— Limited insurance coverage

— Preferential tax treatments

Risks associated with the industry

— Rapid technology change

— Competition

— Health risks associated with wireless telecommunication equipment

Risks associated with the PRC

— Economic, social and legal considerations

— Currency conversion and foreign exchange control

— Institutional structure of the wireless communication sector in the PRC

Risks relating to the Shares

— Protection of interests of minority shareholders under the laws of the Cayman Islands

— Liquidity and possible price volatility of the Shares

Reliability of statistics

In this prospectus, unless the context otherwise requires, the following expressions have the following meanings. Certain other terms are explained in the section headed "Glossary of technical terms" of this prospectus.

"Application Form(s)"	**WHITE** application form(s) and **YELLOW** application form(s), or where the context so requires, any of them
"associates"	has the meaning ascribed thereto in the Listing Rules
"authorised institution"	has the meaning ascribed thereto in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)
"Barrie Bay"	Barrie Bay Limited, a company incorporated in the BVI on 26 October 2004, the entire issued share capital of which is held by HSBC Trustee
"Barrie Bay Trust"	a discretionary trust set up by Mr. Guo and Ms. Yang on 22 November 2004, the discretionary objects of which include the children of Mr. Guo and Ms. Yang
"Barrie Bay Unit Trust"	a unit trust of which 9,999 units are held by HSBC Trustee acting as the trustee of the Barrie Bay Trust and the remaining 1 unit held by Ms. Yang Hua
"Board"	the board of Directors
"BVI"	British Virgin Islands
"CAGR"	compound annual growth rate
"*Callnet*"	a customisable call centre solution designed by the Group, the details of which are set out in the paragraphs headed "Products and solutions" in the section headed "Business" in this prospectus
"Capitalisation Issue"	the capitalisation issue referred to in the paragraphs headed "Written resolutions of all the shareholders of the Company passed on 21 November 2004" in Appendix VI to this prospectus
"CCASS"	The Central Clearing and Settlement System established and operated by HKSCC
"CCID"	中國電子信息產業發展研究院 (China Center of Information Industry Development), an institution established as a legal person by and under the supervision of MII and is mainly engaged in the provision of consulting services for the information industry in the PRC

"China Unicom"	中國聯合通信有限公司 (China United Telecommunications Corporation), a State-owned telecommunication enterprise which was established on 19 July 1994 and is the controlling shareholder of China Unicom Limited whose shares were officially listed on the Main Board and the New York Stock Exchange in June 2000, and an Independent Third Party
"China Unicom Group"	China Unicom and its subsidiaries and local branches, being collectively and individually Independent Third Parties
"China Wireless Employee Benefit Trust"	a discretionary trust established for the benefit of the employees of the Group
"Companies Law"	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
"Companies Ordinance"	the Companies Ordinance (Chapter 32 of the laws of Hong Kong)
"Company"	China Wireless Technologies Limited (中國無線科技有限公司), a company incorporated in the Cayman Islands on 11 June 2002 with limited liability
"Data Dreamland"	Data Dreamland Holding Limited (formerly known as Choice Above Investments Limited), a company incorporated in the BVI on 3 February 2003 and is wholly-owned by Barrie Bay, and is a controlling shareholder of the Company
"DBS Asia"	DBS Asia Capital Limited, which is a deemed licensed corporation under SFO permitted to engage in types 1, 4, 6 and 9 of the regulated activities (as defined in the SFO), being the Sponsor, bookrunner and the lead manager of the Share Offer
"Director(s)"	the director(s) of the Company
"DTI"	Digital Tech Inc., a company incorporated in the BVI on 25 March 2002 with limited liability and a wholly-owned subsidiary of the Company
"GDP"	gross domestic product (all references to GDP growth rates are to real as opposed to nominal rates of GDP growth)
"Group"	the Company and its subsidiaries or, where the context so requires in respect of the period before the Company became the holding company of its present subsidiaries, the present subsidiaries of the Company or some or any of them
"HKSCC"	Hong Kong Securities Clearing Company Limited
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC

"HSBC Trustee"	HSBC International Trustee Limited, which is acting as the trustee of the Barrie Bay Trust
"IDC"	International Data Corp., a global market intelligence and advisory firm for the information technology and telecommunications industries, which analyses and predicts technology trends and which is a subsidiary of International Data Group, a technology media, research and events company
"Independent Third Parties" or "Independent Third Party"	a person(s) or company(ies) which is/are independent of any of the directors, the controlling shareholders, the substantial shareholders and the chief executive (as such term is defined in the Listing Rules) of the Company or its subsidiaries, and their respective associates
"JATF"	JAFCO Asia Technology Fund, a company established in the Cayman Islands and is beneficially owned by JAFCO Asia Technology Fund L.P., a limited partnership
"Latest Practicable Date"	23 November 2004, being the latest practicable date prior to the printing of this prospectus for ascertaining certain information contained therein
"Listing Date"	the date on which dealings in the Shares on the Main Board first commence
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Main Board"	the stock exchange (excluding the options market) operated by the Stock Exchange in parallel with the Growth Enterprise Market of the Stock Exchange, and for the avoidance of doubt, the Main Board excludes the Growth Enterprise Market of the Stock Exchange
"MII"	中華人民共和國信息產業部 (the Ministry of Information Industry of the PRC), which is responsible for, among other things, matters relating to information industry including telecommunication, telemedia and the Internet in the PRC
"MOC"	中華人民共和國商務部 (the Ministry of Commerce of the PRC), the former Ministry of Foreign Trade and Economic Cooperation of the PRC, which is responsible for, among other things, the formulation of PRC's policy towards foreign trade, foreign investment and the economic cooperation with foreign countries
"MOF"	中華人民共和國財政部 (the Ministry of Finance of the PRC), which is responsible for, among other things, the administration of the PRC State revenues and expenditures, financial and taxation policies and overall supervision of financial institutions

"MPT"	中華人民共和國郵電部 (the Ministry of Post and Telecommunication) which, prior to the establishment of MII, was responsible for, among other things, matters relating to the PRC information industry including telecommunication, telemedia and the Internet
"Mr. Guo"	郭德英先生 (Mr. Guo Deying), the chairman and an executive Director, a founding member of the Group, spouse of Ms. Yang and son-in-law of Ms. Ma
"Ms. Ma"	馬德惠女士 (Ms. Ma Dehui), a non-executive Director, mother of Ms. Yang and mother-in-law of Mr. Guo
"Ms. Yang"	楊曉女士 (Ms. Yang Xiao), a non-executive Director, spouse of Mr. Guo and daughter of Ms. Ma
"Network Access Licence"	電信設備進網許可證 (Network Access Licence for Telecommunications Equipment) granted by the MII
"New Issue"	the issue of New Shares under the Share Offer
"New Shares"	the 100,000,000 new Shares initially offered for subscription under the New Issue
"OEM"	original equipment manufacturer, entity that manufactures or purchases from other manufacturers and possibly modifies goods or equipment for branding and resale by others
"Offer Price"	the final offer price per Offer Share (excluding 0.005% of the Stock Exchange trading fee, 0.005% of the transaction levy imposed by the SFC, 0.002% of the investor compensation levy and 1% of the brokerage payable thereon), which is expected to be not more than HK$0.87 and is expected to be not less than HK$0.79. The final Offer Price is to be determined on the Price Determination Date
"Offer Shares"	the Public Offer Shares and the Placing Shares
"Option"	the option granted to JATF by Data Dreamland pursuant to the Option Agreement which, subject to rule 10.07(1) of the Listing Rules if exercised, would entitle JATF to acquire from Data Dreamland a certain number of Shares (to be determined in accordance with the mechanism as set out in the Option Agreement and will vary depending on the Offer Price) at a nominal aggregate consideration of US$1.00
"Option Agreement"	the option agreement dated 22 December 2003 and entered into between JATF, Data Dreamland, Mr. Guo, Ms. Yang and Ms. Ma (as amended by an amendment deed dated 23 November 2004 and entered into among the five parties and Barrie Bay)

"Over-allotment Option"	the option expected to be granted by the Company to the Placing Underwriters, exercisable by DBS Asia (for itself and on behalf of the other Placing Underwriters) at any time prior to the date falling 30 days after the last day for lodging application under the Public Offer, to require the Company to issue the Over-allotment Shares at the Offer Price to cover over-allocations in the Placing and/or the obligations of DBS Asia to return securities borrowed under the Stock Borrowing Agreement
"Over-allotment Shares"	up to an aggregate of 19,800,000 new Shares (equivalent to 15% of the Offer Shares initially available under the Share Offer) to be issued pursuant to the exercise of the Over-allotment Option
"Placing"	the conditional placing of the Placing Shares by the Placing Underwriters at the Offer Price with professional, institutional, corporate and other investors anticipated to have a sizeable demand for the Shares, particulars of which are set forth in the section headed "Structure and conditions of the Share Offer" in this prospectus
"Placing and Underwriting Agreement"	the conditional placing and underwriting agreement relating to the Placing which is expected to be entered into by, among others, the Company, the Vendor and the Placing Underwriters on or about the Price Determination Date
"Placing Shares"	118,800,000 Shares comprising 86,800,000 New Shares and 32,000,000 Sale Shares initially offered for subscription and purchase under the Placing, representing approximately 90% of the initial number of the Offer Shares, subject to the Over-allotment Option and the re-allocation as described in the section headed "Structure and conditions of the Share Offer" in this prospectus
"Placing Underwriters"	the group of underwriters of the Placing led by DBS Asia which are expected to enter into the Placing and Underwriting Agreement to underwrite the Placing
"PRC" or "China"	the People's Republic of China, which for the purpose of this prospectus only, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"PRC Lawyers"	Beijing JunZeJun Law Offices, the Company's legal advisers as to PRC law
"Preference Share(s)"	redeemable convertible preference share(s) of HK$0.01 each in the share capital of the Company issued on 22 August 2003, all of which were converted into ordinary shares of the Company by redesignation and re-classification on 22 December 2003 and the summary of the major rights attached to which is set out in the section headed "Investment by JATF" in this prospectus

"Price Determination Date"	the date on which the Offer Price is to be determined by DBS Asia (for itself and on behalf of the other Underwriters), the Company and the Vendor, which is expected to be on or about 6 December 2004 and, in any event, not later than 7 December 2004
"Public Offer"	the offer for subscription of the Public Offer Shares to the public in Hong Kong at the Offer Price on and subject to the terms and conditions set forth in this prospectus and the Application Forms relating hereto
"Public Offer Shares"	the 13,200,000 New Shares initially being offered by the Company for subscription under the Public Offer, representing approximately 10% of the initial number of the Offer Shares, subject to re-allocation as described in the section headed "Structure and conditions of the Share Offer" in this prospectus
"Public Offer Underwriters"	the underwriters listed under the paragraph headed "Public Offer Underwriters" in the section headed "Underwriting" in this prospectus
"Public Offer Underwriting Agreement"	the conditional underwriting agreement dated 29 November 2004 relating to the Public Offer entered into, among others, the Company and the Public Offer Underwriters
"R&D"	research and development
"*Realink PHS Intelligent Coverage System*"	a coverage system for PHS networks developed by the Group, details of which are set in the paragraphs headed "Products and solutions" in the section headed "Business" in this prospectus
"Sale Shares"	the 32,000,000 Shares being offered for sale by the Vendor at the Offer Price under the Placing
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
"Share(s)" or "Ordinary Shares"	ordinary share(s) of HK$0.01 each in the share capital of the Company
"Shareholder(s)"	holder(s) of Share(s)
"Share Offer"	the Placing and the Public Offer
"Share Option Scheme"	the share option scheme conditionally approved and adopted by the Company on 21 November 2004, the principal terms of which are summarised in the paragraph headed "Share Option Scheme" in Appendix VI to this prospectus

"Smartphone Manufacturing Partner"	the manufacturer designated by MII as one of the handset manufacturers, with whom the Group collaborates in submitting application for Network Access Licence of its *Coolpad* CDMA1X, GSM/GPRS and CDMA-GSM dual-mode smartphone
"Space Star"	深圳太空星網絡有限公司 (Shenzhen Space Star Network Company Limited), an enterprise incorporated in the PRC with limited liability on 28 September 1996, and owned as to 90% by Ms. Yang and 10% by Ms. Ma. Prior to May 2002, Space Star held 52% of the issued share capital of Yulong Shenzhen. According to the business licence of Space Star dated 29 June 1998, its scope of business covers the sale and purchase of software and hardware of communication computer, visual monitoring device and communication device, technological design of computer website and monitoring system
"Sponsor"	DBS Asia
"State"	the government of the PRC
"State Council"	中華人民共和國國務院 (the State Council of the PRC)
"Stock Borrowing Agreement"	the stock borrowing agreement to be entered into between Data Dreamland and DBS Asia on or about the Price Determination Date
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscription Agreement"	a subscription agreement dated 15 August 2003 between the Company, JATF, Data Dreamland, Ms. Yang, Mr. Guo and Ms. Ma whereby JATF agreed to subscribe for 4,000,000 Preference Shares
"TCL"	TCL Electrical Appliance Sales Co., Ltd., an Independent Third Party
"Track Record Period"	the three financial years ended 31 December 2003 and the five months ended 31 May 2004
"Underwriters"	the Placing Underwriters and the Public Offer Underwriters
"Underwriting Agreements"	the Public Offer Underwriting Agreement and the Placing and Underwriting Agreement
"*Uniswitch*"	module developed by the Group and designed as a central data processing unit to enable automatic multi-dimensional data transmission based on pre-determined criteria
"United States" or "U.S."	the United States of America
"Vendor"	JATF

"WFOE"	wholly foreign owned enterprise in the PRC
"Wintech Consultants"	Wintech Consultants Limited, a company incorporated in the BVI on 8 January 2004 and is wholly and beneficially owned by Mr. Guo, which will own 18,000,000 Shares as trustee of the China Wireless Employee Benefit Trust immediately upon the completion of the Share Offer and the Capitalisation Issue
"*Wireless Value-added Services Platform*"	a customisable software and hardware solution designed by the Group, details of which are set out in the paragraphs headed "Products and solutions" in the section headed "Business" of this prospectus
"WTO"	the World Trade Organisation
"Yulong Infotech"	Yulong Infotech Inc., a company incorporated in the BVI on 27 June 2000 with limited liability and a wholly-owned subsidiary of the Company
"Yulong Shenzhen"	宇龍計算機通信科技(深圳)有限公司 (Yulong Computer Telecommunications Scientific (Shenzhen) Co., Ltd), a limited company established in the PRC on 29 April 1993 and an indirect wholly-owned subsidiary of the Company
"HK$" or "HK Dollar(s)" and "cents"	Hong Kong dollar(s) and cents, respectively, the lawful currency of Hong Kong
"RMB" or "Renminbi"	the lawful currency of the PRC
"US$" or "US dollar(s)"	United States dollar(s), the lawful currency of the United States
"%"	per cent.
"sq. ft."	square foot (feet)
"sq. m."	square metre(s)

Unless the context requires otherwise, for illustration purpose only, amounts denominated in HK$, RMB or US$ have the following exchange rates:

HK$1.00 = RMB1.06
HK$7.8 = US$1.00

No representation is made that any amount in HK$ or RMB or US$ could have been or could be converted at the above rates or at any other rates or at all.

In this prospectus, the English names of enterprises established in the PRC, government authorities and departments, entities and documents, and citizens of the PRC are translations of their Chinese names and are included for identification purpose only. In the event of inconsistency, the Chinese names shall prevail.

This glossary contains definitions and other terms as they relate to the Group and as they are used in this prospectus, which may not correspond to the standard industry definitions.

"2G"	second generation wireless service. This generation of services started in around 1990 and is based on circuit-switched technology where each call requires its own radio channel, which makes transmission of data relatively slow as compared with 2.5G and 3G. Such services include CDMA, TDMA and GSM
"2.5G"	second-and-a-half generation wireless service. Such service is based on packet-switched service that increases transmission speeds as compared with 2G
"3G"	third generation wireless service, a system of services for wireless communications, which will allow wireless transmission speeds up to 2 Mbps. Key features of such systems are a high degree of worldwide commonality of design, compatibility of services, use of small pocket terminals with worldwide roaming capability, Internet and other multimedia applications, and a wide range of services and terminals
"ACD"	Automatic Call Distributor is a telephone facility that manages incoming calls and handles them based on the number called and an associated database of handling instructions
"CDMA"	Code Division Multiple Access technology, a type of wireless communication system modulation. The technology converts voice signal into digital signal, adds an address (the identity code of the destination which the sender wishes to send to) to each digital voice packet, scrambles the packet and sends it by way of radio frequency
"CDMA1X"	a 2.5G technology that offers up to approximately 2 times increase in voice capacity and provides data speed of up to 307 Kbps on a single (1.25 MHz, or 1X) carrier in new or existing frequency spectrum. CDMA1X has been commercially available since October 2000. CDMA1X sometimes is also referred as 2.8G technology as it is closer to 3G technologies
"cellular"	a wireless local telephone service that operates by dividing a geographical area into sections or cells. Each cell has its own transmitter/receiver that tracks and operates with mobile phones within its coverage area. The dimensions of a cell can range from several hundred metres to several kilometres
"CRM"	customer relationship management
"CTI"	Computer Telephone Integration, a technology that intertwines the calling function of telephone and the data processing and control functions of computer together in achieving value added services and data services of telecommunications in order to satisfy the needs of unconnected customers

"digital"	a signal that has only two possible levels per cycle
"email"	electronic mail
"FLEX"	a paging encoding technology which has an encoding rate up to 6,400 bits per second
"GPRS"	General Packet Radio Services, an evolved version of 2G GSM technology which transmits and receives packets of data through different parts of the network, instead of using a continuous open radio channel. The system takes advantage of space capacity of the network and data transmission speed is up to 115.2 Kbps, as compared with GSM's speed of 9.6 Kbps or 14.4 Kbps
"GSM"	Global System for Mobile communication, a widely used digital wireless telephone technology. The technology digitizes and compresses data, then sends it down a channel with two other streams of user data, each in its own time slot
"ICP"	Internet content provider, a company that provides content to Internet users
"Internet"	a global network of interconnected, separately administered public and private computer networks
"industry application"	business cum technical solution comprising hardware and software components and is designed to enhance wireless telecommunication for the specific operating environment/requirement of an industry
"instant messaging"	services to alert user if another chosen users are connected to the Internet and, if they are, to exchange message with them
"IP"	Internet Protocol, which was originally developed by the U.S. Department of Defence to enable communications of dissimilar computing platforms around the country
"ISO 9001/ISO 9002"	a constituent part of the ISO 9000 series which covers areas of management responsibility; quality system; contract review; document and date control; purchasing; control of customer's supplied-products, product identification and traceability; process control; inspection and testing; measuring and equipment testing; control of non-conforming product; corrective and preventive action; handling; storage; packaging preservation and delivery; control of quality records; internal quality audits; training; servicing and statistical techniques
"IVR"	Interactive Voice Response, an automatic telephone answering system that responds with a voice menu and allows the user to make choices and enter information via the keypad
"LAN"	local area network, a communication network that serves users within a confined geographical area

"operating system"	a master control programme for a computer that manages and controls the allocation and usage of hardware resources such as memory, central processing and disk space, the foundation on which software applications are built
"PBX"	Private Branch Exchange, an in-house telephone switching system that interconnects telephone extensions to each other, as well as to the outside telephone network. It has includes the routing for call forwarding, conference calling and call accounting
"PCS"	Personal Communications Service, a wireless phone service similar to cellular telephone service, but emphasising personal service and extended mobility. Cellular was designed principally for car phone use with transmitters emphasising coverage of highways and roads. PCS is designed for greater user mobility and generally requires more cell transmitters for coverage, but has the advantage of fewer blind spots
"PDA"	Personal Digital Assistant, a pocket-sized special purpose computer designed for personal information management and other uses
"PHS"	an acronym for "personal handyphone system", which was developed by the Nippon Telegraph and Telephone Corporation. Personal handyphone is a portable wireless phone which is light in weight and functions as a cordless phone at home and as a mobile phone elsewhere
"platform"	a computer environment which allows the development and execution of computer applications
"PPS"	Power Paging System, high speed calling system developed by the Group based on the Windows operating system, including manual, automated, Internet, digital, ACD and backstage management modules, which provides all calling functions including sending, checking, messaging and public information. Possessing special features like large capacity (supporting 1 million subscribers and 100 frequencies), good compatibility (supporting access to various paging systems and devices) and flexibility in expansion. This system is currently one of the most advanced paging systems in the PRC
"protocol"	the organised processes and rules that communications equipment use to transfer data
"repeater"	a device that is used to take a signal that has travelled a long distance and make such signal new again (for instance, by way of reproducing and re-transmitting such signal)
"RF"	radio frequency, which ranges from 500KHz to 300 gigahertz
"smartphone"	a handheld device integrating the function of a PDA and a mobile phone

"SMS"	Short Messaging Services, a text message service that enables short message of generally no more than 140–160 characters in length to be sent and transmitted from a mobile phone
"software"	a system, utility or application program expressed in computer language
"TD-SCDMA"	Time Division Synchronous Code Division Multiple Access one of the 3G technology standards
"TDMA"	Time Division Multiple Access, a digital wireless telephony transmission technique
"telecommunication"	communication across a distance through electrical or radio signals
"telecommunication operator"	telecommunication network operator which provide voice, data or other value-added services through a mobile or fixed-line telecommunication networks
"transceiver"	transmitter and receiver which serve as a transmission device between all mobile users in a cell and connect mobile calls to the mobile phone switching office and/or the landline phone network
"WAN"	wide area network, a geographically dispersed telecommunications network
"WAN IP call centre"	a system for providing call centre services based on wireless area network built on Internet Protocol and therefore can be run on the Internet
"WAP"	an acronym for "wireless application protocol", a specification for a set of communication protocols to standardise the way that wireless devices, such as mobile phones and radio transceivers, can be used for Internet access, including browsing the web, sending and receiving e-mail
"WCDMA"	Wideband Code Division Multiple Access, an ITU standard derived from CDMA and a 3G mobile wireless technology
"website"	a collection of web files on a particular subject, with a beginning page called a homepage, that is saved up by an HTTP server on the world-wide web to which Internet users can navigate using web browsers
"Windows"	an operating system developed by Microsoft Corporation, which is a multitasking graphical user interface environment that runs on MS-DOS-based computers
"wireless solution"	computing solution, made up of hardware and/or software components, that facilitates wireless telecommunication or provision of value-added services through a wireless telecommunication network such as mobile network
"www"	a world wide network of services that support the communication of data over the Internet

Prospective investors of the Offer Shares should consider carefully all of the information set forth in this prospectus and, in particular, the following risks in connection with investment in the Company. The business, financial condition or results of operations of the Group could be materially affected by any of these risks.

RISKS ASSOCIATED WITH THE GROUP'S BUSINESS

Reliance on senior management and key technical personnel

The Group's success is highly dependent on the services of its senior management and key technical personnel. The continuing success of the Group is also dependent on its ability to keep pace with the rapid technological developments in the telecommunication industry and a key factor in this respect is the Group's ability to continue attracting, recruiting and retaining experienced, qualified and talented telecommunication professionals. As the telecommunication industry continues to expand in the PRC, the Directors expect that competition for these personnel will become more intense in the future. The loss of the services of one or more of the Group's senior management or key technical personnel could have a material adverse effect on the business of the Group. With respect to the executive Directors, the Company has entered into employment contracts with Mr. Guo in the position of chief executive officer and Mr. Jiang in the positions of vice president and chief finance officer on 25 August 2003. The Group has also entered into employment contracts with each of the senior management and key technical personnel.

There can be no assurance that the Group's senior management and key technical personnel will remain with the Group or that, in the future, any former employees will not organise a competing business or provide services as a competitor to the Group. The Group's operations could be adversely affected should it encounter any serious difficulty in recruiting or retaining suitable telecommunication or technology professionals.

Reliance on the PRC market

During the Track Record Period, all turnover of the Group was derived from the PRC market. The Directors anticipate that the PRC will continue to be a significant market for the Group's wireless telecommunication products and solutions in the near future. The Group is therefore susceptible to changes in the political, economical, technological and social conditions of the PRC and policy changes applicable to the telecommunication industry in the PRC. There is no assurance that any of such changes will not adversely affect the future performance and profitability of the Group.

Relationship with certain major customers

For each of the three years ended 31 December 2003 and the five months ended 31 May 2004, sales to the Group's five largest customers (including telecommunication operators such as the China Unicom Group), all being Independent Third Parties, accounted for approximately 94%, 90%, 90% and 71% of the Group's total turnover for each of the relevant period, respectively; whilst sales to the Group's largest customer for the same periods accounted for approximately 62%, 51%, 60% and 25% of the Group's total turnover for each of the relevant period, respectively. The China Unicom Group was the largest customer of the Group for each of the three years ended 31 December 2003 and the third largest customer for the five months ended 31 May 2004. The Group has not entered into any long-term contract or cooperation agreement with any of these five largest customers, and there is no guarantee that the Group will be able to secure new business with them. In the event that the Group cannot secure new contracts with the existing customers and is not able to obtain any new customers, the Group's business and financial position would be adversely affected. The Directors expect that in the future the Group's wireless terminals will be sold mainly to telecommunication operators and telecommunication equipment distributors who resell such products to the telecommunication operators, and future sales of wireless terminals will continue to be affected by the promotion policy of telecommunication operators in the PRC. As the number of major telecommunication operators such as the China Unicom Group in the PRC is limited, the number of potential customers of similar size is also limited. Moreover, due to their substantial size and business coverage, telecommunication operators are typically in a stronger bargaining position as compared to the Group. If the product quality and promotion policy of telecommunication operators change or these products become obsolete and the Group is unable to further diversify the kinds of products that it offers, there may be material and adverse impact on the turnover, operating results and financial conditions of the Group.

Reliance on the cooperation with the Smartphone Manufacturing Partner for manufacturing of smartphones

As the Group is not one of the 19 CDMA handset manufacturers or 29 GSM handset manufacturers designated by MII, the Group entered into agreements with the Smartphone Manufacturing Partner in relation to the production and sales of its CDMA smartphones for a term of 2 years and that of its GSM/GPRS and CDMA-GSM dual-mode smartphones for a term valid until 30 September 2005. Details of such cooperation are set out in the paragraph headed "Collaboration with the Smartphone Manufacturing Partner for the manufacturing of smartphones" in the section headed "Business" in this prospectus. As the Smartphone Manufacturing Partner is currently the Group's only business partner in respect of manufacturing of smartphones, if the Group is not able to extend the terms of collaboration with the Smartphone Manufacturing Partner and the Group is unable to engage another suitable replacement partner, the Group may not be able to continue its production and sales of smartphones. Accordingly, the Group's business opportunities and profitability may be adversely affected.

Reliance on certain major suppliers

For each of the three years ended 31 December 2003 and the five months ended 31 May 2004, the five largest suppliers of the Group accounted for approximately 19%, 42%, 63% and 72% respectively of the Group's total purchases for each of the relevant period; whilst the largest supplier of the Group for the same periods accounted for approximately 5%, 15%, 33% and 25% respectively of the Group's total purchases for each of the relevant period. The Directors confirm that the increase in purchases from the five largest suppliers during the Track Record Period was mainly due to the increase in sales of wireless terminals, the raw materials of which, such as CDMA modules and LCDs, accounted for a higher percentage to the relevant sales than the components used for wireless system solutions (i.e. electronic components, batteries, computer servers etc).

All the five largest suppliers of the Group during the Track Record Period are Independent Third Parties. The Group has not entered into any long-term supply contract with any of the major suppliers. If, for whatever reasons, all or any of the Group's major suppliers cease to supply materials and components, and the Group is unable to source similar materials from other suppliers, the Group's business and financial performance may be adversely affected.

Long settlement cycle

Under the Group's current business model for wireless system solution, the Group recognises revenue and receives payment by installment, while credit terms of three to six months starting from the respective billing date of each installment may be granted to customers. In particular, about 5% to 10% of the contract amount as retention money will be paid by the customer until the end of the warranty period, which is normally 12 months after the recognition of the last installment as revenue.

As a result, the Group's debtors' turnover days (defined as average of opening and closing balances of trade receivables/turnover x number of days in the relevant period) are relatively long during the Track Record Period. For each of the three years ended 31 December 2003 and the five months ended 31 May 2004, the Group's debtors' turnover days were 42 days, 82 days, 163 days and 187 days, respectively. The Directors attribute such long debtors' turnover days mainly to the extended credit terms given to the Group's major customer, the China Unicom Group, as well as the overall delay in settlement from the Group's other customers, comprising members of other telecommunication operators and large-scale State-owned enterprises during the Track Record Period. If the Group's settlement cycle is prolonged for whatever reason, or if the Group fails to collect the receivables on a timely basis, the Group's working capital position would be adversely affected, and the Group's business and operating results may be adversely affected.

Recoverability of trade receivables

As at 31 May 2004, the Group's trade receivables (before provision for doubtful debts) were approximately RMB104.3 million (approximately HK$98.4 million), of which approximately RMB5.8 million (approximately HK$5.5 million) was overdue for more than one year. Approximately 54.9% of the trade receivables (before provision for doubtful debts) as at 31 May 2004 was due from the China Unicom Group. As at 31 May 2004, the Group's provision for doubtful debts was approximately RMB4.8 million (approximately HK$4.5 million), which was made in accordance with the Group's provision policy. There is no guarantee that the Group will be able to fully recover all of the trade receivables. In such case, the Group's cash flow, operating results and financial position may be adversely affected.

Risks related to the Group's smartphone products

The Group's CDMA1X and GSM/GPRS smartphones were launched in December 2003 and September 2004 respectively, and its CDMA-GSM dual-mode smartphones are expected to be launched by the end of 2004. Sales from smartphones has become a major source of the Group's turnover since 2003. In 2003 and the five months ended 31 May 2004, turnover from smartphones accounted for approximately 11.9% and 54.9% of the Group's turnover, respectively, and the Directors expect that smartphones would be the key growth area for the Group in the short to medium term. The Group's smartphones are subject to the rapid changes in technologies, product quality, promotion policy of telecommunication operators, consumer preference and product obsolescence. There is no guarantee that the Group can maintain such turnover from future sales of smartphones. In that case, the Group's operation results and financial conditions may be adversely affected.

Capital requirement

The Group experienced net cash outflow from operating activities in the years ended 31 December 2001 and 2003 of RMB2.9 million (approximately HK$2.7 million) and RMB13.7 million (approximately HK$12.9 million), respectively. The net cash outflows from operating activities were mainly due to the relative long settlement cycle of the Group's major customers as well as the increase in prepayment to the Group's suppliers for raw materials for fixed wireless terminals and smartphones. To cope with net operating cash outflow and to support business expansion, in the past, the Group financed the capital requirement by raising equity capital and obtaining bank borrowing. In the year ended 31 December 2001, the Group obtained additional bank borrowing of approximately RMB9.3 million (approximately HK$8.8 million) and additional borrowing from the Directors and companies related to them of approximately RMB4.6 million (approximately HK$4.3 million). In the year ended 31 December 2003, the Group raised equity capital of approximately RMB31.7 million (approximately HK$29.9 million) and obtained additional bank borrowing of approximately RMB25.6 million (approximately HK$24.2 million).

Following the completion of the Share Offer, the Directors expect to fund the capital and operating requirements through internally generated cash flows, net proceeds from the New Issue, cash on hands, and, if necessary, additional bank borrowings. However, there is no assurance that the Group will be able to generate sufficient cash flows from its operating activities or will be able to obtain sufficient bank borrowings to finance its capital and operating requirements, in which case the Group's operation and profitability may be adversely affected.

Sustainability of gross profit margin

For each of the three years ended 31 December 2003 and the five months ended 31 May 2004, the Group's overall gross profit margin was approximately 60%, 60%, 43% and 38%, respectively; gross profit margin for wireless system solutions was 60%, 61%, 59% and 70%, respectively; while gross profit margin for wireless terminals was approximately 45%, 41%, 35% and 31%, respectively. In view of the fierce competition among wireless system solution and equipment providers in the PRC, which results in constant pricing pressure upon the Group and its competitors, there is no guarantee that the Group can maintain gross profit margin as achieved during the Track Record Period. In that case, the Group's operation results and financial conditions may be adversely affected.

Term of Yulong Shenzhen's business licence

Yulong Shenzhen is currently the principal operating subsidiary of the Group. Under the prevailing PRC laws, a WFOE such as Yulong Shenzhen must possess a valid business licence before it can engage in any form of business activities in the PRC.

A WFOE is normally required to file an application with the relevant approval authority at least 180 days prior to the expiration of its business licence to renew or extend its current business licence. Within 30 days after the granting of such approval, the WFOE will be able to obtain a new business licence from the administration for industry and commerce.

Yulong Shenzhen is currently operating under a business licence with a term of 15 years effective from 29 April 1993 to 29 April 2008. At the expiration of the current business licence, if Yulong Shenzhen cannot renew its licence, the Group will no longer be able to continue its operation through Yulong Shenzhen and will have to incur additional expenses to find alternative ways to continue its current business. In this case and if no alternative method of operation can be found, the Group's operation may be adversely affected accordingly.

Renewal of Network Access Licences

The Group provides various wireless system solutions and wireless terminal products for wireless telecommunication applications in the PRC. The PRC implements a Network Access Licence system for access to public telecommunication networks by certain prescribed types of telecommunication terminal equipment, wireless communications equipment and equipment involving interconnections between networks. For details of the Network Access Licence system, please refer to the section headed "Relevant laws and regulations of the PRC relating to the industry and the Group" in this prospectus. The Network Access Licences granted are generally valid for a term of three years. The Group and the Smartphone Manufacturing Partner are required to apply for the renewal of the respective Network Access Licences as and when they expire. Hence, the re-assessments of renewal are subject to the prevailing legal and regulatory requirements imposed by the issuing authorities or telecommunication operators when the licence or certificate (if any) is due for renewal. It should be noted that the requirements under these permits or licences may change from time to time, which may give rise to compliance issues. In addition, it may be costly for the Group to comply with all changes to the requirements in relation to the renewal of the relevant licences and permits. If the Group or the Smartphone Manufacturing Partner fails to renew its Network Access Licences or the relevant authority revokes or refuses to renew the Network Access Licences, the products of the Group which are subject to the Network Access Licence cannot be sold and hence the Group's profitability may be adversely affected.

Risks related to newly launched products or solutions

Some of the Group's products or solutions set out in the paragraphs headed "Products and solutions" in the section headed "Business" in this prospectus were initially launched during the Track Record Period. The acceptance by market and popularity of any new products or new version of existing line of products may not grow as the Company expects. In the event that the Group's products or solutions are not accepted by the market or are not as popular as expected in the future, the Group's business and profitability may be adversely affected.

R&D risks

The Group's future prospects will largely depend on the continuous development and enhancement of existing wireless communication hardware and software. There can be no assurance that the Group will develop products or solutions successfully or that a solution or product will be approved by the relevant authorities and/or the telecommunication operators and well received by the market. In the event that the Group does not successfully develop, manufacture or market new products, the Group's business and profitability may be adversely affected.

The Directors expect that to maintain its growth in the future and to stay ahead of its competitors, the Group has to develop new products and solutions to meet the increasing demand of the telecommunication operators, individuals and corporate subscribers. The Directors believe that it is not possible for the Group to forecast what kind of new products and solutions will be demanded in the future. Moreover, the ability of the Group to generate revenue from these products will depend on a number of factors including the features of the products, the changes in technology and the acceptance of these products by customers. There is no assurance that the Group's new solutions or products will adequately meet the technology development requirements of the market and ultimately achieve customers' acceptance.

Risks related to the use of trade name "*Coolpad*"

The Group has since December 2002 started using the trade name "*Coolpad*" on its wireless terminal product. On 29 July 2003, the Group applied for the registration of the trademark "Coolpad酷派" in the PRC. As at the Latest Practicable Date, registration of the trademark "Coolpad酷派" is still pending. The Directors believe that the PRC trademark registration will be completed in around 18 months after its initial application. The Group had also registered the domain names "*coolpad.cc*" on 3 July 2002, "*coolpad.com.cn*" on 28 September 2002 and "*coolpad.cn*" on 17 March 2003. Among these three domain names, the Group has been using the "*coolpad.cn*" and "*coolpad.com.cn*" domains since August 2003 and August 2004, respectively, but has not started using the domain "*coolpad.cc*" as at the Latest Practicable Date. The Directors noticed that "Coolpad" is also used by another electronic product company in its products and the name "Coolpad" may also be properly registered outside the PRC.

There is no assurance that the other companies that currently use "Coolpad" for their products or services will not file any infringement claims against the Group in this regard. If such claims are made against the Group, the Group might become involved in costly and time-consuming litigations and might even be prohibited from using the trademark "Coolpad酷派" or the trade name or any domain name carrying the word "Coolpad" and therefore may suffer losses and damage to its corporate image and reputation.

Intellectual property rights

During the Track Record Period, the Group had submitted in the PRC eleven patent applications in respect of its products/technologies. As at the Latest Practicable Date, nine of which were being processed and two of which were granted patent registration certificates by the State Intellectual Property Office of PRC. No assurance can be given as to when, if at all, those pending applications for patent may be approved or that the scope of the patent granted will provide sufficient protection against competition from similar products/technologies. Even if granted, the patents may be subject to claims that the patents are not in conformity with PRC laws and could be susceptible to revocation or disputes raised by third parties. In addition, competitors may be able to design around the Group's patents. The extent to which the Group may be able to enforce its patent rights is also uncertain.

Given the nature of the telecommunication industry which is featured by rapidly changing technologies, processes and methods, the Group has not filed patent applications for every aspect of its research processes and methods, such as applying the existing PHS technologies into repeaters, design of operating system for smartphones, applying CDMA1X and GSM/GPRS related technologies into smartphones. There is no assurance that no other party is developing similar products or using the same or similar processes and methods more efficiently than the Group, or that no other party has obtained or will obtain patents for such products, processes and methods which may be broader in scope, and which would affect the Group's ability to protect its intellectual property rights or would constrain the Group's proposed activities.

The processes and methods used by the Group itself may infringe the patents or violate other intellectual property rights of third parties primarily because of the nature of the telecommunication industry which is featured by rapidly changing technologies, processes and methods. Besides, the Group may be exposed to risks of third party claims arising from the previous business activities of the Group's technical experts in their research and/or production and may become involved in litigation relating to such claims. If any strategic alliance or technology partner of the Group is subject to any dispute or litigation relating to such claims, the business operations and/or prospects of the Group may also be adversely affected. There is no assurance that the Group will not become involved in costly and time-consuming litigation, or that third parties owning such patents or other proprietary rights will not obtain injunctions against the Group.

Dividends

The aggregate amount of the dividends declared by the subsidiaries of the Company in respect of the Track Record Period is approximately RMB20 million (approximately HK$18.9 million). Payments of such dividends were financed by internal resources of the Group. There is no assurance that the Group may declare and pay dividend at this level to the Shareholders after the listing of its Shares on the Main Board and the abovementioned dividend should not be used as a reference or basis to determine the level of dividends that may be declared in the future.

Limited insurance coverage

The Group has not purchased any product liability insurance or any third party liability insurance. There may be circumstances in which the Group would not be covered or compensated by insurance in respect of losses, damages, claims and liabilities arising from or in connection with product liability or third party liability. These events may adversely affect the profitability of the Group.

The Group's services and products may be critical to the operations of its customers' businesses. If the Group's services and products contain defects or errors which adversely affect any of the Group's customers' business operations or in the performance of such services and products, the Group may incur additional costs in rectifying such defects or defending any legal proceedings and claims brought by its customers against the Group. Consequently, this may affect the Group's relationship with such customers and may result in negative publicity of the Group which ultimately may adversely affect the reputation of the Group. Any defects or errors in the Group's products and services could result in delayed or loss of revenue, adverse customer reaction towards the Group, negative publicity, additional expenditure in rectifying the defects and settling claims against the Group.

Preferential tax treatments

According to the《中華人民共和國外商投資企業和外國企業所得稅法》(Income Tax Law of the PRC for Foreign Investment Enterprises and Foreign Enterprises) and as approved by relevant tax authorities, Yulong Shenzhen, as a WFOE registered in Shenzhen of the PRC, is exempted from local corporate income tax and its applicable State corporate income tax rate is 15%. Moreover, according to《政策性減免稅批覆書》(Reply to policy tax exemption and relief) issued by 深圳市地方稅局福田增收分局 (Shenzhen Futian Local Tax Bureau), Yulong Shenzhen was exempted from the State corporate income tax of the PRC for the two years starting from the first profitable year of operation and a 50% relief from the State corporate income tax of the PRC for the following three years. The first profitable year of operation of Yulong Shenzhen is 1996 and therefore Yulong Shenzhen was exempted from the State corporate income tax for the two years ended 31 December 1997 and was subject to the State corporate income tax rate of 7.5% for the three years ended 31 December 2000. On 20 July 1999, Yulong Shenzhen was accredited as the 深圳市高新技術企業 (Shenzhen Hi-tech Enterprise) by the 深圳市科學技術局 (Shenzhen Science and Technology Council). According to《關於深圳宇龍計算機通信科技有限公司企業所得稅減免問題的覆函》(Reply on exemption and relief of corporate income tax of Yulong Shenzhen) issued by 深圳市地方稅務局涉外檢查分局 (Shenzhen Tax Bureau External Affair Department), Yulong Shenzhen was entitled to 50% tax relief from the State corporate income tax of the PRC for another three years starting from 2001. Therefore, the applicable corporate income tax rate for Yulong Shenzhen was 7.5% for the three years ended 31 December 2003. The applicable income tax rate for Yulong Shenzhen is 15% starting from 1 January 2004.

On the other hand, as a general value-added tax ("VAT") payer, Yulong Shenzhen is subject to VAT of 17% in the PRC. However, according to the《關於鼓勵軟件產業和集成電路產業發展和有關稅收政策問題的通知》(Notice on tax policy to encourage the development of software enterprises and integrated electronic enterprises) (the "Notice"), general VAT payers are entitled to refund for VAT they had paid for more than 3% of the sales in relation to software products. Therefore, the Group's sales in relation to software products were in effect only subject to 3% of VAT under the Notice by applying for VAT refund from tax bureau based on invoices issued for the sales of software. Yulong Shenzhen will continue to be entitled to such refunds so long as it meets the requirement of generating revenue by way of development and sales of software.

Notwithstanding the above preferential tax treatments enjoyed by the Group, it is possible that any future changes in the taxation policies in the PRC or in the rates or methods of taxation in the PRC may have an adverse impact on the Group's profitability and financial position.

RISKS ASSOCIATED WITH THE INDUSTRY

Rapid technology change

The wireless communication industry is characterised by rapidly changing technologies, evolving industry standards and continuing improvements. Accordingly, the Group's future success will largely depend on its continuing ability to adapt to customers' needs and technological developments in a timely manner. Should the Group be unable to develop and introduce new hardware and/or software products in a timely manner in anticipation of or in response to changing technologies, market conditions and customers' requirements, or if new products do not achieve market acceptance, the Group's business and financial positions may be adversely affected. In addition, the enhancement of existing products and the development of new products are necessary to involve in significant technological risk. There can be no assurance that it will be successful in using new technologies and adapting its products to emerging industry needs and standards, or that the Group will not experience difficulties that could delay or prevent the successful development or marketing of these products, or that any such new products enhancement will adequately meet the requirements of the market and achieve market acceptance.

Competition

The telecommunication market is changing rapidly and competition is keen with numerous network solution providers and equipment developers. The Directors are aware of the fact that its competitors may deliver products and services that are similar to those of the Group at a lower price. The Directors also foresee that quotations for projects may be further driven down due to competition. As the Group researches and develops wireless communication equipment, system and terminal solutions by its own technical team, the Group may be able to achieve a relatively higher gross profit margin. So far, the Group has not yet overcome any serious price cutting competition in biding for projects, but there is no assurance that the Group is able to secure future projects at the existing profit margin and sustain its market shares.

Health risks associated with wireless telecommunication equipment

Certain reports have suggested that radio emissions from wireless telecommunication equipment, in particular mobile phones, might have an adverse effect on the health of mobile phone users. Although most authoritative studies have not conclusively established a direct link between mobile phone use and adverse health, the actual or perceived health risks arising from mobile phone use may affect future growth in the number of mobile subscribers thereby adversely affecting mobile operators' demand for the Group's equipment and services. In such event, the Group's profitability may be adversely affected.

RISKS ASSOCIATED WITH THE PRC

Economic, social and legal considerations

The PRC has a long history of planned economy. The PRC economy is still to a large extent a planned economy, albeit that the PRC government has undergone economic reforms to transform the PRC economy into a market economy with socialist characteristics. These reforms have resulted in a more significant role being played by market forces in the overall economic performance. Nevertheless, many of the regulations are subject to further refinements and revisions aimed at optimising the economic system. Although the PRC is currently a member of the WTO, there is no assurance that any change in the economic conditions as a result of the economic reforms, or macro-economic control measures adopted by the PRC government will have a positive effect on the economic development of the PRC.

Since 1979, the PRC has promulgated various laws and regulations relating to economic issues in general as well as issues involving foreign investment. In 1982, 全國人民代表大會 (the "National People's Congress") of the PRC resolved to amend the constitution to allow foreign investment and to protect the "legal interests" of foreign investors in the PRC. Since then there has been a tendency in legislation towards giving increasing protection to foreign investors. Although significant progress has been made in the legal system of the PRC, the enforcement of existing laws and regulations may be uncertain or inconsistent, and the interpretation of these laws and regulations may change from time to time. Any such change could have an adverse impact on the Group's business and thereby adversely affect the Group's business operations.

Currency conversion and foreign exchange control

RMB is not freely convertible to other currencies, except under certain circumstances. Pursuant to 《外滙管理條例》 (the "Foreign Exchange Control Regulations") and 《結滙、售滙及付滙管理規定》(the "Regulations on the Foreign Exchange Settlement, Sale and Payments"), subject to the provision to the banks which are authorised to engage in foreign exchange business of all the required documents under the relevant PRC laws, foreign investment enterprises are permitted to remit their profits or dividends in foreign currencies overseas or repatriate such profits or dividends after converting the same from RMB to foreign currencies through banks which are authorised to engage in foreign exchange business. Foreign investment enterprises are permitted to convert RMB to foreign currencies for items in current account (including, for example, dividend payments to foreign investors). Control over conversion of RMB to foreign currencies for items in capital account (including, for example, direct investment, loan and investment in securities) is more stringent.

The Group's business operations are wholly undertaken in the PRC, which are subject to the above regulations. There is no assurance that the Group will obtain sufficient foreign exchange for payment of dividends or other settlements in foreign exchange.

Institutional structure of the wireless communication sector in the PRC

At present, there are two major mobile operators in the PRC. The China Unicom Group, being one of the major operators, has been one of the five largest customers of the Group during the Track Record Period. During each of the three years ended 31 December 2003 and the five months ended 31 May 2004, sales by the Group to the China Unicom Group were approximately RMB52.4 million (approximately HK$49.4 million), RMB51.6 million (approximately HK$48.7 million), RMB96.2 million (approximately HK$90.8 million) and RMB10.1 million (approximately HK$9.5 million) respectively, representing approximately 62%, 51%, 60% and 12% of the total turnover for each of the relevant period, respectively. If the State changes the institutional structure of the telecommunication industry or wireless communication sector or allows direct foreign investment in such industry or sector, competition may intensify and such telecommunication operators may adopt a more stringent procurement policy. If the amount spent on the construction or improvement of system coverage reduces and/or the requirements on the quality of other equipment become more demanding such that the Group's manufacturing costs increase disproportionately, the performance of the Group may be adversely affected.

RISKS RELATING TO THE SHARES

Protection of interests of minority shareholders under the laws of the Cayman Islands

The Company's corporate affairs are governed by its memorandum of association, articles of association and the Companies Law. The laws of the Cayman Islands relating to protection of interests of minority shareholders and to the fiduciary responsibilities of directors may differ from the laws of Hong Kong and the corresponding remedies available to such shareholders may differ accordingly. A summary of the laws of the Cayman Islands relating to protection of minority shareholders is set forth in Appendix V to this prospectus.

Liquidity and possible price volatility of the Shares

An active trading market for the Shares may not develop and the trading price for the Shares may fluctuate significantly. Prior to the listing of the Shares on the Main Board, there has been no open market for any of the Shares. The Offer Price may not be indicative of the price at which the Shares will trade on the Main Board following completion of the Share Offer and the Capitalisation Issue. In addition, there is no assurance that an active trading market for the Shares will develop, or, if it does develop, that it will be sustained following completion of the Share Offer and the Capitalisation Issue, or that the market price of the Shares will not decline below the Offer Price.

The trading price of the Shares could also be subject to significant volatility in response to, among other factors:—

— the investors' perception of the Group and its future business plans;

— variations in the Group's operating results;

— technological innovations;

— changes in the Group's pricing policy as a result of the presence of competitors;

— changes in the Group's senior management personnel; and

— general economic and other factors in the PRC.

RELIABILITY OF STATISTICS

Both the statistics and the industry information contained in the section headed "Industry overview" in this prospectus are gathered from various unofficial sources, unless otherwise indicated as official sources. For statistics derived from official sources, although reasonable actions have been taken by the Directors to ensure the statistics are extracted accurately from such sources, the Company, the Directors and all other parties involved in the Share Offer have not carried out any independent review of the statistics or the methodology in the gathering, compilation or presentation of such statistics. Accordingly, the Company, the Directors and all other parties involved in the Share Offer make no representation as to the accuracy of such official statistics, and are not able to give any assurance that the official statistics are intrinsically consistent. As the Company, the Directors and all other parties involved in the Share Offer cannot ascertain the data collecting method and the accuracy involved, the official statistics contained in that section may be inaccurate, or may not be comparable with the statistics obtained in other economies. Accordingly, there is no assurance that such official facts and official statistics have been stated or prepared to the same standard or level of accuracy as those in other publications.

This prospectus is published solely in connection with the Share Offer which is sponsored by the Sponsor. Subject to the terms of the Underwriting Agreements, the Public Offer Shares are fully underwritten by the Public Offer Underwriters and the Placing Shares are expected to be fully underwritten by the Placing Underwriters. Particulars of the Public Offer Underwriters and the underwriting arrangements are set forth in the section headed "Underwriting" in this prospectus.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus includes particulars given in compliance with the Companies Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information on the Company. The Directors collectively and individually accept full responsibility, having made all reasonable enquiries, and confirm that, to the best of their knowledge and belief:—

— the information contained in this prospectus is accurate and complete in all material respects and not misleading;

— there are no other matters the omission of which would make any statement in this prospectus misleading; and

— all opinions expressed in this prospectus have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

The Offer Shares are offered solely on the basis of the information contained and the representations made in this prospectus and the related Application Forms. So far as the Placing and the Public Offer are concerned, no person is authorised to give any information or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorised by the Company, the Vendor, the Sponsor, the Underwriters, any of their respective directors, or any other parties involved in the Share Offer.

FULLY UNDERWRITTEN

This prospectus is published solely in connection with the Share Offer.

The Share Offer is sponsored by the Sponsor. The Public Offer is fully underwritten by the Public Offer Underwriters under the terms of the Public Offer Underwriting Agreement, subject to the agreement on the Offer Price between the Vendor, the Company and DBS Asia (acting for itself and on behalf of the other Underwriters) on the Price Determination Date. The Placing is expected to be fully underwritten by the Placing Underwriters (subject to satisfaction or waiver of conditions) under the terms of the Placing and Underwriting Agreement. Particulars of the Public Offer Underwriters and the underwriting arrangements are set forth in the section headed "Underwriting" in this prospectus.

The Offer Shares are being offered at the Offer Price which is expected to be determined by the Vendor, the Company and DBS Asia (acting for itself and on behalf of the other Underwriters) on 6 December 2004, or such later date or time as may be agreed between the Vendor, the Company and DBS Asia but, in any event, not later than 7 December 2004.

If the Vendor, the Company and DBS Asia are unable to reach an agreement on the Offer Price, the Share Offer will not proceed and will lapse.

OFFER SHARES ARE OFFERED IN CERTAIN JURISDICTIONS ONLY

No action has been taken to permit any public offering of the Offer Shares or the distribution of this prospectus and the related Application Forms in any jurisdiction other than Hong Kong. The distribution of this prospectus and the related Application Forms and the offering of the Offer Shares in certain jurisdictions is restricted by law. This prospectus is not an offer or invitation, nor is it calculated to invite or solicit offers in any jurisdiction in which it is not authorised, and is not an offer or invitation to any person to whom it is unlawful to make an unauthorised offer or invitation.

Hong Kong

This prospectus has been registered with the Registrar of Companies in Hong Kong. Accordingly, this prospectus may be issued, circulated or distributed in Hong Kong, and the Offer Shares under the Share Offer may be offered to: (i) members of the public in Hong Kong and (ii) any other person in Hong Kong. In addition, advertisements may be made offering or calling attention to an offer or intended offer of the Offer Shares to the public in Hong Kong.

U.S.

The Offer Shares have not been, and will not be, registered under the U.S. Securities Act or under any securities regulatory authority of any state of the U.S. and may not be offered, sold, pledged or transferred in the U.S. except in a transaction not subject to, or in accordance with, an applicable exemption from the registration requirements of the Securities Act. Accordingly, the Offer Shares may only be offered and sold by the Placing Underwriters (i) in the U.S. through their respective U.S. affiliates to (A) institutional accredited investors that are reasonably believed to qualify as accredited investors (as defined in Rule 501(a)(1), (2), (3) and (7) of Regulation D under the U.S. Securities Act); or (B) qualified institutional buyers (as defined in Rule 144A under the U.S. Securities Act ("Rule 144A")) in accordance with Rule 144A; or (ii) outside the U.S. in offshore transactions pursuant to Regulation S under the U.S. Securities Act.

In addition, until 40 days after the later of the commencement of the Share Offer and completion of the distribution of the Offer Shares, any offer or sale of the Offer Shares within the U.S. by any dealer (whether or not participating in the Share Offer) may violate the registration requirements of the U.S. Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A or another applicable exemption.

United Kingdom

This prospectus has not been approved by an authorised person in the United Kingdom and has not been registered with the Registrar of Companies in the United Kingdom. The Offer Shares may not be offered or sold in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 (as amended). In addition, this prospectus is being distributed in the United Kingdom only to and is directed at (i) persons who have professional experience in matters relating to investments or (ii) persons falling within Article 49(2)(a) to (d) ("high net worth companies, unincorporated associations etc") of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 (all such persons together being referred to as "relevant persons"). This prospectus must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this prospectus relates is available only to relevant persons and will be engaged in only with relevant persons.

Singapore

This prospectus has not been lodged and will not be lodged as an information memorandum with the Monetary Authority of Singapore pursuant to Division 1, Part XIII of the Securities and Futures Act, Chapter 289, of Singapore ("Securities and Futures Act"). Accordingly, this prospectus may not be issued, circulated or distributed in Singapore nor may any of the Offer Shares be offered for subscription or sold, directly or indirectly, nor may an invitation or offer to subscribe for any Offer Shares be made (i) to persons in Singapore other than under circumstances in which such offer or sale does not constitute an offer or sale of the Offer Shares to the public in Singapore or (ii) to the public or any member of the public in Singapore other than pursuant to, and in accordance with the conditions of, an exemption invoked under Subdivision 4, Division 1 of Part XIII of the Securities and Futures Act and to persons to whom the Offer Shares will be offered or sold under such exemption. Furthermore, no advertisement may be made offering or calling attention to an offer or intended offer of the Offer Shares to the public in Singapore.

Taiwan

This prospectus has not been and will not be registered as a prospectus with the Securities and Futures Bureau, Financial Supervising Commission, Executive Yuan of Taiwan under the Securities and Exchange Law of Taiwan and the Company has not been and will not be registered under the Company Law of Taiwan and related laws and regulations of Taiwan. This prospectus will not be distributed to the general public of Taiwan and no public offering activities will be conducted by the Company in Taiwan. Accordingly, none of the Offer Shares may be offered for subscription, purchase or sold, directly or indirectly, to the public in Taiwan.

PRC

This prospectus may not be circulated or distributed in the PRC and the Offer Shares may not be offered or sold, directly or indirectly or offered or sold to any person for re-offering or resale, directly or indirectly, to any resident of the PRC except pursuant to applicable laws and regulations of the PRC.

Cayman Islands

No offer of the Offer Shares may be made to members of the public in the Cayman Islands.

Each person acquiring the Offer Shares will be required to confirm, or be deemed by his or her or its subscription or acquisition of the Offer Shares to have confirmed, that he or she or it is aware of the restrictions on offers of the Offer Shares described in this prospectus.

APPLICATION FOR LISTING OF THE SHARES ON THE MAIN BOARD

The Company has applied to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, on the Main Board, the Shares in issue, the Sale Shares being offered for sale by the Vendor, and the Shares to be issued pursuant to the Capitalisation Issue and the Share Offer as mentioned in this prospectus (including any Shares that may be issued pursuant to the exercise of the Over-allotment Option and Shares which may be issued pursuant to the exercise of any options that may be granted under the Share Option Scheme).

No part of the Shares or the Company's loan capital is listed or dealt in on any other stock exchanges. At present, the Company is not seeking or proposing to seek listing of or permission to deal in its securities on any other stock exchange.

HONG KONG STAMP DUTY AND ESTATE DUTY

Dealings in the Shares registered in the Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty.

The Shares registered on the Company's Hong Kong branch register of members constitute Hong Kong property. Hong Kong estate duty may be payable upon the passing of any interests in the Shares on the Company's Hong Kong branch register of members upon the death of a person, whether or not a Hong Kong resident.

PROFESSIONAL TAX ADVICE RECOMMENDED

If you are unsure about the taxation implications of subscribing for the Offer Shares or about purchasing, holding, disposing of or dealing in the Offer Shares, you should consult an expert.

The Company, the Vendor, the Sponsor, the Underwriters, their respective directors, or other parties involved in the Share Offer do not accept responsibility for any tax effects on, or liabilities of, any person resulting from subscribing for, or purchasing or holding or disposing of or dealing in the Offer Shares.

REGISTRATION

All Shares offered pursuant to the Share Offer will be registered on the Company's branch register of members to be maintained in Hong Kong by its branch share registrar and transfer agent, Computershare Hong Kong Investor Services Limited. The Company's principal register of members will be maintained by its principal share registrar and transfer agent, Butterfield Bank (Cayman) Limited in the Cayman Islands.

STRUCTURE OF THE SHARE OFFER

Details of the structure of the Share Offer, including conditions of the Share Offer and grounds of termination, are set out in the section headed "Structure and conditions of the Share Offer" in this prospectus.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of listing of, and permission to deal in, the Shares on the Stock Exchange and compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day. Investors should seek the advice of their stockbroker or other professional adviser for details of those settlement arrangements and how such arrangements will affect their rights and interests.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on the Main Board are expected to commence on 9 December 2004. Shares will be traded in board lots of 4,000 Shares each.

EXECUTIVE DIRECTORS

Name	Address	Nationality
Mr. GUO Deying	Flat C, 22nd Floor Amigo Mansion 79A Wong Nai Chung Road Hong Kong	Chinese
Mr. JIANG Chao	Flat 7, 22nd Floor Lung Pak House Hong Pak Court Lam Tin Kowloon Hong Kong	Chinese

NON-EXECUTIVE DIRECTORS

Ms. YANG Xiao	Flat C, 22nd Floor Amigo Mansion 79A Wong Nai Chung Road Hong Kong	Chinese
Ms. MA Dehui	Unit 2-401 No. 5 Yulin Street Chengdu Sichuan Province The PRC	Chinese

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. HUANG Dazhan	Flat F, 5th Floor Tower 5 Island Harbourview No. 11 Hoi Fai Road Kowloon Hong Kong	Chinese
Mr. XIE Weixin	No. 201 Hai Yue House Shenzhen University Nan Shan District Shenzhen The PRC	Chinese
Mr. CHAN King Chung	Flat C, 2nd Floor Block 7, Hillview Court 11 Ka Shue Road Tseng Lan Shue Sai Kung New Territories Hong Kong	Chinese

Sponsor, Bookrunner and Lead Manager	DBS Asia Capital Limited 16th Floor Man Yee Building 68 Des Voeux Road Central Hong Kong
Lead Manager for the Placing	DBS Asia Capital Limited 16th Floor Man Yee Building 68 Des Voeux Road Central Hong Kong
Co-Lead Managers for the Placing	Kingsway Financial Services Group Limited 5th Floor, Hutchison House 10 Harcourt Road Central Hong Kong
	SBI E2-Capital Securities Limited 43rd Floor, Jardine House One Connaught Place Central Hong Kong
	Crosby Capital Partners (Hong Kong) Limited (*formerly Crosby Limited)* 2701 Citibank Tower Citibank Plaza 3 Garden Road Central Hong Kong
Senior Co-manager for the Placing	Guangdong Securities Limited Units 2505–06, 25th Floor Low Block, Grand Millennium Plaza 181 Queen's Road Central Hong Kong
Co-managers for the Placing	Guotai Junan Securities (Hong Kong) Limited 27th Floor Low Block, Grand Millennium Plaza 181 Queen's Road Central Hong Kong
	Tai Fook Securities Company Limited 25th Floor, New World Tower 16–18 Queen's Road Central Hong Kong

VC Capital Limited
Penthouse 38th Floor, The Centrium
60 Wyndham Street
Central
Hong Kong

KGI Capital Asia Limited
27th Floor, ICBC Tower
Citibank Plaza
3 Garden Road
Central
Hong Kong

South China Securities Limited
28th Floor, Bank of China Tower
1 Garden Road
Central
Hong Kong

Public Offer Underwriters

DBS Asia Capital Limited
16th Floor
Man Yee Building
68 Des Voeux Road Central
Hong Kong

SBI E2-Capital Securities Limited
43rd Floor, Jardine House
One Connaught Place
Central
Hong Kong

Legal advisers to the Company

As to Hong Kong law:—

Mallesons Stephen Jaques
37th Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

As to Cayman Islands law:—

Conyers Dill & Pearman, Cayman
Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681 GT
George Town
Grand Cayman
British West Indies

	As to PRC law:—
	Beijing JunZeJun Law Offices 3rd Floor, Ping An Development Mansion No. 68, Dongsi Shitiao Dongcheng District Beijing 100007 The PRC
Legal advisers to the Underwriters	*As to Hong Kong law:—*
	Baker & McKenzie 14th Floor, Hutchison House 10 Harcourt Road Central Hong Kong
Auditors and reporting accountants	Ernst & Young *Certified Public Accountants* 15th Floor, Hutchison House 10 Harcourt Road Central Hong Kong
Property valuer	DTZ Debenham Tie Leung Limited 10th Floor, Jardine House Central Hong Kong
Receiving banker	DBS Bank (Hong Kong) Limited 11th Floor The Center 99 Queen's Road Central Hong Kong

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 The PRC
Principal place of business in Hong Kong	Room 1902, MassMutual Tower 38 Gloucester Road Wanchai Hong Kong
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
Authorised representatives	Mr. GUO Deying Flat C, 22nd Floor Amigo Mansion 76A Wang Nai Chung Road Hong Kong Mr. JIANG Chao Flat 7, 22nd Floor Lung Pak House Hong Pak Court Lam Tin Kowloon Hong Kong
Principal banker	Citic Ka Wah Bank Limited 232 Des Voeux Road Central Hong Kong

Principal share registrar and transfer office	Butterfield Bank (Cayman) Limited Butterfield House 68 Fort Street P.O. Box 705 George Town Grand Cayman Cayman Islands
Hong Kong branch share registrar and transfer office	Computershare Hong Kong Investor Services Limited Shops 1712–16, 17th Floor Hopewell Centre 183 Queen's Road East Hong Kong

The information in this section has been derived from various unofficial sources, unless otherwise indicated as official sources. The information derived from official sources has not been prepared or independently verified by the Company, the Vendor, the Sponsor, the Underwriters or any of their respective affiliates or advisers. The official information in this section may not be consistent with other information compiled within or outside the PRC. The Directors have taken reasonable care in the compilation and reproduction of the information.

WIRELESS COMMUNICATION MARKET IN THE PRC

Paging market

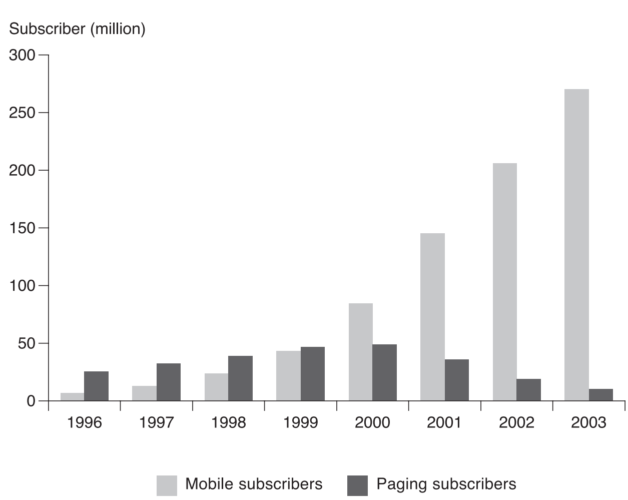
With the emergence and growing popularity of mobile phones, the paging market in the PRC experienced a flat growth since 1996 and a decrease since 2001. As shown in the chart below, between 1996 to 2000, paging subscribers in the PRC grew from approximately 25.4 million to approximately 48.8 million, representing a CAGR of 17.7%. Starting from 2001, number of paging subscribers started to decline, in 2003, there were approximately 10.6 million paging subscribers in the PRC. The Directors believe that the paging market in the PRC is mature and will likely to continue to decline in future.

Mobile market

PRC's mobile phone market is expanding rapidly. With about 270 million subscribers at the end of 2003, it is by far the largest mobile phone network in the world in terms of subscribers. Despite of such fact, PRC's mobile phone penetration rate is still relatively low compared to many other countries in the region. According to IDC, a leading global independent research company in the telecommunication sector, the mobile phone penetration rate in the PRC in 2003 was only around 20%, whereas in other places in the region such as Hong Kong and Taiwan, penetration rate had exceeded 80% for the same period.

As at 31 December 2003, the number of mobile subscribers in the PRC reached approximately 270 million, representing CAGR of approximately 69% since 1996.

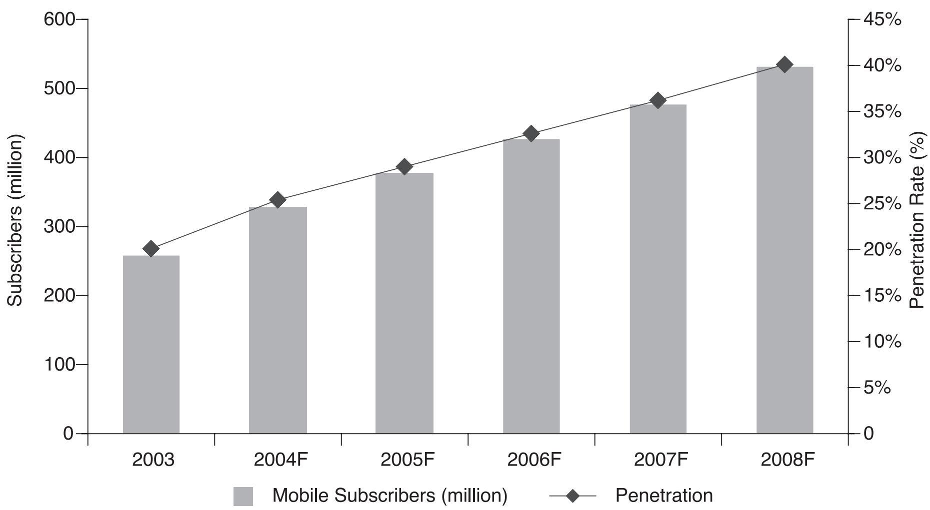
Number of mobile phones and paging services subscribers in the PRC



Source: China Statistical Yearbook (official source)

Riding on the uptrend of the domestic economic expansion, it is forecasted that mobile subscribers in the PRC will continue to grow from 2003 to 2008. IDC expects that by 2008, the total number of mobile subscribers in the PRC will exceed 530 million with a penetration rate reaching 40%, and representing a CAGR of 15.5% from 2003 to 2008. The Directors believe that the growing mobile market in the PRC presents tremendous opportunities for providers of wireless terminals and various value-added applications.

Mobile Subscribers and Penetration Rate in PRC



Source: IDC

Mobile networks

Currently, there are three mobile networks in the PRC, namely GSM, GPRS and CDMA1X, with 3G expected to be launched no earlier than 2005. China Unicom is the sole operator that owns both GSM and CDMA networks. While the growth for 2G technologies, namely GSM, has been sluggish, the growth for 2.5G technologies, i.e. GSM, GPRS and CDMA1X, is expected to be strong in the coming years due to their much more enhanced data capabilities compared with 2G technologies. China Unicom's CDMA1X network, which can support up to 100K bps for data transmissions, as compared to GPRS' 30–50K bps data rate.

Mobile subscribers	**2003** *(million)*	**2004(E)** *(million)*	**2005(E)** *(million)*	**2006(E)** *(million)*	**2007(E)** *(million)*	**2008(E)** *(million)*
GSM/GPRS	239.22	296.95	332.10	363.00	390.16	411.58
CDMA1X	19.07	31.30	45.13	53.78	60.49	66.25
3G	—	—	—	10.08	26.36	53.71
Total	258.29	328.25	377.23	426.85	477.01	531.54

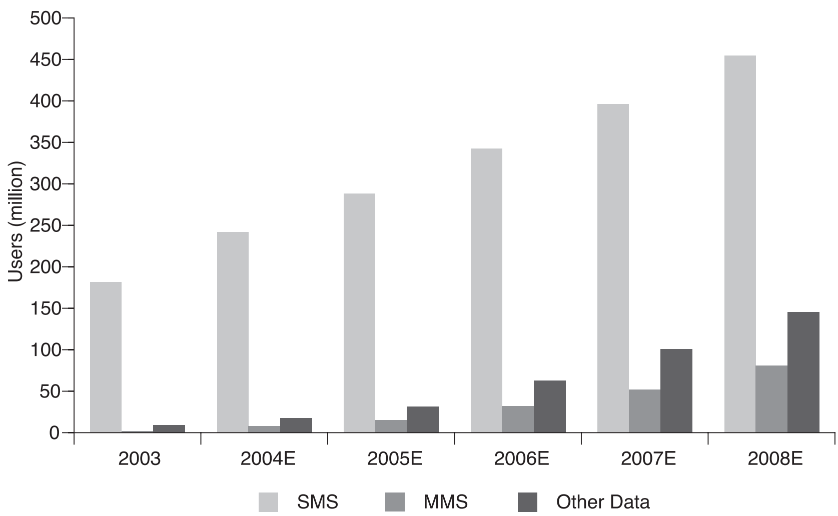
Source: IDC

The Directors believe that the intensifying competition between the telecommunication operators over the existing mobile networks and the expected launch of 3G network in the PRC present tremendous opportunities to wireless system solution providers who can support telecommunication operators to provide value-added services to attract more subscribers. Meanwhile, wireless terminals providers who can offer terminals with high performance and capability to support various applications are also expected to benefit from such opportunities.

Wireless data market

In the PRC, Short Message Services (SMS) is one of the most popular applications. According to IDC, in 2003, there were about 181.8 million SMS users in the PRC, generating revenue of approximately US$1.7 billion. IDC expects that in 2008, there would be approximately 454.8 million SMS users in the PRC, generating revenue of approximately US$5.6 billion. IDC also expects the use of MMS to grow substantially in the PRC: in 2003, there were about 1.6 million MMS users in the PRC, while in 2008, the MMS users are expected to increase to approximately 81 million, representing a CAGR of approximately 119%. The Directors consider the China wireless data market to be substantial.

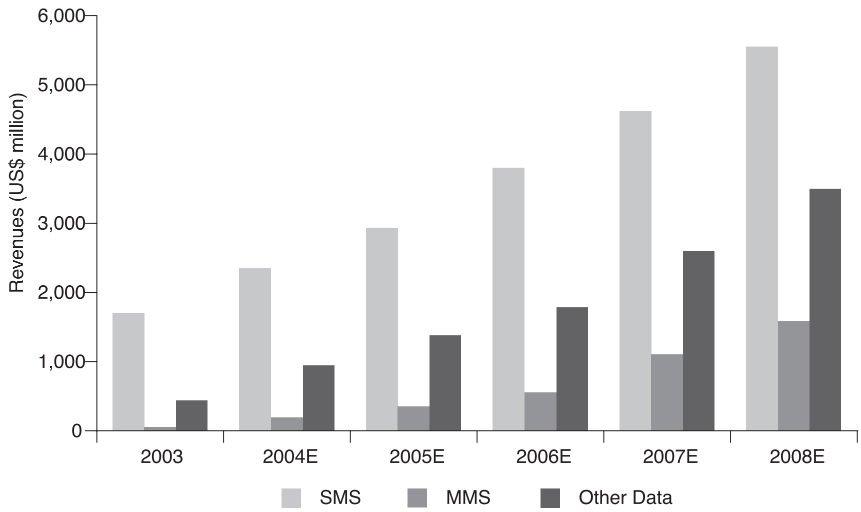
Mobile Data Users in PRC



Note: SMS and MMS refer only to person-to-person messaging. Value-added messaging are included in Other Data

Source: IDC

Mobile Data Revenues in PRC



Note: *SMS and MMS refer only to person-to-person messaging. Value-added messaging are included in Other Data*

Source: *IDC*

SMARTPHONE MARKET

Overview on global market

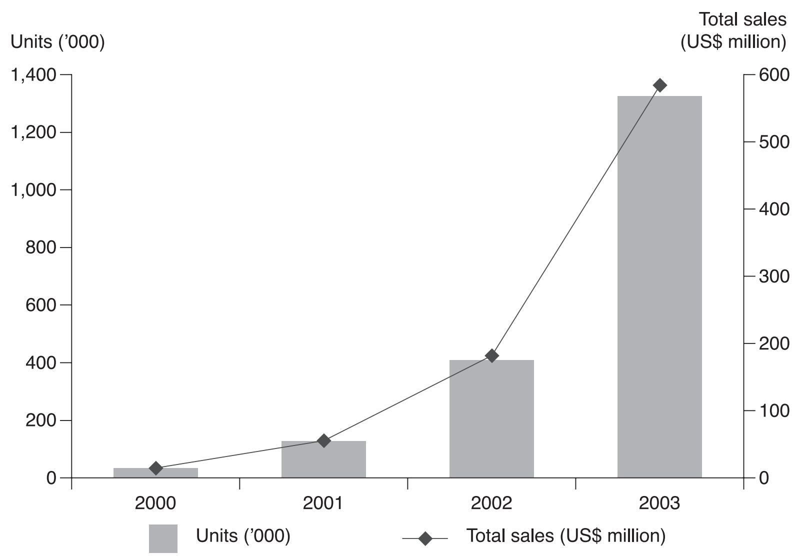
Smartphone offers a highly desired combination of mobile telephone with advanced applications, multimedia, and wireless features. With the increasing choice of smartphone products and improvement of telecommunication network, smartphones sales recorded substantial growth in recent years. According to IDC, the worldwide smartphone shipment in 2003 amounted to approximately 9.44 million units, and is expected to increase to approximately 94 million units in 2008, representing a CAGR of approximately 51.8%.

For operation of a smartphone, the minimal set of software is always included to manage a device's hardware capability and share it between application programs. This set of software is commonly referred as "operating system" or "OS". There are various designs of OS offered by international companies. Currently, there are five major operating systems of smartphones: Symbian, Palm, Microsoft Pocket PC, Microsoft Smartphone, and Linux. Symbian is currently the dominating smartphone operating system. Sales of smartphone adopting Symbian accounted for approximately 54.37% of total worldwide sales of smartphone in 2003.

The PRC

Smartphone market in the PRC is considered to kick off in 2000 with the launch of foreign brand smartphones. Since then, smartphone sales recorded substantial growth in the PRC, with CAGR of approximately 239.1% between 2000 and 2003 in terms of units of sales. According to CCID, another independent research company, in 2003, there were approximately 1,326,000 units of smartphone sold in the PRC at value of approximately RMB4.8 billion (US$581 million).

Smartphone sales in the PRC, 2000–2003



Source: CCID

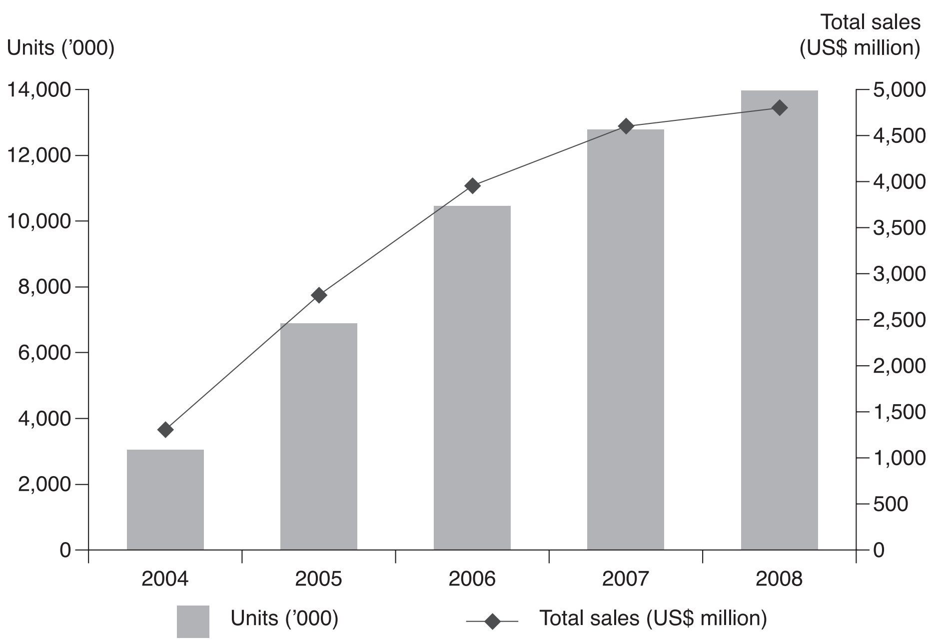
CCID noted that the PRC smartphone market has entered explosive growth phase. The market which previously predominately focused on business executives is now spreading to a wider spectrum of users, which fueled an even bigger growth potential. According to CCID, in 2003, smartphones using the GSM network accounted for approximately 99.9% of the market share in the PRC, while those using the CDMA network accounted for the rest of the market share. CCID expects that smartphones using GSM network will continue to dominate the market share in the near future given the current telecommunication infrastructure in the PRC. Moreover, according to CCID, in 2003, about 47.3% of the smartphones sold in the PRC were based on proprietary operating systems developed by various smartphone manufacturers. Among a number of operating system used by PRC smartphone providers, CCID believes that operating system with a more open structure such as Linux, Palm and Microsoft will be increasingly used. This is because a more open structure would efficiently support development of software application for the smartphone. Smartphone market in the PRC is currently dominated by foreign brands, while sales of domestic brands accounted for about 14.6% of the total sales in 2003. CCID also noted that in 2003, about 73.1% of the sales of smartphones were made through shops or malls specialised in sales of smartphones.

CCID considers that the smartphone market in the PRC is still at its preliminary stage. Smartphones that are able to handle sophisticated business data transmission and multi-media information have substantial growth potential. CCID is of the view that the growth of the smartphone market will on one hand extract existing users of PDA; and on the other hand, will be stimulated by the increasing use of mobile office functions and multimedia applications. CCID observes that the consumers buying smartphone are over 90% male and customers place emphasis on various factors with functionality, applications supported and pricing being the top three.

CCID expects that smartphone market in the PRC will continue to grow in the future owing to the following factors: (i) existing relatively low penetration rate (in 2003, the smartphone only accounted for 2% of the overall mobile phone market in the PRC; (ii) increasing applications offered by smartphones which are also used in PDAs and for handling sophisticated data transmission; and (iii) improvement of telecommunication infrastructure. With the expected launch of 3G, more wireless data and applications are expected to become available, which is expected to trigger increase in demand for smartphones.

CCID expects that from 2004 to 2008, smartphone sales in the PRC will grow at a CAGR of about 46.3% in terms of units sold from approximately 3.1 million in 2004 to 14 million in 2008. The sales volume is expected to grow from approximately RMB10.9 billion (US$1.3 billion) to RMB39.9 billion (US$4.8 billion).

Estimated smartphone sales in the PRC, 2004–2008



Source: CCID

The relevant PRC laws and regulations relating to the Group's business include, among others, the Measures for Administration of Network Access for Telecommunication Equipment and the Regulations on Telecommunication. Summaries of these regulations and rules are as follows:—

《電信設備進網管理辦法》(THE MEASURES FOR ADMINISTRATION OF NETWORK ACCESS FOR TELECOMMUNICATION EQUIPMENT)

《電信設備進網管理辦法》(The Measures for Administration of Network Access for Telecommunication Equipment) were promulgated by the MII on 10 May 2001. The PRC implements a Network Access Licence system for access to public telecommunication networks by certain prescribed types of telecommunication terminal equipment, wireless communications equipment and equipment involving interconnections between networks. A Network Access Licence issued by the MII must be obtained for telecommunication equipment subject to the Network Access Licence system. If a Network Access Licence is not obtained, the equipment may not be connected to a public telecommunication network. Neither may it be used or sold in the PRC.

The MII, together with the department of the State Council responsible for product quality supervision, is responsible for formulating and promulgating lists of telecommunication equipment which is subject to the Network Access Licence system. A production enterprise of telecommunication equipment ("Production Enterprise") must make its application for a Network Access Licence in compliance with the relevant laws, regulations and policies. To qualify for a Network Access Licence, the telecommunication equipment must satisfy the standards of the State in relation to the telecommunication industry as well as the requirements of the MII. The Production Enterprise should have complete quality guarantee system and after-sale service procedures in place. When the Production Enterprise submits its application for a Network Access Licence, it is required to enclose a testing report issued by an inspection organisation authorised by the MII and approved by the department of State Council responsible for product quality supervision, or a product quality system authentication certificate issued by a certification body. The basis, testing procedures and issue of assessment report for the inspection of the telecommunication equipment for the Network Access Licence applications, which are conducted by inspection bodies, must be in conformity with the requirements of the State or the MII. 中國電信管理局 (The State Telecommunication Management Bureau) is responsible for the nationwide administration and supervision of network access for telecommunication equipment. 通信管理局 (Communication Management Bureau) of various provinces, autonomous regions and municipalities directly under the central authority is responsible for the local administration and supervision of network access for telecommunication equipment. Besides, organisations authorised by the MII to handle the applications of telecommunication equipment for Network Access Licences may also deal with application matters.

The MII shall, within 60 days after receiving a Network Access Licence application, complete its examination on the application and telecommunication equipment testing report or the product quality certificate, and decide whether to approve or disapprove it. If approved, the Network Access Licence will be issued; otherwise, a written notification stating the reason of rejection shall be sent to the applicant. The Production Enterprise shall ensure the stable and reliable quality of, and must not reduce the quality and performance of, its telecommunication equipment after obtaining the Network Access Licence.

The Production Enterprise must affix its Network Access Licence labels to the telecommunication equipment. Being all printed and issued by the MII, the Network Access Licence label is a label of quality and may not be affixed to any telecommunication equipment which has not been issued with the Network Access Licence or whose Network Access Licence has been invalidated. The Network Access Licences and the Network Access Licence labels must not be transferred, altered, fabricated or infringed.

The term of validity of a Network Access Licence is three years. The Production Enterprise should only continue to produce and sell the telecommunication equipment with Network Access Licence. The renewal application for a Network Access Licence must be made at least three months prior to the expiry of the Network Access Licence and enclose a testing report submitted for inspection within one year or sample testing report issued by product quality inspectors. If there occurs any change in the content specified in the Network Access Licence of telecommunication equipment, the Production Enterprise must re-apply for the Network Access Licence. The Production Enterprise having obtained a Network Access Licence must provide copies of the Network Access Licence to its distributors and users if they so require.

The MII will regularly announce to the public the lists of the telecommunication equipment and Production Enterprises which have been issued with Network Access Licence. Production Enterprises having obtained the Network Access Licences must timely report the issue of Network Access Licences to the relevant Communication Management Bureaus of provinces, autonomous regions and municipalities directly under the central authority and operate under the bureaus' supervision and management.

《電信條例》(REGULATIONS ON TELECOMMUNICATION)

《電信條例》(The Regulations on Telecommunication) (the "Regulations") were promulgated by the State Council on 25 September 2000. Pursuant to the Regulations, the MII shall implement the nationwide management of telecommunication industry. Under the supervision of the MII, 通信管理局 (Communication Management Bureaus) of provinces, autonomous regions and municipalities directly under the central authority shall be responsible for the supervision and management of their respective local telecommunication industry under the Regulations.

Enterprises permitted to operate telecommunication business must legally acquire their business licences of telecommunication operation through registration with the relevant enterprise registration authorities. Special telecommunication operators operating telecommunication business in their respective districts at which the operator's offices are located must make applications, obtain approval of the business licences of telecommunication operation in accordance with the requirements of the Regulations and relevant procedures, and then make registration according to the requirements previously stated.

The construction of public telecommunication network, private telecommunication network and broadcast and television transmission network must comply with the overall planning and industrial management of the MII, the competent authority in charge of information industry under the State Council. The construction of public telecommunication network, private telecommunication network and broadcast and television transmission network, which fall into the categories of nationwide information network engineering or the project out of the scope stipulated by the State, must obtain permission from the competent authority of information industry under the State Council prior to the reporting for approval according to the procedures of examination and approval for the State Council construction projects.

The State applies the Network Access Licence system to telecommunication terminal equipment, wireless communication equipment and equipment involving interconnections between networks. Telecommunication terminal equipment, radio communication equipment and equipment involving interconnections between networks accessing to public telecommunication network must be in line with the standards stipulated by the State and obtain Network Access Licences. The catalogue containing telecommunication equipment applicable to the Network Access Licence system is formulated and promulgated by the competent authority of information industry under the State Council jointly with the department of the State Council responsible for product quality supervision. In relation to the telecommunication equipment having been issued the Network Access Licences, the department of the State Council responsible for product quality supervision, together with the competent authority of information industry under the State Council, is responsible for monitoring the quality, supervising the sampling and inspection and announcing the results.

HISTORY AND DEVELOPMENT

Shareholding

The Group's history can be traced back to 1993 when Yulong Shenzhen was established in Shenzhen Special Economic Zone, the PRC as a sino-foreign equity joint venture with registered capital of RMB3.1 million. The registered capital was paid up in accordance with the laws and regulations of the PRC. Yulong Shenzhen was then owned as to 52% by 深圳大學文化科技服務有限公司 (Shenzhen University Culture Technology Services Company Limited), a limited liability company established in the PRC; and 48% by Dickman Enterprises Company Limited ("Dickman Enterprises"), a limited liability company incorporated in Hong Kong. Shenzhen University Culture Technology Services Company Limited was a State owned enterprise. Dickman Enterprises was then owned by three individuals, who are Independent Third Parties. Mr. Guo has been the chairman, the legal representative and the general manager of Yulong Shenzhen since its establishment.

In December 1999, Shenzhen University Culture Technology Services Company Limited disposed of its 52% interest in Yulong Shenzhen to Space Star, which is owned as to 90% by Ms. Yang and 10% by Ms. Ma, at a consideration of approximately RMB3.81 million. The consideration was determined based on the net asset value of Yulong Shenzhen of approximately RMB7.32 million as at 30 June 1999.

In January 2001, Shenzhen Yi Wei Digital Technologies Co., Ltd ("Shenzhen Yi Wei") was established with Yulong Infotech holding 30% interest and the remaining interests were held by Space Star and an Independent Third Party as to 50% and 20% respectively. Shenzhen Yi Wei was engaged in the development and design of website and online gaming software, and the Directors confirm that it was mainly set up with the purpose of capturing opportunities expected to be brought by booming Internet market. The Independent Third Party was the general manager and a director of Shenzhen Yi Wei, responsible for the daily management and operation of Shenzhen Yi Wei. Shenzhen Yi Wei has become dormant since June 2002, as the business did not perform as well as the shareholders had expected.

In June 2001, Dickman Enterprises disposed of its 48% interest in Yulong Shenzhen to Yulong Infotech, which was then owned as to 90% by Ms. Yang and 10% by Mr. Guo, at a consideration of approximately RMB1.488 million which was equal to Dickman Enterprises' investment in the registered capital of Yulong Shenzhen.

In May 2002, for the purpose of streamlining the shareholding and group structure of the Group, Space Star transferred its 52% interest in Yulong Shenzhen to DTI through a corporate restructuring at a consideration of approximately RMB6.2 million. The consideration was determined with reference to the net asset value of Yulong Shenzhen of approximately RMB11.9 million as at 22 April 2002. DTI was then owned as to 90% by Ms. Yang and 10% by Ms. Ma. Subsequent to the share transfer between Space Star and DTI, Yulong Shenzhen became a WFOE in the PRC.

In July 2003, the Group underwent a reorganisation, pursuant to which the Company became the holding company of the Group. Details of the corporate reorganisation are set forth in the paragraphs headed "Corporate reorganisation" in Appendix VI to this prospectus.

In August 2003, in order to raise capital and to diversify the shareholder base of the Company, 4,000,000 Preference Shares were allotted and issued to JATF for cash at the subscription price of US$1.00 each. Immediately following such allotment and issue, the Company became owned as to approximately 81.82% by Data Dreamland and approximately 18.18% by JATF.

In December 2003, the 4,000,000 Preference Shares held by JATF were converted into 4,000,000 Ordinary Shares by redesignating and reclassifying the Preference Shares as Ordinary Shares. No additional consideration was paid by JATF to the Company upon the conversion.

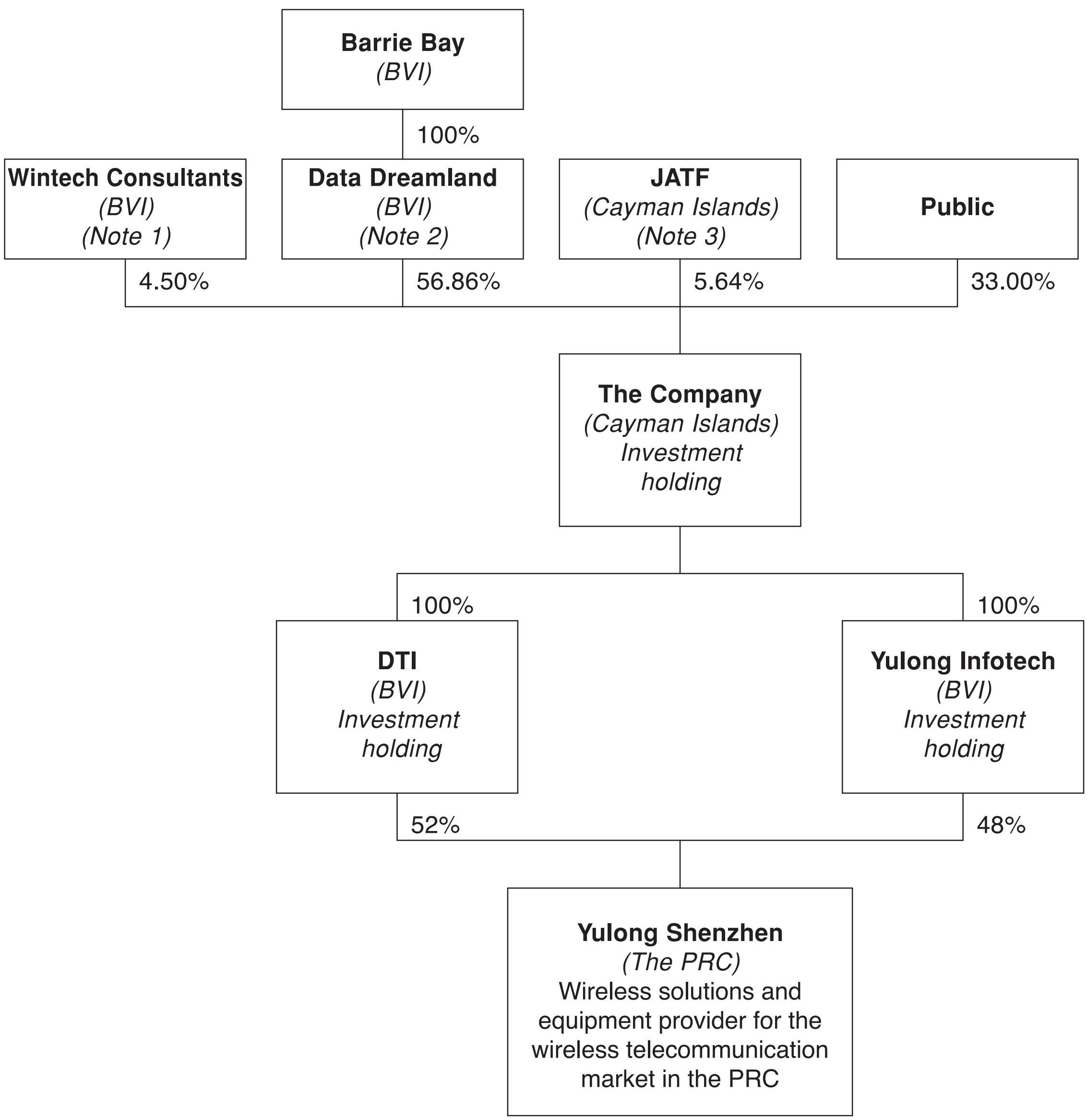
In February 2004, Yulong Infotech disposed of its 30% interest in Shenzhen Yi Wei to an Independent Third Party.

On 30 March 2004, for the purpose of providing additional incentives to the key management who, in the opinion of the trustee of the China Wireless Employee Benefit Trust, has made exceptional contribution to the development of the Group, Data Dreamland transferred 1,320,000 Shares, representing approximately 6% of the then issued share capital of the Company, at a nominal consideration of HK$1.00, to Wintech Consultants for the setting up of the China Wireless Employee Benefit Trust. Wintech Consultants is the trustee of the China Wireless Employee Benefit Trust. As Data Dreamland and Wintech Consultants were wholly and beneficially owned by Mr. Guo and his associates at the time of transfer, a nominal consideration was paid for the transfer. According to the trust deed dated 30 March 2004 as amended by a supplemental deed dated 21 November 2004 (the employee trust deed, as amended, shall be referred to as the "Employee Trust Deed"), the trust fund of the China Wireless Employee Benefit Trust consists of (i) trust property as specified under the Employee Trust Deed; (ii) all money, investments or other property paid or transferred by any person to or so as to be put under the control of the trustee to be held upon the China Wireless Employee Benefit Trust and, in either case, accepted by the trustee as additions; (iii) all accumulations of income added to the trust fund; and (iv) the money, investments and property from time to time representing the above. The Employee Trust Deed does not specify a maximum limit of the trust fund under the China Wireless Employee Benefit Trust (except for the Capitalisation Issue pursuant to the Share Offer). As at the Latest Practicable Date, the trust fund of the China Wireless Employee Benefit Trust consists solely of 1,320,000 Shares. The Directors confirmed that the trustee has no present intention to acquire any additional Shares for the benefit of China Wireless Employee Benefit Trust. The trustee holds the entire trust fund upon trust for the beneficiaries who are the employees of the Group as at the date of the Employee Trust Deed and from time to time and which does not exclude connected persons (as defined in the Listing Rules) of the Company (except Mr. Guo, Ms. Yang and Ms. Ma). The China Wireless Employee Benefit Trust is of duration of 80 years from the date of the Employee Trust Deed or shall end on such date as the trustee shall specify (whichever is the earlier). The China Wireless Employee Benefit Trust is a discretionary trust. The trustee shall hold the capital and income of the trust fund upon trust for or for the benefit of such beneficiaries, at such ages or times, in such shares upon trust, on such terms and conditions and in such manner generally as the trustee shall in its discretion think fit. The trustee shall have powers and discretions to appoint or apply capital monies to grant options over the Shares (at the expense of trust fund), upon such terms as the trustee may think fit, to the beneficiaries. The trustee may enter into any agreement or contract, on such terms as the trustee may think fit, with the Company and the beneficiaries to enable any beneficiary to acquire and take up the Shares or options over the Shares. The Directors believe that the China Wireless Employee Benefit Trust is a more flexible mechanism in providing incentive to employees of the Group in view of the discretions the trustee of the China Wireless Employee Benefit Trust enjoys in granting incentives to the employees of the Group. The Directors confirmed that as at the Latest Practicable Date, none of the beneficiaries of the China Wireless Employee Benefit Trust has been granted any forms of incentives out of the trust fund by the trustee. The Directors also confirmed that the trustee has no present intention to grant any incentives to any of the beneficiaries prior to the Listing Date.

On 22 November 2004, Mr. Guo and Ms. Yang set up a discretionary trust, namely the Barrie Bay Trust. On 23 November 2004, Data Dreamland became wholly owned by 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 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, the beneficiary objects of which include the children of Mr. Guo and Ms. Yang who are under 18 years old. Each of Mr. Guo and Ms. Yang is a settlor of the Barrie Bay Trust and is taken to be interested in the 227,454,545 Shares held by Data Dreamland immediately upon completion of the Share Offer and the Capitalisation Issue pursuant to Part XV of the SFO.

Group Structure

The following chart sets out the members of the Group, their places of incorporation and shareholding structure of the Group immediately upon completion of the Share Offer and the Capitalisation Issue and assuming the Over-allotment Option is not exercised, no option is granted under the Share Option Scheme and not taking into account any Shares which will be transferred to JATF from Data Dreamland upon exercise of the Option (which is subject to Rule 10.07(1) of the Listing Rules) by JATF under the Option Agreement:—



Notes:—

1. On 30 March 2004, Data Dreamland transferred 1,320,000 Shares, representing approximately 6% of the then issued share capital of the Company to Wintech Consultants to hold as trustee of the China Wireless Employee Benefit Trust, a discretionary trust set up by Data Dreamland and the discretionary objects of which are employees of the Group (excluding Mr. Guo, Ms. Yang and Ms. Ma). Immediately upon completion of the Share Offer and the Capitalisation Issue, Wintech Consultants will hold an aggregate of 18,000,000 Shares as trustee of the China Wireless Employee Benefit Trust.

2. The entire issued share capital Data Dreamland is held by 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 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 and Ms. Yang on 22 November 2004, the beneficiary objects of which include the children of Mr. Guo and Ms. Yang who are under 18 years old. Each of Mr. Guo and Ms. Yang is a settlor of the Barrie Bay Trust and is taken to be interested in the 227,454,545 Shares held by Data Dreamland immediately upon completion of the Share Offer and the Capitalisation Issue pursuant to Part XV of the SFO.

3. JATF is 100% beneficially owned by a limited partnership, JAFCO Asia Technology Fund L.P.

Business development

The Group was established in 1993 and has been engaged in providing wireless communication system solutions principally to major telecommunication operators and other customers in the PRC.

In 1995, the Group launched its low speed paging transceiver for supporting paging services. The product was used by telecommunication operators in the PRC. The principal function of the transceiver was for converting data signal to wireless signal, which is received by a pager. With its solid foundation in the paging industry, the Group commenced R&D in high speed paging transceiver solution and paging software solution.

In 1997, the Group launched its FLEX-enabled high speed paging transceivers.

In May 1999, the Group started to provide wireless terminals in the form of paging information receivers together with its PPS high speed wireless data transmission system. The products were sold to telecommunication operators in the PRC.

Also in 1999, the Group completed the development of its core module for enabling telecommunication services and the related database management. The module was called "*Uniswitch*". *Uniswitch* was designed as a central data processing unit to enable automatic multi-dimensional data transmission based on pre-determined criteria. *Uniswitch* can be used as part of a management information system for telecommunication operators and be connected to different gateway or services platform, such as those for SMS, Internet paging and wireless gaming.

In August 1999, in view of the increasing data transmission capabilities of telecommunication networks, the Group decided to capitalise on market opportunities by launching its wireless terminal products and started R&D on the operating system of wireless terminals.

In January 2000, the Group started R&D on a wireless system solution to provide value-added services.

In March 2000, the Group's principal operating subsidiary, Yulong Shenzhen was awarded the ISO9001:1994 management process quality certificate.

In June 2001, the Group launched its *Wireless Value-added Services Platform*.

In July 2001, the Group further improved its wireless terminal products by incorporating PDA functions into its paging information receivers, which operated on the Group's proprietary operating system.

In September 2001, the Group started R&D on a call centre solution.

In November 2001, the Group started R&D on the hardware components of the fixed wireless terminals.

In March 2002, the Group established a team to commence R&D on the hardware components of smartphones.

In April 2002, the Group started R&D on a PHS network coverage solution.

In June 2002, the Group was selected by the China Unicom Group as the system solution provider to implement its first WAN IP call centre in Beijing, for which the Group was responsible for the design and installation. In the same year, the Group's call centre solution for telecommunication operators and other corporations was developed based on the routing functions of *Uniswitch*. The solution was named *Callnet*.

In December 2002 and January 2003, the Group launched its 2.5G fixed wireless terminals for GSM/GPRS and CDMA networks respectively. The products are marketed under the brand name *Coolpad* and were sold to local branches of telecommunication operators and other distributors. The products are generally being used in offices or retail outlets.

In May 2003, Yulong Shenzhen was awarded the ISO9001:2000 management process quality certificate.

In December 2003, the Group launched its wireless coverage system solutions for a PHS network (or "*Xiaolingtong*" as known in the PRC). The solution was named *Realink PHS Intelligent Coverage System*. This wireless coverage system solution was designed to extend the coverage of a PHS network and for enhancing voice quality.

In December 2003, the Group launched its first CDMA1X smartphone. The smartphone is also marketed under the brand name "*Coolpad*" and is mainly sold to local branches of major telecommunication operators and other distributors in the PRC. The Group has also developed various industry applications for its smartphones.

In September 2004, the Group launched its *Coolpad* smartphone for GSM/GPRS network.

Implication of adjustment of the Group's portfolio of products and solutions

As evidenced by the evolution of the Group's businesses, the Group has been adjusting its business strategies in light of the changing market conditions by making use of its core technologies. The results of the adjustments are reflected in change in customer composition, and also the change in contribution to overall sales and profit margin earned by different product and solution. During the Track Record Period, the sales contribution of telecommunication operators and wireless system solutions decreased, whilst that from wireless terminals, in particular smartphones, increased significantly. Due to market competition, the average contract size or selling price of some of the Group's products and solutions, such as the *Callnet* and fixed wireless terminal, also decreased during the period. Despite the decrease, the Group intends to continue the provision of wireless system solutions and products to telecommunication operators in order to gain in-depth understanding of system requirements of telecommunication operators. The Directors believe that such understanding to be of importance for shaping the overall telecommunication market and the development strategies of the Group. As such, the Directors expect that whilst the contribution of the wireless system solutions business would either be stable or decrease, the smartphone business would be the key growth area for the Group in the short to medium term.

The Directors expect that due to different business terms incidental to sales of smartphone, as compared to provision of wireless system solutions and other wireless terminals, the Group would enjoy benefit such as relatively shorter cash collection period due to relatively shorter settlement cycle. On the other hand, the Group would have to take a more proactive approach in launching new models of products to capture market interest, which would be reflected in the substantial input in R&D on smartphone products in the future.

The Group's management

The Group's management control is vested with the executive Directors. Between the two executive Directors, Mr. Guo is one of the founding members of the Group and has been the chairman, legal representative and general manager of Yulong Shenzhen during the Track Record Period. Mr. JIANG Chao joined the Group in June 2002. He is responsible for the finance and administrative functions of the Group and at the same time provides assistance to Mr. Guo in respect of business development of the Group.

Yulong Shenzhen was the only major operating entity of the Group during the Track Record Period. In addition to Mr. Guo, the majority number of directors of Yulong Shenzhen were appointed by Ms. Yang and Ms. Ma (being Mr. Guo's spouse and mother-in-law respectively), who effectively held the controlling stake of Yulong Shenzhen through Space Star (before May 2002) and DTI (after May 2002) ("Controlling Shareholders"). Ms. Yang has been and is still a director of Yulong Shenzhen since 30 July 2001. Mr. ZENG Dimen, Ms. LI Li and Mr. DU Jianguo were non-executive directors of Yulong Shenzhen. Mr. ZENG was elected by Dickman Enterprises and was not affiliated with the Company in any other capacity. He resigned in July 2001 following the disposal of Dickman Enterprises' entire interest in Yulong Shenzhen to Yulong Infotech in June 2001. On the other hand, Ms. LI and Mr. DU were elected by the Controlling Shareholders and did not participate in the day-to-day management of Yulong Shenzhen and only acted as board representatives subject to the directions of the Controlling Shareholders. Mr. DU resigned in July 2001.

Taking into consideration of the above, the Directors consider that the Group has been operated under substantially the same management throughout the Track Record Period.

For information about other senior management of the Group, please refer to the section headed "Directors, audit committee, senior management and staff" of this prospectus.

ACCREDITATION AND OFFICIAL RECOGNITIONS

The Group has received a number of awards and official recognitions from the relevant PRC authorities and professional bodies in relation to its technological capability, product quality and operations. The following table sets out the details:—

Date	Awards and honours
July 1998	The Group's US-P4 尋呼系統 (paging system) passed the technology evaluation conducted by 深圳市科學技術局 (Shenzhen Science and Technology Council) and was accredited as 深圳市科技進步獎三等獎 (Shenzhen Technology Advancement Award — Third Class) by 深圳市人民政府 (Shenzhen Municipal People's Government).
May 1999	The Group's YL6400B 高速尋呼發射機 (Wireless Paging Transceiver) passed the technology evaluation conducted by 深圳市科學技術局 (Shenzhen Science and Technology Council).
July 1999	Yulong Shenzhen was accredited as the 深圳市高新技術企業 (Shenzhen Hi-tech Enterprise) by the 深圳市科學技術局 (Shenzhen Science and Technology Council).
August 2000	The Group's PPS 高速尋呼系統 (High Speed Paging System) passed the technology evaluation conducted by 深圳市科學技術局 (Shenzhen Science and Technology Council).
September 2000	The Group's YL6400B 高速尋呼發射機 (Highspeed Paging Transceiver) was accredited as 深圳市科技進步獎三等獎 (Shenzhen Technology Advancement Award — Third Class) by 深圳市人民政府 (Shenzhen Municipal People's Government).
May 2001	The Group's PPS 高速尋呼系統 (High Speed Transmission System) was accredited as 深圳市重大推廣新產品 (Key Product of Shenzhen) by 深圳市科學技術局 (Shenzhen Science and Technology Council).
August 2001	The Group was granted research fund of RMB1,000,000 for further development of its PPS 高速尋呼系統 (High Speed Paging System) by 深圳市財政局 (Shenzhen Financial Bureau).
	The Group's PPS 高速尋呼系統 (High Speed Paging System) was awarded the 深圳市科學技術進步獎二等獎 (Shenzhen Technology Advancement Award — Second Class) by the 深圳市人民政府 (Shenzhen Municipal People's Government).
	Yulong Shenzhen was certified as 軟件企業 (Software Enterprise) by 深圳市信息化辦公室 (Shenzhen Informatisation Office).

Date	Awards and honours
September 2001	Yulong Shenzhen was accredited as 深圳市300最具成長性企業 (300 Fastest Growing Enterprise in Shenzhen) by 深圳市企業評價協會 (Shenzhen Enterprise Appraisal Association).
May 2002	The Group's PPS 高速尋呼系統 (High Speed Paging System) was accredited as 廣東省科技獎三等獎 (Guangdong Technology Award — Third Class) by 廣東省人民政府 (Guangdong Provincial People's Government)
July 2002	The Group's 尋呼管業管理系統 (Paging Business Management System) passed the technology evaluation conducted by and was accredited as 深圳市科學技術進步獎三等獎 (Shenzhen Technology Advancement Award — Third Class) by 深圳市人民政府 (Shenzhen Municipal People's Government).
	The Group's 無線分組數據網 (Wireless Categorised Data System) was accredited as 國家重點新產品 (State Key New Product) by 國家科學部 (State Science Bureau).
September 2002	The Group's *Callnet* 廣域網 IP 呼叫中心 (WAN IP Call Centre) passed the technology evaluation conducted by 深圳市科學技術局 (Shenzhen Science and Technology Council).
December 2002	The Group was accredited as producer of 先進軟件產品 (Advanced Software Product) by 深圳軟件行業協會 (Shenzhen Software Industry Association).
January 2003	The Group was certified as 深圳市計算機信息系統集成一級資質 (First Class Shenzhen Information Technology System Solution Provider) by 深圳市信息化辦公室 (Shenzhen Informatisation Office).
	The Group's *Coolpad* 智能終端嵌入式軟件 (Intelligent Terminal Embedded Software) was accredited as 2002 年度先進軟件產品獎 (2002 Shenzhen Technology Advanced Software Product) by 深圳軟件行業協會 (Shenzhen Software Industry Association). The software forms part of the Group's proprietary operating system for wireless terminals.
March 2003	The Group's *Callnet* 廣域網 IP 呼叫中心 (WAN IP Call Centre Solution) was accredited as 深圳市重大推廣新產品 (Key Product of Shenzhen) by 深圳市科學技術局 (Shenzhen Science and Technology Council).
July 2003	The Group's *Callnet* system was praised by 深圳軟件行業協會 (Shenzhen Software Industry Association) as 先進軟件產品 (Advance Software Product).

Date	Awards and honours
July 2003	The Group was awarded 深圳市青年科技創新(示範)基地 (Shenzhen Young Technology Innovation Organisation) by 深圳市人民政府 (Shenzhen Municipal People's Government).
	The Group's 協同資信系統 (Synchronised Information System) was accredited as 廣東省重點新產品 (Guangdong Province Key New Product) by 廣東省科技廳 (Guangdong Province Science Board). The software forms part of the Group's proprietary operating system for wireless terminals.
March 2004	The technology level of the Group's *Coolpad* smartphone was evaluated as「國內先進、國際水平」(advanced in the PRC and of international standards) by 深圳市科學技術局 (Shenzhen Science and Technology Council).
July 2004	The Group's *Coolpad* 手機嵌入式軟件 V1.10 (mobile phone embedded software) was accredited gold medal in 第八屆中國國際軟件博覽會 (The 8th INT'L SOFT CHINA).
October 2004	Yulong Shenzhen was accredited as 中國優秀民營科技企業 (Excellent Private-owned Enterprise in the PRC) by 中華全國工商業聯合會 (China National Industrial and Commercial Association) and 中國民營科技實業家協會 (China Private-owned Technology Industrialists Association).
	Yulong Shenzhen was enlisted as one of the Deloitte Technology Fast 500 Asia Pacific as one of the 500 fastest-growing technology companies in Asia Pacific.

PRODUCTS AND SOLUTIONS

Breakdown of the Group's turnover by products and solutions during the Track Record Period is as follows:—

	For the year ended 31 December						For the five months ended 31 May			
	2001		2002		2003		2003 (unaudited)		2004	
	RMB'000	*% of turnover*	*RMB'000*	*% of turnover*	*RMB'000*	*% of turnover*	*RMB'000*	*% of turnover*	*RMB'000*	*% of turnover*
Wireless system solutions										
Wireless transceivers for paging network	83,363	98.3	73,431	72.5	20,608	12.8	18,029	38.3	—	—
Realink PHS Intelligent Coverage System	—	—	—	—	10,034	6.2	—	—	11,424	13.6
Sub-total for wireless coverage system	83,363	98.3	73,431	72.5	30,642	19.0	18,029	38.3	11,424	13.6
Callnet	—	—	13,343	13.1	11,967	7.4	8,121	17.3	2,448	2.9
Wireless Value-added Service Platform	836	1.0	8,176	8.1	6,190	3.8	5,721	12.2	1,488	1.8
Sub-total for integrated telecom business platform	836	1.0	21,519	21.2	18,157	11.2	13,842	29.5	3,936	4.7
Sub-total	84,199	99.3	94,950	93.7	48,799	30.2	31,871	67.8	15,360	18.3
Wireless terminals										
One-way wireless terminals	568	0.7	4,887	4.8	4,220	2.6	2,927	6.2	39	—
Fixed wireless terminals	—	—	1,492	1.5	89,248	55.3	12,230	26.0	22,538	26.8
Smartphone	—	—	—	—	19,241	11.9	—	—	46,252	54.9
Sub-total	568	0.7	6,379	6.3	112,709	69.8	15,157	32.2	68,829	81.7
Total	84,767	100.0	101,329	100.0	161,508	100.0	47,028	100.0	84,189	100.0

The number of projects delivered or units of wireless terminals sold by the Group during the Track Record Period are as follows.

	Year ended			Five months ended 31 May	
	2001	**2002**	**2003**	**2003**	**2004**
	Unit	*Unit*	*Unit*	*Unit*	*Unit*
Wireless system solutions					
Wireless transceivers for paging networks	107	58	15	9	—
Realink PHS Intelligent Coverage System	—	—	6	—	30
Callnet	—	3	3	2	1
Wireless Value-added Services Platform	2	11	9	6	5
Wireless terminals					
One-way wireless terminals	1,761	8,233	9,841	8,026	206
Fixed wireless terminals	—	1,025	52,265	8,595	30,321
Smartphones	—	—	5,002	—	12,023

Wireless coverage system solutions

The Group's wireless system solutions are generally used by telecommunication operators to extend and enhance transmission quality of their telecommunication networks. These solutions are sold on project basis and can be modified in accordance with customers' specifications. Currently, the Group's wireless coverage system solutions can be used for paging or PHS networks.

Wireless transceivers for paging networks

The Group's wireless transceivers are designed to provide outdoor coverage of a paging network. This product supports one-way transmission of wireless data and is used by telecommunication operators in the PRC. The principal function of this product is for converting data signal to wireless signal, which is received by a pager. In view of the shrinking paging market in the PRC, the Group intends not to put material resources in R&D or marketing of this product. Instead, the Group will only deliver wireless transceivers based on specific order from existing customers.

Realink PHS Intelligent Coverage System

The Group commenced R&D on a PHS network coverage solution in April 2002 and launched its coverage solution for PHS networks (or "*Xiaolingtong*" as called in the PRC) under the name of *Realink PHS Intelligent Coverage System* in December 2003, which is a multiple-channel PHS coverage system designed to extend the coverage of a PHS network for enhancing voice quality. *Realink PHS Intelligent Coverage System* is used to amplify and relay wireless signals so as to minimise blind spots and to enhance the effective transmission of radio frequency signals between transceivers and mobile phones. In order to capitalise on the opportunities arising from the 3G system to be launched in the PRC, the Group's PHS coverage system is designed to be 3G compatible.

The Directors believe that as the competition between mobile telecommunication operators and fixed-line telecommunication operators continue to intensify, the fixed-line telecommunication operators are expected to continue to enlarge and enhance their PHS network coverage to attract more subscribers. Therefore, the Directors believe that demand for wireless coverage system solutions such as *Realink PHS Intelligent Coverage System Solution* will continue to increase.

The Group's wireless coverage system solutions have been sold to Beijing, Shanghai and 23 provinces in the PRC, namely Anhui, Fujian, Gansu, Guangdong, Guangxi, Guizhou, Hainan, Hebei, Heilongjiang, Henan, Hubei, Hunan, Jiangsu, Jiangxi, Inner Mongolia, Ningxia, Qinghai, Shaanxi, Shandong, Shanxi, Xinjiang, Yunnan and Zhejiang.

Integrated telecom business platform

The Group's integrated telecom business platform is primarily used by telecommunication operators to support telecommunication services with centralised management functions and user interface that could provide value-added services to subscribers. The system is also able to automatically prioritise information flow and request. These solutions are sold on project basis and are modified in accordance with customers' specifications.

The core module of the Group's integrated telecommunication business platform is called "*Uniswitch*". It was designed by the Group and is used as a centralised data processing unit, where data received from communication platforms such as fixed line networks, wireless data or voice networks will go through the data switch platform and be re-routed to either a database management server, a different communication platform (e.g. the Internet) or other services platform (such as CTI, IVR, PBX, mobile networks). This is to enable automatic multi-dimensional data transmission based on pre-determined criteria. The Directors believe that the development of "*Uniswitch*" is an important milestone for the Group's ongoing development of integrated telecom business platform for telecommunication operators. "*Uniswitch*" is embedded in the Group's wireless system solutions such as *Callnet* and *Wireless Value-added Services Platform* but has not been sold separately.

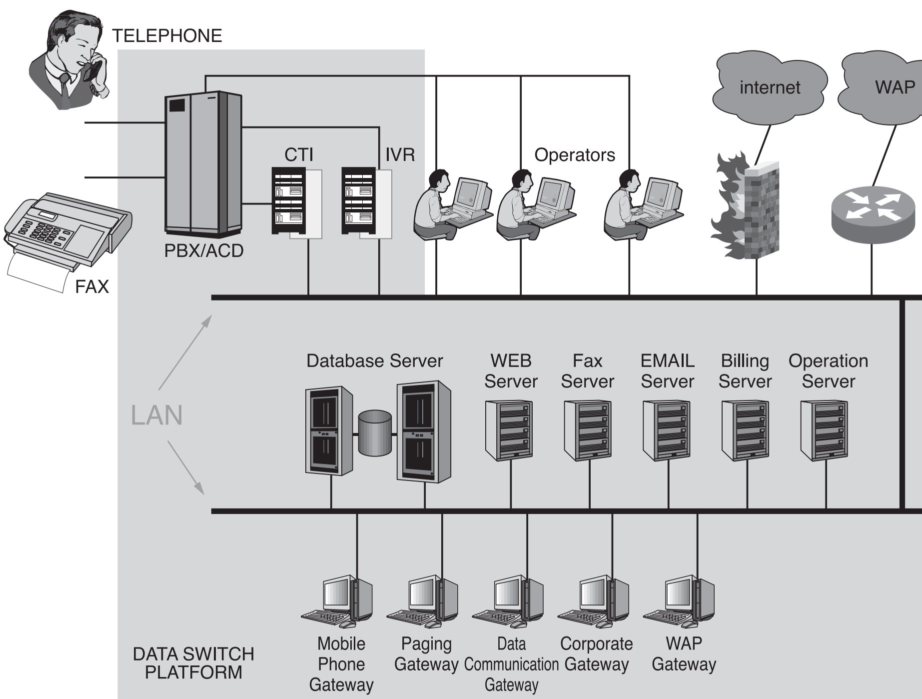
Currently, the Group's integrated telecom business platform comprises two solutions, namely *Callnet* and *Wireless Value-added Services Platform*.

Callnet

The Group's *Callnet* is a solution for supporting operation of a call centre, including those operated on WAN IP. The key function of a call centre is to receive and process audio and data requests via telephone, fax, computers or the Internet. The *Callnet*'s PBX/ACD will decide whether the data received should be processed under an IVR system or a team of human operators. Once the request has been recognised, the system will then retrieve the data through its database and transmit the content to the appropriate recipients via various gateway mediums, such as the mobile network, wireless data network or corporate network.

During the Track Record Period, the Group delivered its *Callnet* solutions to major telecommunication operators in the PRC for the establishment of their own in-house call centres or to enable the telecommunication operators to provide contracted call centre services to their own customers. The contracted call centre services are designed to enable the telecommunication operators to support call centre functions for their clients according to clients' specifications. Moreover, the Group also delivered *Callnet* as corporate solution to corporations such as TCL. The Directors believe that the solution is able to assist corporations to provide a cohesive CRM interface and would be of great value to corporations that operate in competitive environment with large amount of customers.

The workflow of *Callnet* can be illustrated in the following diagram:—



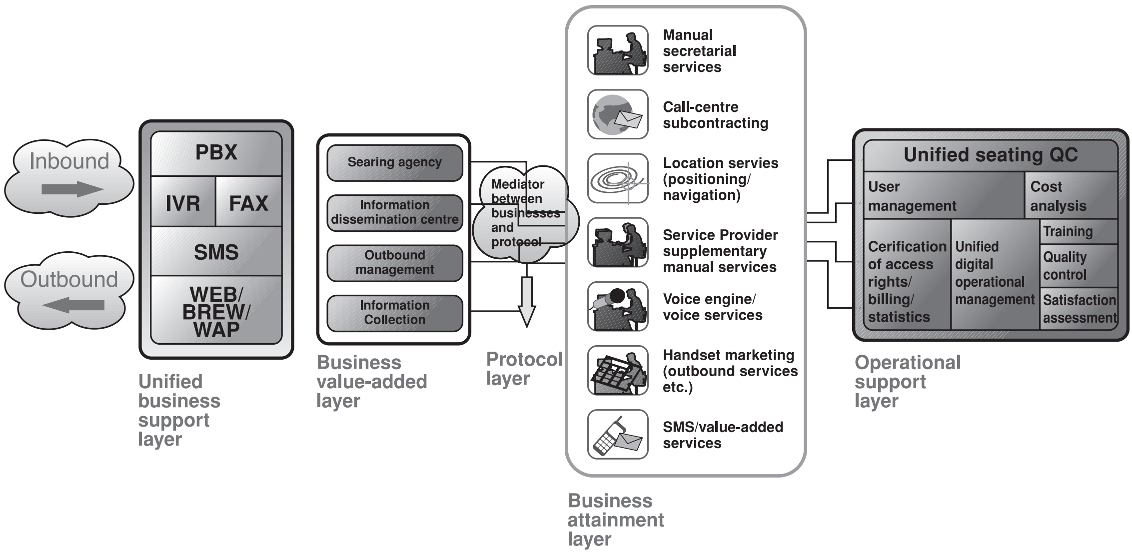
The Group's *Callnet* solutions have been delivered to Beijing and five provinces in the PRC, namely Guangdong, Guangxi, Jiangsu, Xinjiang and Zhejiang.

Wireless Value-added Services Platform

The Directors believe that as wide bandwidth wireless communication and sophisticated wireless terminal devices become more and more easily accessible and popular in the PRC, value-added voice and data services on wireless terminal devices are becoming essential factors to wireless subscribers when selecting a telecommunication operator. The Group's *Wireless Value-added Services Platform* is a solution designed to enable telecommunication operators to offer to subscribers interactive wireless data services, such as SMS, Internet paging and wireless game. The platform can also provide IVR services to various telecommunication media such as fixed line, mobile network, and Internet simultaneously. With the Group's *Wireless Value-*

added Services Platform, telecommunication operators can offer various services such as real-time stock quotation, news, dating services, weather report and lottery results to their subscribers.

The services enabled by the *Wireless Value-added Services Platform* can be illustrated in the following diagram:—



The Group's *Wireless Value-added Services Platform* has been used in Beijing and 14 provinces in the PRC, namely Anhui, Gansu, Guangdong, Guangxi, Guizhou, Heilongjiang, Hubei, Hunan, Ningxia, Qinghai, Shaanxi, Shandong, Xinjiang and Yunnan.

Development plan for wireless system solution

During the Track Record Period, revenue from provision of wireless system solutions accounted for more than 90% of the turnover of the Group in 2001 and 2002; and dropped to approximately 30% and 18% in 2003 and the five months ended 31 May 2004, respectively. The Directors believe that the trend was in line with the development trend of the telecommunication industry in the PRC, whereby the telecommunication operators gradually shifted the bulk of their investments from building infrastructure of telecommunication networks to enhancing value-added services and user interface. Moreover, for the five months ended 31 May 2004, the Group did not deliver any wireless transceiver for paging network, and the average selling price of *Realink PHS Intelligent Coverage System, Callnet* and *Wireless Value-added Service Platform* declined compared to those in 2003, mainly as a result of the smaller size of projects delivered during the period.

Based on the Directors' observation on the development of the telecommunication industry in the PRC, the Directors expect that the financial contribution of wireless system solutions to the Group would either become stable or decrease gradually till the emergence of new technology or standard. For example, in the past, the emergence of the PHS standard in the PRC led to additional investment in network solutions and the Group was then able to capitalise on the development by promoting new coverage solution.

In the past, the Group has focused its R&D and marketing activities on the promotion of its wireless system solutions. The Directors believe that the Group's earlier investment and the experience accumulated in the R&D and marketing of wireless system solutions served as foundation for development of its wireless terminal business, and more importantly for the development of industry applications in the following ways:—

(i) telecommunication operators, which are the major customers of the Group's wireless system solutions, are also important clientele for the Group's wireless terminal products;

(ii) continuous provision of wireless system solutions to telecommunication operators would not only help maintain the Group's relationship with telecommunication operators but also allow the Group to gain insight of technological development and system requirements of telecommunication operators. The Directors believe that such developments will likely shape the behavior of wireless service users and consider them as important considerations in designing wireless terminal products; and

(iii) under one of the current business models of promoting industry applications, the Group would design an industry application, supply wireless system solution directly to corporate users, and at the same time supply the wireless terminals to telecommunication operators. The telecommunication operators would then resell the wireless terminals together with network usage packages to the corporate users to encourage higher network usage. This model has already been used by customers of the Group and the Group has been and is engaged in promotion of the industry application jointly with one of the major telecommunication operators in the PRC.

In view of the above, the Directors expect that the Group would continue to engage in the provision of wireless system solutions along with the provision of wireless terminals. Given the same core technologies for wireless telecommunication and the commercial considerations cited above, notwithstanding the change in contribution of different products and solutions to the turnover of the Group, the Directors consider that there was no significant change in key functional units of the Group, namely management, R&D, marketing and sales, during the Track Record Period.

Wireless terminals

The Group designs and distributes wireless terminals under its own brand name *Coolpad*. The wireless terminals enable one-way or two-way transmission of wireless data. The Group's wireless terminals are mainly sold to local branches of telecommunication operators and telecommunication equipment distributors in the PRC. The Group also promotes its wireless terminal products as part of its industry application. Typically, the average product cycle of wireless terminal product is estimated to be about 1 to 2 years.

The Group currently supplies wireless terminals in the following categories:—

One-way wireless terminals

Paging information receiver

The one-way wireless handheld terminal is designed to enable subscribers to receive wireless data such as financial market information, stock quote, news and weather forecast. Currently, the one-way wireless terminals are offered in the form of paging information receiver. In view of the shrinking paging market in the PRC, one-way wireless terminals are no longer the Group's main stream products and were included in the Group's product portfolios mainly for the purpose of maintaining a full range of wireless terminal products. The Group intends not to put substantial resources in the R&D or marketing of this product. Instead, the Group will only deliver this type of products based on specific order from earlier customers.

During the Track Record Period, the unit selling price (inclusive of value-added tax) of the Group's one-way wireless terminals was about RMB200 (approximately HK$189) to RMB600 (approximately HK$566).

Fixed Wireless terminals

The Group's 2.5G fixed wireless terminals support two-way voice and data communication. The Group's fixed wireless terminals can provide user functions similar to conventional fixed-line phone. However, instead of connecting to a fixed-line network, the fixed wireless terminals make use of a mobile telecommunication network for voice and data transmission. With plug-in SIM cards, the terminals will be able to connect to a mobile network. Some of the Group's fixed wireless terminals can also be used to receive text and/or graphical messages such as financial market information, stock quote, news and email. The Group's fixed wireless terminals are compatible with either CDMA or GSM/GPRS network. In addition, some of the Group's fixed wireless terminals are designed to allow users to access the Internet. The Directors also believe that the Group's fixed wireless terminal is an effective tool to allow telecommunication operators to provide telephone services to subscribers located in areas which are not covered by conventional fixed-line networks. Some of the Group's fixed wireless terminals have been used as public phones in retail shops. These terminals are capable of retrieving billing information from the telecommunication network, recording call duration, calculating cost for each call and displaying the usage charge on the terminal display. The shop owners can then charge callers based on usage.

The fixed wireless terminals are promoted mainly to operators of mobile telecommunication networks in the PRC, as the fixed wireless terminals encourage usage of mobile networks even in a stationary environment such as office and home. The telecommunication operators will then resell the fixed wireless terminals to their subscribers directly or as part of bundled packages offered by them. In case such terminal is sold as part of a bundled package, the subscribers would typically be required to enter into a fixed-term contract with the telecommunication operator and to undertake to subscribe to the telecommunication operator's services for a fixed period of time. The terminal can also support the Group's fixed wireless network management solution which allows a telecommunication operator to activate, deactivate, configure and manage the fixed wireless terminal remotely. The Directors believe that the fixed wireless terminals would be useful tools for mobile telecommunication operators to attract wider range of users with the product marketed as desktop device. The Group's CDMA fixed wireless terminal passed the field test conducted by the China Unicom Group and was enlisted by the China Unicom Group as one of its approved CDMA fixed wireless terminal providers. As at the Latest Practicable Date, the Directors understand that there were 15 CDMA fixed wireless terminal providers approved by the China Unicom Group in the PRC, including the Group.

During the two years ended 31 December 2003 and the five months ended 31 May 2004, the average selling price of the Group's fixed wireless terminals was approximately RMB1,456 (approximately HK$1,374), RMB1,708 (approximately HK$1,611) and RMB743 (approximately HK$701) respectively. The decrease in average selling price in the five months ended 31 May 2004 was mainly due to the launch of new models with less functions and of lower prices in response to market demand and increasing market competition.

Smartphones

The Group's smartphone product integrates a mobile phone and a PDA with wireless applications such as email, Internet browsing, and SMS. During the Track Record Period, the Group offered smartphones that operate on the CDMA1X network in the PRC. In September 2004, the Smartphone Manufacturing Partner obtained the Network Access Licence for the Group's GSM/GPRS smartphone and the trial licence for the Group's CDMA-GSM dual-mode smartphone. As at the Latest Practicable Date, the Group has delivered more than 15,000 GSM/GPRS smartphones and expects to deliver the CDMA-GSM dual-mode smartphones by the end of 2004.

To enhance user experience with *Coolpad* smartphones, the Group works with ICPs in the PRC and has developed applications that enable *Coolpad* smartphone users to access services and contents provided by these content providers. Through the infrastructure of the telecommunication operators, users of the Group's smartphone can access the various services and contents provided by ICPs. Currently message storage services and other entertainment services such as dating services, lucky draw, fortune telling, quiz, games and jokes are provided by ICPs.

Under the prevailing PRC regulatory restrictions on foreign investments in ICP related business, the Group as a WFOE is not allowed to act as an ICP. As such, the Directors consider it necessary for the Group to collaborate with ICPs to enrich contents for the *Coolpad* smartphone users. As at the Latest Practicable Date, the Group has not paid or received any consideration to/from ICPs. The Directors believe that the Group's cooperation with the ICP is mutually beneficial. The Group can provide value-added services and applications for its smartphone users whilst ICPs can attract more market awareness by teaming up with smartphone manufacturers. Therefore, ICPs provide content services to *Coolpad* smartphone users for free.

The Group aims to position its smartphone as a wireless communication device for the high-end market. The Directors intend the target users of the Group's smartphone to be high-end users requiring sophisticated data functions or corporations using the Group's industry applications. The Directors believe that with the enhancement of wireless telecommunication network, more sophisticated wireless services will become available to the market. Smartphone with ability to support various data related functions such as email, database management, and multi-media functions such as video viewing and recording, Internet browsing and camera function will be of demand. On the other hand, the Directors understand that the competition in this area is intense with various local and overseas competitors. Some of them have very strong market position and technical background.

During the Track Record Period, the unit selling price (inclusive of value-added tax) of the Group's smartphone was about RMB4,500 (approximately HK$4,245.3) to RMB5,000 (approximately HK$4,717).

Self-developed operating system

The Group's wireless terminals have been developed based on its self-developed operating system. The Directors consider that by using a self-developed operating system, the Group will have complete control on the software development for its wireless terminals and can come up with new features in a timely manner. The Directors believe that if the Group were to rely on a third party operating system, not only additional time is required but also third party's assistance would be necessary for feature updates and troubleshooting. The saving in time and costs for external assistance and licensing fee for using an operating system developed by third party would be an important positive factor for further development of the wireless terminal products developed by the Group.

To enhance features of the smartphone, the Group works with third party software developers which can make use of the Group's application program interfaces to develop smartphone applications. As at the Latest Practicable Date, the Group had entered into agreements with certain third parties for cooperation in developing application software for smartphone functions such as SMS and Internet browsing.

The Directors believe that the Group has more flexibility in building and enhancing the security features of the wireless terminals with its self-developed operating system. The Directors believe that such features would be particularly important if the Group is to develop industry application that normally requires high level of security. For example, it would be preferable for an application that handles transactions for financial institutions to have its own encryption systems for security purpose.

Industry applications developed based on the Group's wireless terminal products

Combining its technological know-how in wireless telecommunication and its portfolio of products and solutions, the Group is well positioned to provide innovative industry applications (comprising customised wireless system solutions and wireless terminal products) for enhancing internal and external communication of its customers, and thereby creating business opportunities. As at the Latest Practicable Date, the Group had provided industry application solutions to customers engaged in stock trading, aviation, land transportation and public security. The Group has been in discussion with potential customers in relation to industry applications for banking and insurance. The Group will also explore other industry applications in the future.

Stock trading platform

In February 2004, the Group entered into an agreement with China Galaxy Securities Company Limited (中國銀河證券有限責任公司) with an aim of enabling stock trading through wireless telecommunication network. The application comprises a back-end wireless system solution to support stock trading, and supply of smartphones for use of stock account customer. Based in Beijing, China Galaxy Securities is one of the leading securities brokerages in the PRC. The group companies of China Galaxy Securities Limited are engaged in a wide range of financial services including securities brokerage, investment banking, asset management, fund management, and foreign exchange. Pursuant to the agreement, the Group designed and implemented the software system which allows the customers of China Galaxy Securities Company Limited to use their smartphones to receive stock market information, to analysis, and to place trading orders directly to the securities house.

Public security

In June 2004, the Group entered into an agreement with the Shandong provincial branch of a telecommunication operator. Pursuant to the agreement, the Group is responsible for designing and implementing industry application based on its *Coolpad* smartphones, which would allow public security personnel to have remote access to information such as personal identification and drivers licence registrations. The industry application, together with the *Coolpad* smartphones, will be delivered to the Shandong provincial branch of the telecommunication operator. The Directors understand that the smartphones and the public security application will be resold to the public security authority in Shandong province together with the telecommunication operator's network usage package.

Land transportation

Another example of industry applications provided by the Group is a wireless communication network for a transportation company based on the Group's paging information receiver. The Group provides the paging information receivers as well as the embedded software to support a customised telecommunication network for the customers' headquarters and the drivers. The agreement between the Group and the client for the implementation of the system was entered into in November 2003. The system together with the paging information receivers with customised software have been delivered in batches starting from January 2004.

Aviation

In August 2004, the Group entered into an agreement with an Independent Third Party whereby the Group would supply smartphones with customised software which allow pilots to download data on weather, geographical and other information about the areas covered by the flight. The pilots would then be able to retrieve information or perform analysis on the smartphone interactively. The smartphones with customised software have been delivered in 2004.

Insurance

The Group is currently in discussion with two insurance companies in respect of industry applications, under which the Group's smartphone would be used as key communication channel for insurance agents and the insurance companies. Since insurance agents spend substantial time outside office, a real time communication channel for insurance companies for disseminating updated corporate information, new insurance policy and industry information would be useful in promoting efficiency of the agents. Moreover, the smartphone could also be used as PDA for agents to store and organise client information and policy record for customer relationship management purpose. As part of the solution, the insurance agents would also be able to perform analysis on the spot and produce insurance policy proposal at the time of visit. The Directors consider that this would greatly enhance the efficiency and competitiveness of the agents. In order to enable such services, the Group would need to design certain application software for terminals and back-end systems for the insurance companies.

Banking

The Group is currently in discussion with one commercial bank for industry application solution under which the Group's smartphone would be used by account managers who are responsible for servicing banking clients and may be required to regularly visit existing and prospective clients outside the bank's premises. It is envisaged that the smartphones could be used as mobile devices for the account managers to obtain updates about the bank's services and rates such that most updated information and analysis could be provided to client instantly on the spot. As in the case for insurance companies, to implement such solution, the Group would need to design certain application software to be run on the smartphone and the related back-end system for the bank.

In December 2003, the Group entered into a strategic alliance agreement with an independent software developer for a term of two years for promoting industry applications based on the Group's wireless terminal products for banking institution and other applications in Zhejiang province, the PRC. Under the agreement, the Group will supply the smartphones and provide the necessary software development tools and the independent software developer will be responsible for application software development and system integration. There is no profit sharing scheme between the Group and the independent software developer. The Directors understand that the independent software developer will separately charge the bank for application software it develops for operation using the Group's smartphone and owns the copyrights to such software.

Development plan for wireless terminal product

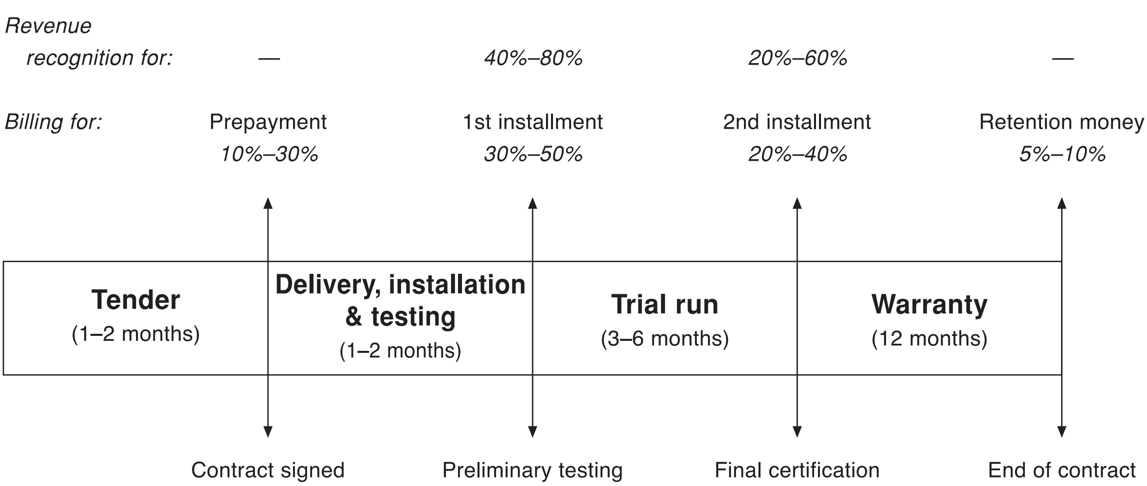
During the Track Record Period, wireless terminal products made less than 10% contribution to the Group's turnover in 2001 and 2002. In 2003 and the five months ended 31 May 2004, revenue from wireless terminal products accounted for approximately 70% and 82% of the Group's turnover, mainly due to the launch of fixed wireless terminals and smartphones. For the five months ended 31 May 2004, the average selling price of one-way wireless terminals and fixed wireless terminals declined compared to those in 2003, mainly as a result of shrinking paging market in the PRC and the pricing pressure on the fixed wireless terminals due to increasing market competition; while the average price of the smartphones maintained at the same level as that in 2003.

The Directors believe that the significant contribution was firstly due to the product quality and marketing activities undertaken by the Group, and secondly the promotion policy of telecommunication operators. During the Track Record Period, telecommunication operator was the Group's major customer of wireless terminals and typically resold the products to subscribers as part of incentive package for using their telecommunication networks. The Directors expect that in future the Group's fixed wireless terminals will be sold mainly to telecommunication operators and telecommunication equipment distributors who usually resell such products to the telecommunication operators, and future sales of fixed wireless terminals will continue to depend on factors including promotion policy of telecommunication operators. On the other hand, it is the policy of the Group to promote its smartphones not only to telecommunication operators and telecommunication equipment distributors but also to potential users of its industry applications. With a much diversified distribution channel, the Directors expect that the sales of its smartphone will principally depend on product quality and effectiveness of marketing activities. Given the huge size and population of the PRC, the increasing use of wireless services and requirement for more sophiscated data handling capability of wireless terminals, the Directors envisage the potential of the Group's wireless terminal products, particularly smartphone, to be substantial.

BUSINESS MODEL

Wireless system solution

Under the current business model, the Group's wireless system solutions are mainly provided directly to telecommunication operators on project basis. The Group provides design, delivery and installation, testing and inspection, maintenance and after-sales services for its wireless system solution customers. Following acceptance, the customer would be responsible for the ongoing operation of the system solution. A wireless system solution project could take about one to two years from the commencement of tender to the end of the warranty period, depending on the complexity and size of the project. The following chart illustrates the typical stages of a wireless system solution project:—



Tender

For wireless system solution project, there would normally be a tender process whereby solution providers are required to submit detailed bidding proposal. The Group may partner with third party sub-contractor in pitching for projects of telecommunication operator. The telecommunication operator sets out technical requirements and specifications of the projects on their tender offers, based on which the Group designs the relevant software and hardware and develops the installation and operational procedures for telecommunication operators' evaluation. On preparing for the pitch, the Group will conduct technical survey of the site and physical environment where the system is to be installed. Based on the data collected from the technical survey and the specifications of the solution, a detailed plan would be prepared in accordance with the requirements of the telecommunication operator, setting out, among other things, system specifications, installation procedures, an analysis of the design plan, and costs estimate. The design plan would be submitted to the telecommunication operator for selection, approval and amendment if necessary. The tender process normally takes about one to two months, depending on the size and complexity of the wireless system solution.

Delivery, installation and testing

After the Group is awarded the project, the Group signs the contract with the customer and will normally receive prepayment of about 10% to 30% of the contract amount. The percentage of prepayment decreased substantially during the Track Record Period from about 30% to 10% as a result of the increasing bargaining power of the telecommunication operators. Upon receipt of the prepayment, the Group delivers the products and solutions in accordance with customers' specifications. The Group then either installs the system solutions by itself or engages sub-contractors according to the design plan and specifications agreed with the customer. Typically, the sub-contractors would be remunerated for no more than 5% of contract amount related to the hardware components. The sub-contractors would be responsible for all the installation works and be subject to the supervision of the Group. During this stage, the Group provides testing and inspection to fine tune and modify the solution to achieve satisfactory and smooth running. Technical manual would be prepared by engineers of the Group setting out, among other things, the specifications of the solutions installed, any change in design and technical plans. The installation and testing works are typically completed within one to two months.

If the results of installation and testing prove to be satisfactory, the customer issues a preliminary certification to the Group. Upon receiving such preliminary certification, the Group will normally receive the first installment of about 30% to 50% of the contract amount. At the same time, the Group recognises the amount of prepayment and first installment as revenue.

Trial run

After the installation and testing, trial run will be conducted by the customer with assistance provided by the Group. Trial runs normally last three months to six months, depending on the size and complexity of the project. If the trial run proves to be satisfactory, the customer will give the Group final certification. Upon obtaining the final certification, the Group will normally receive the second installment of the contract amount, which normally represents 20% to 40% of the contract amount. The Group then recognises the remaining portion of the contract amount as revenue.

In case where the solution provided by the Group fails to satisfy the agreed requirements during the trial run, the Group will need to devote further resources to rectify the situation. If the Group's in-house resources are unable to do so, the Group might have to cooperate with other company in order to deliver the solutions. This would have negative impact on the financial position and reputation of the Group. The Directors confirm that up to the Latest Practicable Date, none of the Group's wireless system solution was rejected by customers due to failure in trial run.

Warranty

The Group normally provides one-year warranty for its wireless system solutions, during which complimentary after-sales maintenance and repair services are typically provided by the Group to customers. These include technical support, system inspection, equipment repair, replacement and maintenance. The Group's engineers also provide continuous customer support and technical training programs to the customers. During the one-year period, customers are provided with free after-sales services and access to 24-hour telephone hotline for technical enquiry, while half-yearly, quarterly or monthly on-site inspections may be carried out by the Group in accordance with the terms of the contracts. Inspections may also be provided to customers on request. At the end of the warranty period, retention money equivalent to 5% to 10% of the contract amount would be paid by the customers. Such retention money would have been already recognised by the Group upon final certification for acceptance by the customers.

After the warranty period, the Group usually charges for maintenance and after-sales services provided to its customers. The charges are determined by taking into consideration the cost of software and hardware components as well as that of the maintenance staff.

Some of the Group's *Realink PHS Intelligent Coverage Systems* are sold to telecommunication equipment or solution distributors, which then resell to telecommunication operators. The distributors are responsible for installation, testing and maintenance, with the Group providing technical and marketing support. The distributors are typically required to settle the purchase price upon delivery, while in some cases, the Group may offer credit terms of up to three months to distributors with good payment record. Revenue is recognised by the Group upon delivery the products.

Wireless terminals

The Group takes initiative to design and develop various models of terminal products, and designs value-added features and industry applications to cater for specific requirements of its customers in different industries. The Group also provides after-sales services for about 12 months from the date of purchase of ultimate users. The wireless terminal distributors selling the products would act as the front-line after sales services providers within such period. To ensure quality service to user, the Group provides technical training and marketing support to the distributors. Wireless terminal distributors may also courier the wireless terminals to the Group's headquarters for repair or part replacement.

Typically, sales are made on cash on delivery basis or on credit term of up to three months in general, and revenue is typically recognised upon delivery of products. However, in some cases, wireless equipment distributors would make prepayment to the Group before delivery of products.

MANUFACTURING

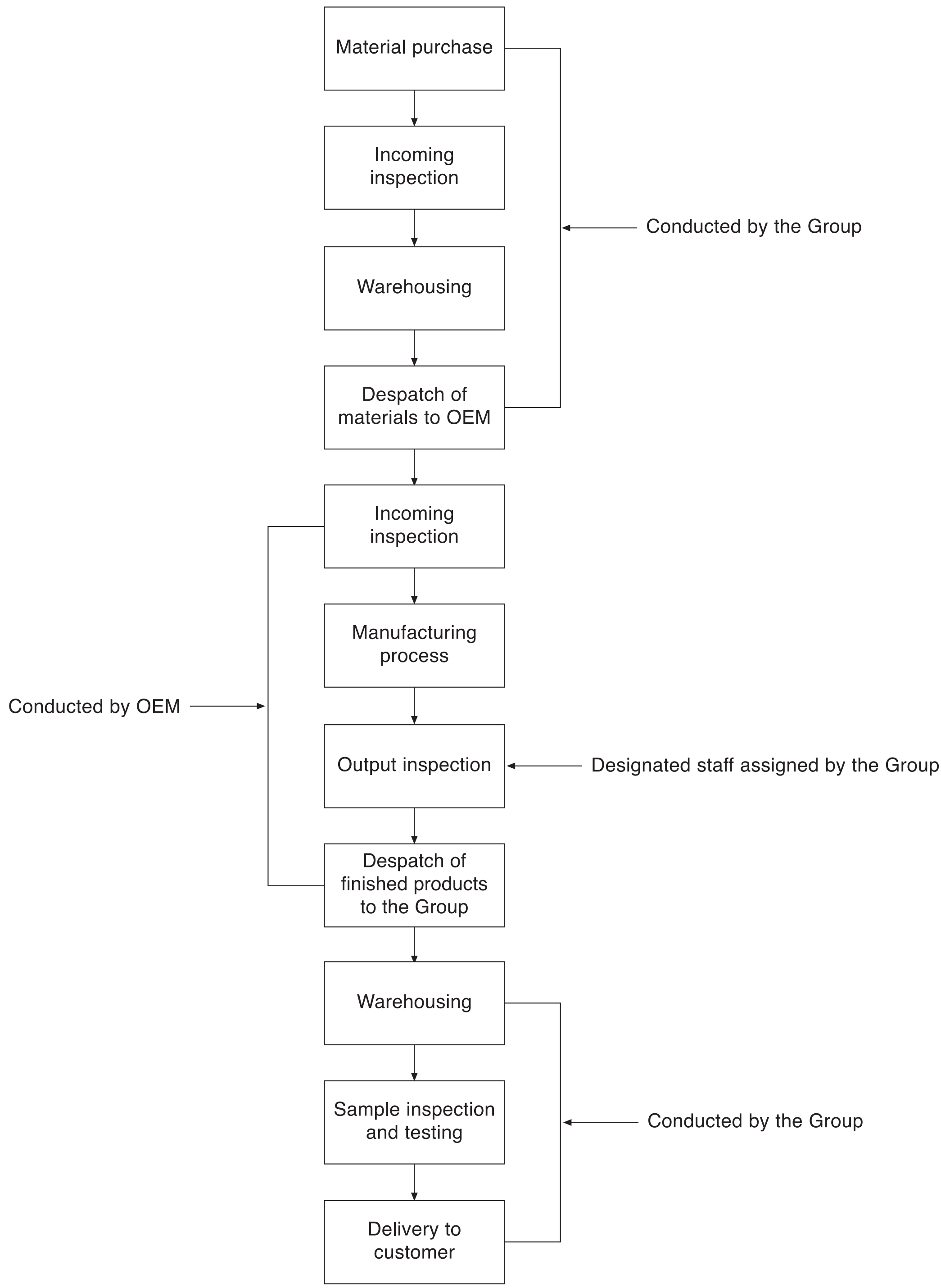
Since its establishment, the Group has adopted the strategy of focusing on its core competency in R&D of wireless technologies and applications. The Group conserves resources by contracting out most of the manufacturing process for its hardware products and only retains certain testing and simple assembly works in its own premises.

OEM management

As at the Latest Practicable Date, the Group engaged three OEMs for the manufacturing of the Group's wireless terminals. All of these OEMs are located in Shenzhen, the PRC and two of these OEMs started to cooperate with the Group since 2003 and the remaining OEM started in 2004 respectively.

Manufacturing process

The following chart illustrates the key steps of the manufacturing process for the Group's hardware products:—



The incoming inspection, warehousing, outgoing sample inspection, testing and other simple assembly works are conducted in the Group's premises located in Shenzhen, the PRC.

Terms of cooperation with OEM

Based on the terms of agreements between the Group and the OEMs, the Group is responsible for the design and technology aspects of the manufacturing process as well as the procurement of materials and components. For each piece of product manufactured, the OEM receives a fixed amount, which is settled on a monthly basis with the Group based on the quantity of products manufactured and accepted by the Group. The Group is responsible for the products and services while the OEMs are liable to compensate the Group for loss due to any defect of products not caused by the Group's design and technologies.

Supply management

The Group has a supply management system whereby suppliers are graded every year in accordance with a set of criteria including pricing, timeliness of delivery and quality of materials supplied. Those who obtained a satisfactory grade will be put on the qualified supplier list. Materials for the Group's production will only be purchased from suppliers on this list. The higher the grade of a supplier, normally the larger the proportion of materials the Group purchases from such supplier.

Materials and components sourced from suppliers are subject to sample testing and quality inspection by the Group before being used in the production process to ensure that such materials comply with the Group's quality standards. In the event that the materials and components do not meet the Group's quality standards, depending on the nature of the defects, materials and components may be returned to the relevant suppliers.

Quality assurance

To ensure high quality of the hardware components of its products and solution, the Group exercises stringent control on the manufacturing process. The production department of the Group appoints designated staff to inspect and ensure that all prescribed production procedures are properly complied with by the OEMs or during the assembly procedures conducted in the Group's premises. Visual inspection and performance tests are carried out at each checkpoint. Upon completion of the production process, function tests and inspections are carried out by the Group. Sample function testing is then carried out again to further ensure the quality of the Group's products. It is the policy of the Group to consider to disqualify an OEM if it commits material mistake in the production process. The Group also deals directly with suppliers of parts and components. Designated staff would normally be assigned to control and monitor the logistics of components and products between the Group and the OEMs' manufacturing sites.

Collaboration with the Smartphone Manufacturing Partner for manufacturing of smartphones

Background

In the PRC, approval must be obtained for a wireless terminal to be sold to mass consumer market from MII which is responsible for evaluating the prototype of the wireless terminal and examining the product's suitability for mass consumer market in the PRC. MII enlisted 19 and 29 manufacturers respectively acceptable for being responsible for manufacturing CDMA and GSM/GPRS handsets (including smartphones designed by the Group) in the PRC, 12 of which are acceptable for being responsible for manufacturing both

GSM/GPRS and CDMA handsets. For processing approval application for wireless terminal, MII accepts application from one of the designated manufacturers named as “manufacturer”. As the Group is not listed as one of the manufacturers designated by MII as handset manufacturers, the Group collaborates with the Smartphone Manufacturing Partner in submitting application for Network Access Licence of its *Coolpad* CDMA1X, GSM/GPRS and CDMA-GSM dual-mode smartphone. As such, the Smartphone Manufacturing Partner is primarily responsible to the authority for any defects in the *Coolpad* smartphone. The Smartphone Manufacturing Partner is principally engaged in design, manufacture and sale of telecommunication products including CDMA and GSM/GPRS mobile phones.

Details of the collaboration

For production of the Group’s *Coolpad* CDMA1X smartphone, the Group and the Smartphone Manufacturing Partner entered into agreements on 9 June 2003 and 24 February 2004 for a term of two years. For the production of the Group’s *Coolpad* GSM/GPRS and CDMA-GSM dual-mode smartphones, the Group and the Smartphone Manufacturing Partner entered into another agreement on 28 June 2004 and a supplemental agreement on 30 September 2004 for a term valid until 30 September 2005. According to these agreements, the Group is responsible for (1) design and technical aspects of the manufacturing of the smartphone; (2) parts and components purchasing; (3) planning and regulating all OEMs engaged in the manufacturing process; (4) testing, assembly, quality control functions for the manufacturing process; (5) selling and distribution of the smartphone; and (6) after-sales services. Based on market demand, the Group should determine the selling price and manufacturing quantity of the smartphone. Under the agreements, for each smartphone manufactured, the Smartphone Manufacturing Partner receives fixed amount for each unit manufactured. According to the agreements for the manufacturing of CDMA1X smartphone, in case of any force majeure events (including earth quake, fire, flooding, war, government action, accident or other events that the parties could not reasonably avoid and overcome) leading to inability of a party to the agreements to fulfil its obligations thereunder, that party shall advise the other party in writing within three days of occurrence of the event and the agreements shall be terminated accordingly. In case where force majeure events leading to temporary suspension of the development of the products for more than 30 days, the agreements shall be terminated automatically. In case of termination, prepayment shall be returned and actual cost incurred shall be shared by the parties. According to the agreement for the manufacturing of GSM/GPRS and CDMA-GSM dual-mode smartphones, in the event of force majeure, the party claiming force majeure must provide proof of force majeure to the other party within 14 days after the happening of the incident. In such case, either party can terminate the agreement by giving 30 days written notice before the expiration of the agreement. Under any circumstances, the fees paid by the Group will not be returned.

As the Group is responsible for the manufacturing and selling activities of the smartphone, there has not been and will not be any physical delivery of the *Coolpad* smartphones to the Smartphone Manufacturing Partner. The Group owns all the intellectual properties rights in relation to the smartphone products and the Smartphone Manufacturing Partner has undertaken not to make use of any information about the Group’s smartphone on other products. There are also non-disclosure clauses in all the agreements in relation to the technologies, sales and marketing, documents and materials of the *Coolpad* smartphones with which the Group and the Smartphone Manufacturing Partner must comply. The Directors confirm that they are not aware of any breach of terms of the agreements by the Smartphone Manufacturing Partner. As the applicant for the type approval and the Network Access Licence of *Coolpad* smartphone, the Smartphone Manufacturing Partner has acknowledged its responsibilities to the ultimate users of the *Coolpad* smartphone. The Group has not received any material claims for defective products from its customers as at the Latest Practicable Date.

COMPLIANCE

The Directors confirmed that the Group has obtained all licences, permits or certificates necessary to conduct its operations from the relevant governmental bodies in the jurisdiction where the Group operates, and that the Group complies with all applicable laws and regulations of the jurisdiction where it operates since its establishment, and all outstanding tax liabilities that have become due have been duly settled.

For the Group's products and solutions, the PRC Lawyers have confirmed that except for 無線電發射設備型號核准證 (Radio Transmission Equipment Type Approval Certificates) ("Type Approval") and Network Access Licences, the Group does not need to obtain any other approvals from PRC authorities for the operation of its current business in the PRC. Type Approval certificates are issued by the MII to show that such equipment conforms with the required technical specifications. Network Access Licences are issued by the MII to certify that it has approved the use of such equipment in the national telecommunication network of the PRC.

As at the Latest Practicable Date, the Group and the Smartphone Manufacturing Partner had eight Type Approvals, all of which are valid for five years, with the earliest certificate issued on August 2000 and the latest on August 2004. As at the Latest Practicable Date, the Group and the Smartphone Manufacturing Partner had the following seven Network Access Licences:

Product name	**Expiry date**
Wireless Terminals	
高速無線電尋呼接收機 VLCDP-400 (High speed radio paging receiver VLCDP-400)	16 January 2005
PDA 無線電尋呼接收機 333 (Radio paging receiver 333)	16 February 2005
PDA 高速漫遊無線電尋呼接收機 PDA336 (High speed roam radio paging receiver PDA336)	26 September 2005
CDMA1X 數字移動電話機 CECT CoolPAD688 (CDMA1X digital mobile phone CECT CoolPAD688) *(Note 1)*	31 August 2007
GSM 雙頻 GPRS 功能數字移動電話機 (GSM dual-band GPRS capable digital mobile phone) *(Note 1)*	27 September 2007
GSM/CDMA1X 雙模數字移動電話機 (GSM/CDMA1X dual-mode digital mobile phone) *(Note 1 and 2)*	28 March 2005
Wireless System Solutions	
數字排隊機7號信令系統 Uniswitch/SS7 (Signaling System No. 7 number sequencer)	17 August 2005

Notes:—

(1) As the Group collaborates with the Smartphone Manufacturer Partner to apply for these Network Access Licences, these licences are registered under the name of the Smartphone Manufacturer Partner.

(2) This is only a trial licence.

The Directors confirm that the Group and the Smartphone Manufacturing Partner will duly renew all the Network Access Licences for products and solutions that the Group is currently selling and intends to continue to sell. The Directors confirmed that the Group has regularly renewed the applicable approvals and licences and has not experienced any material difficulties in obtaining such approvals and licences. Based on the Directors' experience, it normally takes six to twelve months from application to grant of approval. The Directors do not foresee any material difficulties in obtaining or renewing such approvals and licences in the future.

The PRC Lawyers confirmed that (i) the Group has obtained all necessary permissions and approvals from the relevant PRC authorities for the products currently sold by the Group; (ii) that the agreements and the Group's cooperation with the Smartphone Manufacturing Partner are in line with the prevailing PRC laws and are within the Group's permitted scope of business and do not need additional approval from the government; and (iii) the Smartphone Manufacturing Partner would be responsible for any claim and responsibilities in relation to the *Coolpad* smartphones.

SALES AND MARKETING

The Group fosters its relationship with existing and potential customers by joining industry seminars and trade fairs and directing marketing efforts such as site visit to customers' premises. These activities are all undertaken by the Group's sales department with the support of the Group's product marketing and after-sales services department. The Directors believe that the latter would be able to gain insight for developing products and solutions better suit customers' requirements through the provision of after-sales services. The product marketing and after-sales services department would then provide the insight to the R&D department and devise relevant product marketing scheme for the sales department.

As at the Latest Practice Date, the Group employed a sales team comprising 105 people, who stationed in the Group's headquarters in Shenzhen, representative office in Beijing and sales liaison points in Shanghai, Chongqing, Tianjin and 20 provinces of the PRC.

The Group also has a product marketing team, the members of which are grouped according to the Group's products and solutions. In particular, a sub-team of about 20 persons was set up to focus on the smartphone market. They undertake survey and study the latest development of smartphone market; and the promoting of industry applications developed based on the Group's smartphone. The team would normally initiate certain business solution to potential corporate customers. The solutions aim to improve operational working efficiency by way of better wireless telecommunication and information processing. To date, the Group has developed solutions for a few industries including stock trading, land transportation, aviation, public security, banking, and insurance. At the time of formulating a business solution with corporate customer, the Group may liaise with telecommunication operator to try to come up with discounted usage package for the corporate user.

Each of the Group's sales liaison point is staffed by trained engineers and other professional staff, and is responsible for the initiation, negotiation and coordination of sales and the conduct of promotional activities in respect of the Group's solutions and product. Through the Group's sales and services network in the PRC, the Group's sales engineers liaise locally with customers and assist customers in identifying their needs and requirements. Preliminary project ideas are then evaluated by the Group's engineers with customers. Project specifications would then be passed on to the Group's project survey and design department. According to the PRC Lawyers, the Group's sales liaison points are not a geographical or legal term but a commercial term refers to the Group's relatively stable and continuous operation in a certain area without having a representative office. The PRC laws allow a company to conduct business activities in different areas of the PRC without having a representative office. The Group's sales liaison points do not have independent legal status and are not required to obtain any approval and permission from the relevant authorities or to undertake any registration procedures.

In order to promote its corporate image and products and solutions, the Group has adopted a series of marketing strategies, including placing advertisements in press and television, holding technical discussions with its telecommunication operators and corporate customers, giving presentations and free trials of new products, and conducting satisfaction surveys with them through its sales and services offices. The data and feedback collected are then being considered in the R&D process to improve the Group's products and services. The Group also attends and participates in related technology seminars and industry trade fairs to promote its products and solutions. Moreover, the Group promotes its corporate image through its websites *"www.chinawireless.cn"*, *"www.chinawireless.com.cn"*, *"www.chinawireless.net.cn"*, *"www.yulong.com*", "*www.coolpad.cn*" and "*www.coolpad.com.cn*".

CUSTOMERS

During the Track Record Period, the customers for the Group's wireless system solutions include (i) local branches of telecommunication operators; (ii) telecommunication equipment or solution distributors which resell the Group's solutions to telecommunication operators; and (iii) corporations in the PRC that requires in-house wireless systems solutions, such as TCL; the customers for the Group's wireless terminals are mainly local branches of telecommunication operators and wireless terminal distributors in the PRC. The following is the breakdown of the Group's turnover during the Track Record Period by types of customer:—

	Year ended 31 December									Five months ended 31 May					
	2001			2002			2003			2003 (unaudited)			2004		
	RMB'000	*% of turnover*	*Number of customers*	*RMB'000*	*% of turnover*	*Number of customers*	*RMB'000*	*% of turnover*	*Number of customers*	*RMB'000*	*% of turnover*	*Number of customers*	*RMB'000*	*% of turnover*	*Number of customers*
Wireless system solutions															
Wireless transceivers for paging network															
Telecommunication operators	60,936	72	3	27,659	27	3	16,118	10	2	12,917	27	2	—	—	—
Corporates	22,427	26	21	45,772	45	39	4,490	3	5	5,112	11	3	—	—	—
Realink PHS Intelligent Coverage System															
Distributors	—	—	—	—	—	—	10,034	6	3	—	—	—	11,424	13	19
Callnet															
Telecommunication operators	—	—	—	13,343	13	1	11,967	7	1	8,121	17	1	—	—	—
Corporates	—	—	—	—	—	—	—	—	—	—	—	—	2,448	3	1
Wireless Value-added Service Platform															
Telecommunication operators	836	1	1	8,176	8	1	5,951	4	1	5,482	12	1	1,488	2	1
Corporates	—	—	—	—	—	—	239	—	1	239	1	1	—	—	—
Wireless terminal															
One-way wireless terminal															
Telecommunication operators	—	—	—	4,029	4	1	3,883	2	1	2,598	6	1	—	—	—
Distributors	568	1	7	858	1	7	337	1	2	328	1	1	39	—	2
Fixed wireless terminal															
Telecommunication operators	—	—	—	1,492	2	2	59,817	37	2	10,362	22	2	2,143	3	1
Distributors	—	—	—	—	—	—	29,431	18	38	1,869	3	9	20,395	23	24
Smartphone															
Telecommunication operators	—	—	—	—	—	—	—	—	—	—	—	—	6,515	7	1
Distributors	—	—	—	—	—	—	19,241	12	3	—	—	—	39,737	47	40
Total	84,767	100		101,329	100		161,508	100		47,028	100		84,189	100	

For each of the three years ended 31 December 2003 and the five months ended 31 May 2004, sales to the five largest customers of the Group accounted for approximately 94%, 90%, 90% and 71% of the Group's total turnover, respectively; while sales to the Group's largest customer accounted for approximately 62%, 51%, 60% and 25% of the Group's turnover, respectively.

All the five largest customers of the Group during the Track Record Period are Independent Third Parties. None of the Directors, their respective associate nor any shareholders of the Company who own more than 5% of the issued share capital of the Company has any interest in any of the Group's five largest customers during the Track Record Period.

During the Track Record Period, all sales of the Group were made in RMB with over 95% being settled by telegraphic transfers.

Pricing

In determining the contract amount for the Group's wireless system solutions, the Group normally takes into account market conditions, the time and efforts required for developing the solution, the size and complexity of the project, cost of the hardware, as well as the relationship with the customers. For the wireless terminal products, sale price is normally determined based on market conditions, and the manufacturing and hardware cost of the wireless terminal products.

Credit terms

Generally, credit terms of three months may be granted to customers of wireless system solutions for each installment and retention money after billing is issued. For *Realink PHS Intelligent Coverage System* sold to telecommunication equipment or solution distributors and wireless terminal products, sales are typically made on cash on delivery basis or on credit term of up to three months in general. Longer credit terms of up to six months may be extended to telecommunication operators with long business relationship and good repayment history for both wireless system solutions and wireless terminal products.

The Group adopts a general policy of making provision equivalent to 50% of gross amount of receivable of over one year and 100% of gross amount of receivable of over two years. It is the Group's policy to access the recoverability of trade receivable from each customer individually on a monthly basis and to make specific provision accordingly, by checking sufficiency against the provision made under the general provision policy. If the specific provision is less than that under the general provision policy, additional provision will be made. The increase or decrease of the provision made for the trade receivables will be charged or credited to the Group's profit and loss accounts. The net amount of the receivables (i.e. after such provision) would be presented in the balance sheet of the Group. During the year ended 31 December 2001 and 2002, approximately RMB788,000 (approximately HK$743,000) and RMB1.7 million (approximately HK$1.6 million) was charged to the Group's combined profit and loss accounts respectively. During the year ended 31 December 2003 and the five months ended 31 May 2004, approximately RMB315,000 (approximately HK$297,000) and RMB7,000 (approximately HK$6,600) was credited to the Group's combined profit and loss accounts respectively.

Relationship with telecommunication operators

During the Track Record Period, the Group derived significant amount of turnover from provision of wireless system solution and wireless terminal products to telecommunication operators. For each of the three years ended 31 December 2003 and the five months ended 31 May 2004, such turnover accounted for approximately 73%, 54%, 60% and 13% of the Group's total turnover respectively. The decrease of sales to telecommunication operators during the Track Record Period was mainly due to the increase in sales of the Group's products and solutions to telecommunication equipment or solution distributors in the PRC. Nevertheless, the Directors understand that *Realink PHS Intelligent Coverage System* sold to telecommunication equipment or solution distributors, as well as certain wireless terminal products sold to wireless terminal distributors were resold to telecommunication operators. As such, the telecommunication operators represented a substantial segment of customers for the Group during the Track Record Period. During the Track Record Period, the Group provided products and solutions to fixed-line and mobile telecommunication operators in the PRC, including the China Unicom Group, China Mobile and China Telecom.

The China Unicom Group is one of the major telecommunication operators in the PRC. It currently operates GSM and CDMA networks in the PRC. As of 31 December 2003, the China Unicom Group had approximately 80.8 million subscribers, with approximately 63.9 million subscribers on its GSM network and 16.9 million subscribers on its CDMA network. The Directors understand that each provincial or municipal branch of the China Unicom Group acts generally as an individual entity under supervision of headquarter. Typically, provincial or municipal local branches of the China Unicom Group would invite tenders from product and solution providers such as the Group for required services and/or solutions. If the Group's bid is successful, the Group and the relevant provincial or municipal branch of the China Unicom Group will enter into specific contract setting out various details including project price and equipment installed. Inspections and payments are made in accordance with the terms of the contract.

The Group has established long-term relationship with the China Unicom Group for more than seven years. The Group is one of a limited number of designated providers of certain equipment to the China Unicom Group in the PRC. During the Track Record Period, the Group has supplied products and solutions to China Unicom Group's headquarters in Beijing and 23 provincial branches in the PRC. During each of the three years ended 31 December 2003 and the five months ended 31 May 2004, sales to the China Unicom Group accounted for approximately 62%, 51%, 60% and 12% of the Group's turnover, respectively, being the largest customer of the Group for each of the three years ended 31 December 2003 and the third largest customer for the five months ended 31 May 2004. The Directors believe that the decrease in sales to the China Unicom Group was mainly due to the increase in sales by the Group to telecommunication equipment or solution distributors in the PRC in light of the relatively long settlement cycle from the China Unicom Group. Nevertheless, it is to the Directors' belief that most of such distributors usually resell the Group's products and solutions to telecommunication operators and therefore consider product acceptance by them to be an important factor for the success of the Group.

Sales to the China Unicom Group

	Year ended 31 December						Five months ended 31 May			
	2001		2002		2003		2003 (unaudited)		2004	
	RMB'000	*Number of projects/ units*	*RMB'000*	*Number of projects/ units*	*RMB'000*	*Number of projects/ units*	*RMB'000*	*Number of projects/ units*	*RMB'000*	*Number of projects/ units*
Wireless system solution										
Wireless transceivers for paging network	51,526	94	24,612	45	16,112	5	12,911	2	—	—
Realink PHS Intelligent Coverage System	—	—	—	—	—	—	—	—	—	—
Callnet	—	—	13,343	3	11,967	3	8,121	2	—	—
Wireless Value-added Service Platform	836	2	8,176	11	5,951	9	5,482	6	1,488	5
Sub-total	52,362	96	46,131	59	34,030	17	26,514	10	1,488	5
Wireless terminals										
One-way wireless terminals	—	—	4,029	7,487	3,883	8,903	2,641	7,137	—	—
Fixed wireless terminals	—	—	1,485	1,022	58,281	40,007	9,219	8,238	2,143	2,820
Smartphone	—	—	—	—	—	—	—	—	6,515	1,795
Sub-total	—	—	5,514	8,509	62,164	48,910	11,860	15,375	8,658	4,615
Total	52,362		51,645		96,194		38,374		10,146	

During the Track Record Period, wireless system solution projects provided to the China Unicom Group valued from thousands of RMB to approximately RMB21 million (approximately HK$19.8 million). As at the Latest Practicable Date, the Group's *Callnet* system solution has been adopted by the China Unicom Group's headquarters in Beijing and five provincial branches, including Guangdong, Guangxi, Jiangxu, Xinjiang and Zhejiang; while the Group's *Wireless Value-added Services Platform* has been adopted by the China Unicom Group's headquarters in Beijing and 14 provincial branches, including Anhui, Gansu, Guangdong, Guangxi, Guizhou, Heilongjiang, Hubei, Hunan, Ningxia, Qinghai, Shandong, Shaanxi, Yunan and Xinjiang.

The China Unicom Group is an Independent Third Party, the Group has not entered into any long term contract or cooperation agreement with any of the group companies of the China Unicom Group which would give the Group advantage in securing new business with them.

RESEARCH AND DEVELOPMENT

The Group's R&D team is responsible for developing the Group's new products and solutions as well as designing upgrades on products and solutions. During the Track Record Period, the Group's products and solutions are designed and developed by the Group's R&D team. The Group places strong emphasis on the R&D for product and innovations in order to capture opportunities emerged from the rapid development and advancement in the telecommunication industry. The Directors believe that the Group's strong R&D capability is important in maintaining the Group's continued success and its ability to meet challenge due to rapid technological development.

For each of the three years ended 31 December 2003 and the five months ended 31 May 2004, the Group's R&D expenses were approximately RMB8.5 million (approximately HK$8 million), RMB10.7 million (approximately HK$10 million), RMB11.3 million (approximately HK$10.7 million) and RMB6.3 million (approximately HK$5.9 million) respectively, representing approximately 10%, 11%, 7% and 8% of the Group's turnover respectively.

R&D directions

In addition to continuous enhancement of its products and solutions, the Group intends to devote efforts in the R&D in the following areas:—

— **smartphone and related industry applications**

In addition to CDMA1X and GSM/GPRS smartphones, the Group intends to launch its CDMA-GSM dual-mode smartphone and develop different models of smartphone with various features and functions to suit the need of different customers. Moreover, the Group would also put emphasis on improving the operating system and functionality and user interface of its smartphone. The Group would develop a wide range of applications for various industries in the PRC based on its experience in the development of its existing portfolio of system solutions for telecommunication operators.

— **products and solutions for network coverage and integrated telecom business platform**

The Directors expect that the coverage of PHS network would continue to expand and telecommunication operators will continue to enhance their value-added service offered in the PRC. As such, the Group intends to enhance its existing network coverage system solutions for PHS network and also continue to enhance the functionalities of its integrated telecom business platform.

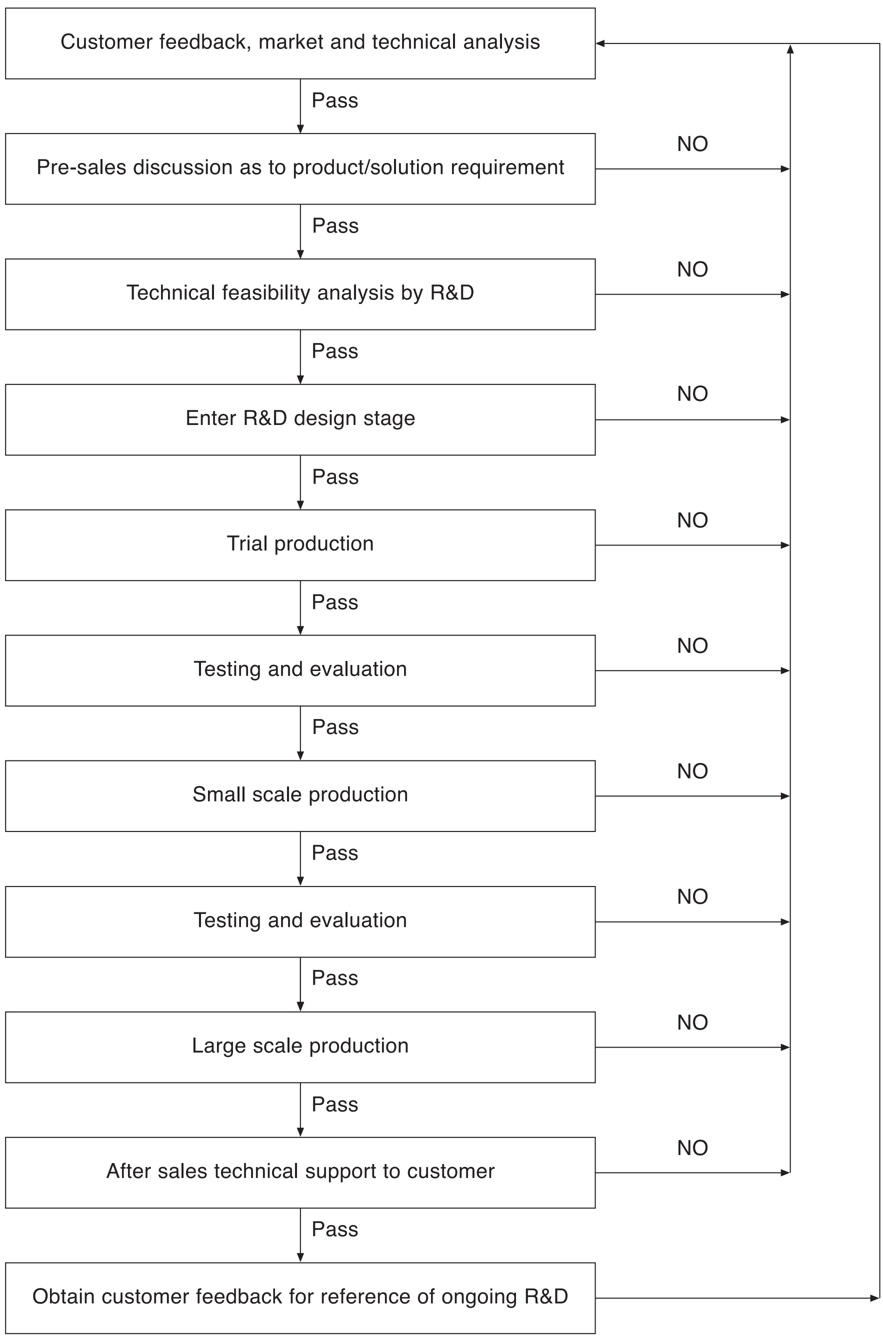
— **3G technologies**

The Directors believe that the emergence of 3G standards in the PRC signifies potential new markets for full range of the Group's products and solutions for network coverage solutions, back-end supporting system for telecommunication operators and terminal products. All the designs of the Group's existing products have developed with consideration of future upgrade to 3G standards.

The Directors understand that 3G testing was first carried out in the PRC in 2002; in November 2003, the second stage of 3G testing were conducted by six telecommunication operators and equipment providers on three major 3G standards, being WCDMA, CDMA2000 and TD-SCDMA. 3G inter-vendor equipment operability, network coverage and system capacity tests have been conducted in selected regions in 2004. In light of these developments, the Directors believe that 3G could be launched in the PRC no earlier than 2005, though no concrete timetable, or rules or regulations have been issued by the State as at the Latest Practicable Date. The Directors further believe that, with the deployment of 3G technology in the PRC, mobile operators in the PRC will increase their investment on wireless peripheral equipment so as to extend the functionality of their network coverage and terminal products to achieve 3G compatibility. Accordingly, in order to build up the Group's ability and readiness to provide 3G wireless coverage system solutions and 3G compatible wireless terminals, the Group has set up a 3G and multi-media project team in its R&D department.

Product and solution development approach

The Group takes a customer/market-oriented approach in directing its R&D activities and places emphasis on the joint efforts of R&D and marketing activities in order to maximize customer satisfaction. The Group's R&D team works closely with the sales and marketing staff, who provide customers' feedback on the Group's products and solutions. The following chart illustrates the R&D activities within the Group structure.



R&D capabilities

As at 31 December 2001, 2002, 2003 and the Latest Practicable Date, the Group's R&D team comprises 191, 162, 202 and 231 professionals. The Group's R&D staff includes engineers who station in the Group's headquarters in Shenzhen for core technologies development and teams responsible for on-site development. Most of the Group's R&D professionals have obtained bachelor's degree or above, specialising in telecommunications technology, electronics engineering and/or other wireless telecommunication related subjects. The R&D staff collect and analyse clients' feedback for consideration in the research and development process to improve the Group's products and solutions.

As at the Latest Practicable Date, the Group's R&D team are organised into four function groups, with Mr. Guo responsible for the overall strategic R&D directions and Mr. LI Ming and Mr. DONG Yongquan responsible for overseeing the daily R&D operation: (i) hardware group, which consisted of 42 staffs, is mainly responsible for designing the core hardware components of the wireless terminal products and wireless system solutions, such as the printed circuit boards, and the exterior design of the wireless terminal products; (ii) testing group, which consisted of 25 staffs, is responsible for testing the Group's products and solutions; (iii) software group, which consisted of 138 staffs, is responsible for designing the operating system and industry applications of the wireless terminals, software part of the wireless system solution and other value-added features of smartphones. The software group also studies the latest technologies, and research on the application of such technologies on the Group's products and solutions; (iv) 3G/multimedia team, which consisted of 26 staffs, was set up in expectation of the launch of 3G in the PRC, and is responsible for upgrading its existing products and solutions to be 3G compatible.

All of Mr. Guo, Mr. DONG Yongquan and Mr. LI Ming have over 10 years experience in R&D in telecommunication industry in the PRC and received relevant academic qualifications. Particularly, Mr. LI Ming and Mr. DONG Yongquan had prior experiences in R&D of fixed wireless terminals and smartphones. For details, please refer to the section headed "Directors, audit committee, senior management and staff" in this prospectus.

Since its establishment, the Group has obtained many accreditions and official recognitions on its products and solutions, which illustrate the quality of the Group's R&D work. For details of such accreditions and official recognitions, please refer to the paragraph headed "Accreditions and official recognitions" in this section.

With a view to strengthening its R&D capabilities and to improving the quality of its R&D work, the Group provides ongoing technical training and seminars to its R&D staff. These staff also attend and participate in industry exhibitions and trade fairs to keep abreast of the latest technological developments and have regular technical discussions and exchange with customers to keep abreast of market needs and to enhance the Group's understanding of their requirements.

Collaboration

In order to follow 3G technology development and study on application of 3G technologies, in March 2004, the Group entered into strategic partnership agreements with a 3G module developer which is engaged in the design and manufacturing of CDMA wireless modules. In October 2004, the Group entered into a strategic partnership agreement with a wireless telecommunication component and system provider for developing 3G smartphone.

The Group's 3G multimedia team has also been in frequent contact with and is in negotiation with a core 3G technology developer in the PRC for collaboration in R&D of 3G technologies. As at the Latest Practicable Date, the Group has also signed agreements with a few application developers for developing applications software for the Group's smartphone products.

RAW MATERIALS

Principal components and materials used by the Group are procured in the PRC. These principal components and materials include electronic components, batteries, outer cases, mobile phone modules, LCDs, power supplies, computer servers and integrated circuits. For each of the three years ended 31 December 2003 and the five months ended 31 May 2004, these principal components and materials accounted for approximately 96%, 96%, 97% and 97% of the Group's total purchases, respectively.

During the Track Record Period, all purchases were settled in RMB. The Group has established and maintained long term business relationship with components and materials suppliers in the PRC and has entered into purchase agreements with these suppliers.

SUPPLIERS

The Group maintains a list of about 210 suppliers from which the Group purchases components or materials. During the Track Record Period, the Group did not encounter any production disruption due to the shortage of supply of components or materials. The Directors believe that most of the Group's major components or materials can be purchased from a number of different suppliers at prices comparable to those charged by the Group's current suppliers. The Group's suppliers generally require cash on delivery or allows the Group with credit periods up to 180 days. Part of the Group's purchases were settled by bank draft against acceptance (承兑滙票). For each of the two years ended 31 December 2003 and the five months ended 31 May 2004, approximately 32%, 53% and 39% of the purchase was made by bank draft against acceptance respectively, while the rest was settled by telegraphic transfer.

For each of the three years ended 31 December 2003 and the five months ended 31 May 2004, the five largest suppliers of the Group accounted for approximately 19%, 42%, 63% and 72% respectively of the Group's total purchases; whilst the largest supplier of the Group accounted for approximately 5%, 15%, 33% and 25% respectively of the Group's total purchases. The Directors advise that the increase of purchase from the five largest suppliers during the Track Record Period were mainly due to the increase in sales of wireless terminals, the raw materials of which, such as CDMA modules and LCDs, accounted for a higher percentage to the relevant sales than the components used for wireless system solution (i.e. electronic components, batteries, computer servers, etc).

All the five largest suppliers of the Group during the Track Record Period are Independent Third Parties. None of the Directors, their respective associates nor any shareholders of the Company who own more than 5% of the issued share capital of the Company has any interest in any of the Group's five largest suppliers during the Track Record Period.

INVENTORY CONTROL

In order to retain flexibility, the Group normally prepares purchasing plan on a monthly basis based on the selling condition of the products and usage of hardware components. The Group's production and quality control team monitors the Group's stock levels from time to time. Whenever the inventory level of materials falls below the scheduled production requirement, the Group will restock materials from its suppliers after careful calculation of the equilibrium order quantity to ensure continual supply of materials for its production according to the pre-set manufacturing control schedule. It is also the Group's policy to secure order before production so as to minimise obsolete stocks.

Typically, the Group undertakes physical count of its inventory and reports to the management of the Group on a monthly basis. The management team of the Group will determine the items to be written off based on their information and its experience. During the year ended 31 December 2001, stock written off amounted to approximately RMB804,000 (approximately HK$758,000), while for the two years ended 31 December 2003 and the five months ended 31 May 2004, the Group did not write off any stock.

COMPETITION

The telecommunication industry grows rapidly and competition is keen with numerous network solutions and equipment providers. The Directors believe that the entry barrier for wireless communication solutions industry in the PRC is relatively high as participants need to rely on trusted relationships with major players in the industry, market reputation and technical expertise required to provide wireless system solutions and terminal products. The Directors consider that the primary elements for establishing relationship with customers are technological innovation, capability to adapt to the quickly changing technologies, reliability and quality of the products and solutions, and pricing. The Directors consider that the Group's main competitors are medium to large-sized network solutions and equipment providers in the PRC. The Directors believe that product and solution providers need to be technologically reliable, innovative and flexible on designing a solution and competitive in terms of pricing and services quality. It is the Directors' belief that these can be achieved with experience and expertise in the telecommunication industry and related technologies, continuous investment in R&D and in-depth understanding of local requirements and a comprehensive local services network. To remain competitive, the Group strikes to maintain and enhance its competitive edge in all these fronts.

The Group adopts different competition strategies for its products and solutions. For the *Coolpad* smartphones, the Group intends to place more emphasis on corporate clients as well as business executives. The Directors believe that the Group's smartphone products would be well positioned to capture opportunities in the PRC market due to the Group's self-developed operating system designed specifically with reference to local needs. For fixed wireless terminal products and wireless system solutions, the Group intends to continue to leverage on its experience and good relationship with the telecommunication operators, especially the China Unicom Group, to expand the market share. The Directors believe that the Group has proved to be a trusted partner for major telecommunication operators. Moreover, the Directors believe that the Group is among a limited number of products and solutions providers that could provide a total solution covering back-end system level to user terminal level. Such expertise enables the Group to provide effective and cost efficient industry applications based on the Group's wireless system and terminal products. Though the Directors are confident about the Group's ability to remain competitive, there is no guarantee that the Group would continue to achieve growth in its business or maintain its relationship with its customers. The Directors also expect that competitive pressure will likely increase, when the PRC telecommunication industry continues to attract new entrants as it grows in a relatively high rate as compared to other markets in the world.

COMPETITIVE STRENGTHS

The Directors consider the Group's competitive strengths to be as follows:—

- **Understanding of the PRC's wireless communication industry**

  Founded in 1993, the Group has been providing wireless solutions and equipment to telecommunication operators in the PRC. During the years, PRC's wireless telecommunication industry witnesses quick advancement in technology and de-regulation. The Group has accumulated expertise and experience in multiple wireless networks, including paging, GSM, GPRS, CDMA and PHS. The Directors believe that such expertise and experience are not common attributes among wireless communication solution providers in the PRC and could offer the Group significant competitive edge over its competitors in the future.

- **Proximity to local market**

  As a domestic enterprise with years of business relationships with PRC's major telecommunication operators, the Group has nurtured close relationships with its customers. This enables the Group to have a good understanding of the requirements of the telecommunication operators so as to provide timely responses to market changes.

- **Nimble and cost-effective R&D**

  The Directors believe that the Group's R&D activities are both nimble and cost-effective, and the Group has a very strong R&D team. As at 31 December 2001, 2002, 2003 and the Latest Practicable Date, the Group had 191, 162, 202 and 231 staff respectively responsible for R&D with most of them obtained bachelor's degree or above. During the Track Record Periods, all of the Group's products and solutions are designed and developed by the Group's R&D team. During each of the three years ended 31 December 2003 and the five months ended 31 May 2004, the Group's R&D expenses were approximately RMB8.5 million (approximately HK$8.0 million), RMB10.7 million (approximately HK$10.0 million), RMB11.3 million (approximately HK$10.7 million) and RMB6.3 million (approximately HK$5.9 million) respectively, representing approximately 10%, 11%, 7% and 8% of the Group's turnover respectively. With such R&D expenditure, the Group has been able to develop and design its own products and solutions in line with the development trend of the wireless telecommunication industry in the PRC and have received a number of awards and official recognitions from a number of PRC authorities and professional bodies as set out in the paragraph headed "Accreditation and official recognitions" in the section headed "Business" in this prospectus. The Directors believe that this has enabled the Group to provide a variety of R&D intensive products and to launch innovative products and solutions at competitive costs.

- **Portfolio of core technologies**

  Through years of experience of offering solutions ranging from back-end to front-end applications for wireless telecommunication, the Group has developed and accumulated core technologies in the areas of telecommunication protocol software development, RF system design, embedded real-time control and proprietary operating system for wireless terminals.

- **Recognition and reputation**

  The Group has been providing products and solutions for wireless telecommunication and support services in the PRC for years. The Group's products and solutions have been recognised and accredited by various authorities. The Directors believe that the Group has also gained a reputation for quality products and solutions among many of its customers.

- **Extensive sales, after sales support and technical support services**

  The Group has delivered wireless telecommunication solutions covering extensive parts of the PRC. As at the Latest Practicable Date, the Group employed a sales team comprising 105 people, who stationed in the Group's headquarters in Shenzhen, representative office in Beijing and sales liaison points in Shanghai, Chongqing, Tianjin and 20 provinces in the PRC. The team provides installation and maintenance services, and after sales support services to the Group's customers.

INTELLECTUAL PROPERTY RIGHTS

The Group relies on a combination of copyright, non-disclosure, confidentiality and segregation of custodians to protect and limit access to and prevent infringement of the intellectual property rights which the Group owns. In order to protect the Group's confidential information, the Group has entered into confidentiality agreements with its key employees.

During the Track Record Period, all of the Group's wireless terminals were sold under the "*Coolpad*" trade name, which has been registered as trade mark under Class 9 in the PRC.

As at the Latest Practicable Date, the Group was the (i) registered proprietor and beneficial owner of five trademarks; (ii) proprietor and beneficial owner of two patent for designs; (iii) registered copyright holder of three works; (iv) registered copyright holder of 33 computer softwares; and (v) owner of seven domain names. As at the Latest Practicable Date, the Group were granted the following 15 software products registration certificates:—

Date	Certificate number	Product name
12 November 2002	深DGQ-2001-0005	YL6400B 無線尋呼發射系統 V6.0 (Radio paging transmission system V6.0)
12 November 2002	深DGY-2001-0186	P4/P6 高級尋呼系統 V6.0 (P4/P6 High-level paging system V6.0)

Date	Certificate number	Product name
12 November 2002	深DGY-2001-0187	尋呼營業管理系統 V6.02 (Paging business management system V6.02)
12 November 2002	深DGY-2001-0188	PPS 高速尋呼系統 V3.01 (PPS High speed paging system V3.01)
12 November 2002	深DGY-2001-0189	發射機遠程監控系統 V2.0 (Transmitter long-distance supervision system V2.0)
12 November 2002	深DGY-2001-0190	短消息增值系統 V1.10 (Short messages value-added system V1.10)
12 November 2002	深DGY-2001-0191	SMS 移動短消息系統 V1.20 (SMS Mobile short messages system V1.20)
12 November 2002	深DGY-2002-0206	宇龍 CDP-300 證券信息終端 V1.0 (Yulong CDP-300 securities information terminal V1.0)
12 November 2002	深DGY-2002-0207	宇龍呼叫中心系統 V1.0 (Yulong call centre system V1.0)
12 November 2002	深DGY-2002-0208	宇龍 CDP-400 證券信息終端 V1.0 (Yulong CDP-400 securities information terminal V1.0)
12 November 2002	深DGY-2002-0209	宇龍信息平台系統 V2.1.0 (Yulong information platform system V2.1.0)
12 November 2002	深DGY-2002-0476	宇龍理財寶信息終端嵌入式軟件 V2.0 (Yulong finance management information terminal embedded software V2.0)
12 November 2002	深DGY-2002-0487	宇龍 COOLPAD 智能終端嵌入式軟件 V1.0 (Yulong COOLPAD intelligent terminal embedded software V1.0)
21 June 2004	深DGY-2004-0407	宇龍 CoolPAD 手機嵌入式軟件 V1.0 (Yulong COOLPAD handset embedded software V1.0)
21 July 2004	深DGY-2004-0533	宇龍 PHS 智能覆蓋系統軟件 V2.52 (Yulong PHS intelligent coverage software V2.52)

As at the Latest Practicable Date, the Group had applied for registration of 11 trademarks and nine patent of designs. Based on the Directors' experience, it normally takes about 18 months and two years respectively between application and grant of approval for the trademarks and patents of designs. Details of the Group's intellectual property rights are set out in the paragraphs headed "Intellectual property rights" in Appendix VI to this prospectus.

INSURANCE

Although the Group has taken general insurance coverage in respect of damage to its existing properties, it has not secured any product liability insurance or any third party liability insurance. There may be circumstances in which the Group would not be covered or compensated by insurance in respect of losses, damages, claims and liabilities arising from or in connection with product liability or third party liability. These events could adversely affect the profitability of the Group. The Directors, however, having consider the industry practices, consider the insurance coverage currently taken out by the Group is adequate.

CONNECTED AND RELATED PARTY TRANSACTIONS

During the Track Record Period, the Group had entered into the following connected and related party transactions:—

(i) Lease of properties from Space Star

During the year ended 31 December 2001, Yulong Shenzhen used the office building facilities of Space Star (a connected person of the Company) free of charge. The market value of rental expenses for leasing the office building facilities was RMB824,000 (approximately HK$777,358) for the year of 2001. Yulong Shenzhen has stopped using the office building since 1 January 2002.

During the years ended 31 December 2001 and 2002 respectively, Yulong Shenzhen used the warehouse facilities of Space Star free of charge. The market value of total rental expenses for leasing the warehouse facilities was RMB220,000 (approximately HK$207,547) for 2001 and 2002.

During the year ended 31 December 2003 and the five months ended 31 May 2004, Yulong Shenzhen used the warehouse facilities of Space Star for annual rental of RMB109,936.80 (approximately HK$103,714). The rental charge was determined based on the market value.

For each of the three years ended 31 December 2003 and the five months ended 31 May 2004, total rental expenses paid by the Group to Space Star for the above was nil, nil, RMB109,936.80 (approximately HK$103,714) and RMB45,807 (approximately HK$43,214), respectively.

(ii) Interest expenses on amount due to a Director

For each of the three years ended 31 December 2003 and the five months ended 31 May 2004, the Group paid interest expenses of approximately RMB474,000 (approximately HK$447,000), RMB661,000 (approximately HK$624,000), RMB120,000 (approximately HK$113,000) and nil, respectively, for amount due to Mr. Guo, who is an executive Director. The amount due to Mr. Guo was unsecured and interest free, save for that for the mortgage loan from China Merchant Bank, which was calculated at 6.9% per annum. The amount due to Mr. Guo has been fully settled in June 2004.

The lease of warehouse facilities from Space Star mentioned in paragraph (i) above is expected to continue after the Listing Date and will constitute continuing connected transactions (as defined in the Listing Rules) for the Company. However, as the annual amount of the transactions is expected to be less than HK$1,000,000, the transactions will fall within the threshold of de minimis transactions under the Listing Rules and will be exempted from the reporting announcement and independent shareholders' approval requirements under the Rule 14A.33 of Listing Rules.

MARKET OPPORTUNITIES

The Directors believe that the Group is well positioned to capitalise on the opportunities arising from telecommunication industry de-regulation, technology advancement, as well as increasing popularity of wireless applications in the PRC.

1. **Industry de-regulation** — With the restructuring of the telecommunication sector in the PRC, mobile and fixed-line telecommunication operators are not only providing voice services. More value-added and data services and services based on network standard with both mobile and fixed-line features such as PHS have been launched in recent years. As a result, competition among telecommunication operators intensifies. To enhance competitiveness and to introduce additional revenue sources, telecommunication operators seek to provide more comprehensive value-added services and to develop innovative industry applications of wireless services on top of basic voice services. The Directors believe that these developments will continue to create opportunities for solution and equipment providers with technical expertise, track records and nation-wide services network.

2. **Technology advancement in wireless technologies** — As higher bandwidth digital mobile network (such as 2.5G and 3G) and particularly the CDMA1X (referred to as 2.5G or 2.8G) network are being or expected to be used in the PRC on a nationwide scale, telecommunication operators are able to offer more sophisticated services and would need to market such services to subscribers in the shortest possible time frame to recover the investment in network infrastructure. This and the need for the offering of more data centric services are expected to create substantially more demand for the Group's products and solutions.

   The Directors believe that the emergence of 3G standards in the PRC signifies potential new markets for full range of the Group's products and solutions, including network coverage solutions, back-end system solutions for telecommunication operators and terminal products. All the designs of the Group's existing products have been developed with consideration of further upgrade to 3G standards.

   The Directors understand that 3G testing was first carried out in the PRC in 2002. In November 2003, the second stage of 3G testing were conducted by six telecommunication operators and equipment providers on three major 3G standards, being WCDMA, CDMA2000 and TD-SCDMA. 3G inter-vendor equipment operability, network coverage and system capacity tests have been conducted in selected regions in 2004. In light of these developments, the Directors believe that 3G could be launched in the PRC no earlier than 2005, though no concrete timetable, rules or regulations have been issued by the State as at the Latest Practicable Date. The Directors believe that, with the deployment of 3G technology in the PRC, mobile operators in the PRC will increase their investment on wireless peripheral equipment so as to extend the functionality of their network coverage and terminal products to achieve 3G compatibility. Accordingly, in order to build up the Group's ability and readiness to provide 3G wireless coverage system solutions and 3G compatible wireless terminals, the Group has set up a 3G and multi-media project team in its R&D department. In order to follow 3G technologies development and study on application of 3G technologies, in March and October 2004, the Group entered into strategic partnership agreements with a 3G module developer which is engaged in the design and manufacturing of CDMA wireless modules, and a wireless telecom component and system provider, respectively. The Group's 3G and multimedia team has also been in frequent contact with and is in negotiation with a core 3G technology developer in the PRC for collaboration in R&D of 3G technologies. The Group plans to upgrade its existing wireless system solutions and terminal products to be 3G compatible.

3. **Unique requirements of the PRC market** — The Directors believe that the Group has acquired substantial knowledge on the requirements of customers in the PRC. Capitalising on its local expertise, the Group developed its own operating system for its smartphone products for the PRC market. Such operating system relieves the Group from paying licensing fee to third party technology provider. In addition, it also allows the Group to have autonomy in designing and refining functions of the smartphone products and in developing industry applications so as to meet changing requirements of the market and technology innovations in a timely manner.

GROWTH STRATEGY

During the Track Record Period, on its know-how on core wireless telecommunication technologies, the Group was able to effectively adjust its product and solution portfolio in line with the investment focus of telecommunication industry in the PRC. During the Track Record Period, the Group's major source of turnover changed from sales of wireless system solutions to wireless terminals. The contribution from wireless system solutions decreased from approximately 99.3% in 2001 to approximately 18.3% in the five months ended 31 May 2004, while that from wireless terminals increased from approximately 0.7% in 2001 to approximately 81.7% in the five months ended 31 May 2004.

As basic infrastructure of the existing telecommunication networks in the PRC matures and the competition among telecommunication operators intensifies, the Directors expect that the telecommunication operators will continue to focus on enhancing user interface and promote more value-added services to reinforce customer royalty. Under the current market condition, the Group expects to maintain the provision of wireless system solutions and to derive growth from wireless terminal products, particularly smartphone. In the long term, the Group will continue to generate growth by providing products and solutions in response to the emergence of new technology and the increasing requirements of the telecommunication operators and corporate clients by utilising its core wireless technologies. To achieve growth in such direction, the Group has formulated development plans as follows.

DEVELOPMENT PLANS

Further development of the smartphone business and development of the potential smartphone operating system licensing business

The Directors believe that the Group is one of the leaders among the many technology companies in the PRC which have successfully developed their own operating system for wireless terminals. In July 2004, the Group's *Coolpad* 手機嵌入式軟件 VI.10 (mobile phone embedded software) was accredited gold medal in 第八屆中國國際軟件博覽會 (The 8th INT'L SOFT CHINA). With its self-developed operating system, the Group does not need to pay licence fee to third party technology provider and has the autonomy to enhance the functions of its wireless terminal products. The Group has also been in discussions with certain major handset manufacturers in the PRC about licensing the Group's proprietary operating system with the aim of penetrating into the smartphone operating system market.

Coupled with its experience in wireless system solution development, the Group is well positioned to extend the application of its wireless terminals, particularly smartphone, to provide tailor made industry applications. The Group intends to promote industry applications either on its own or in partnership with other services/application providers or telecommunication operators. The Group has taken steps to market the industry applications for stock trading, aviation, banking, insurance, land transportation and public security industries. Details of the industry applications are set out in the paragraphs headed "Industry applications developed based on the Group's wireless terminal products" in the section headed "Business" in this prospectus.

Further empowering of R&D

To support future expansion, the Directors consider it crucial to further strengthen the Group's R&D team. The Group plans to recruit additional professionals to join its R&D team, purchase more R&D equipment, and provide continuous training to improve the R&D team's technical know-how. The Group will also continue to participate in exhibitions and workshops in order to keep abreast of latest wireless technologies. In order to accommodate the growing R&D team, the Directors consider that it would be useful for the Group to build its own R&D centre in the future. However, the Directors further confirmed that as at the Latest Practicable Date, the Group has not committed to any third party for purchase of land for such purpose, nor the Group has any fixed timetable for doing so.

It is the Group's strategy to focus on a few core areas of wireless communication technologies related to its proprietary operating system for wireless terminal products and its industry applications, wireless coverage system for PHS network and applications of 3G technologies. Besides investing in research on the applications of core 3G technologies, the Group plans to upgrade its existing products and solutions to be 3G compatible. Details on the Group's R&D directions are set forth under the paragraph headed "Research and development" in the section headed "Business" in this prospectus.

Brand awareness and products/solutions promotion

With its core technical competence in wireless technologies, the Group aims to position itself as a preferred partner for telecommunication operators and corporate subscribers. To this end, the Group aims to maintain close contact with major telecommunication operators in the PRC on both headquarters level and provincial branch level. The Group's technical staff will continue to liaise closely with the representatives of telecommunication operators to keep itself abreast of technical requirements as well as market development directions. The Directors expect that the Group would continue to partner with telecommunication operators, other telecommunication solution or equipment providers in promoting its wireless terminal products as core component of industry applications. The promotion is expected to be done primarily through direct marketing. The Group will participate in various trade shows and technical conferences in the PRC to enhance the publicity of its brandname. Advertisements will also be placed in selected professional and general magazines as well as outdoor media in major PRC cities such as Beijing, Shanghai, Guangzhou, Hangzhou and Shenzhen to enhance the awareness of products and solutions and image of the Group.

Expansion in sales, distribution and services network coverage

The Group is headquartered in Shenzhen of the PRC and has one representative office in Beijing and sales liaison points in Shanghai, Chongqing, Tianjin and 20 provinces in the PRC. In order to strengthen the Group's market position, the Group intends to upgrade some of its sale liaison points and the representative office in future. In doing so, the Group expects to enlarge the sales team, expand the office space and upgrade office facilities. In addition, the Group also intends to increase the number of experienced sales engineers in order to support the increasing volume of marketing activities and to provide better services to its customers.

PROPOSED USE OF THE NET PROCEEDS FROM THE NEW ISSUE

The Directors intend to use the net proceeds from the New Issue to implement the Group's future development plans. Assuming that the Over-allotment Option is not exercised, and based on the Offer Price of HK$0.83 (being the mid-point of the indicative Offer Price range between HK$0.79 and HK$0.87), the net proceeds from the New Issue, after deduction of underwriting commission and estimated expenses payable by the Company, are estimated to be approximately HK$70.7 million. The Directors currently plan to use such net proceeds as follows:—

— as to approximately HK$25 million for strengthening R&D capabilities, of which approximately HK$16 million will be used in R&D of smartphone and related industry application, approximately HK$2 million in R&D for enhancement of wireless coverage solution for PHS network, approximately HK$2 million in R&D for enhancement of the Group's integrated telecom business platform, approximately HK$2 million for R&D on 3G technologies and upgrading of existing products and solutions to be 3G compatible, and approximately HK$3 million in further R&D of core technologies of wireless telecommunication;

— as to approximately HK$25 million for the manufacturing and marketing of smartphones, of which approximately HK$18 million will be used for financing purchase of materials, approximately HK$2 million for manufacturing activities, and approximately HK$5 million for marketing activities;

— as to approximately HK$9 million for promotion of overall corporate image, of which approximately HK$4 million for television advertising, HK$3 million for newspaper and out-door media advertising, and HK$2 million for other promotion;

— as to approximately HK$5 million for strategic investments in wireless technologies companies. It is intended that the target company should have strong technology development capability in wireless industry application in banking, stock brokerage or public security industry, as well as multi-media technology, which is synergistic with the Group's plan for devoting to wireless industry application and 3G solution. The Directors confirm that as at the Latest Practicable Date there was no specific target, negotiation, concrete plan in relation to the proposed strategic investments;

— as to approximately HK$5 million for enhancing the Group's network for sales and provision of customer support services; and

— as to the remaining balance to be used as general working capital of the Group, mainly to finance the purchase of materials, manufacturing and marketing of the Group's products and solutions.

In the event that the Over-allotment Option is exercised in full, and based on the Offer Price of HK$0.83 (being the mid-point of the indicative Offer Price range between HK$0.79 and HK$0.87), the Company will receive additional net proceeds of approximately HK$16.0 million which the Directors intend to use as additional general working capital.

To the extent that the net proceeds from the New Issue and the issue of new Shares under the Over-allotment Option are not immediately applied for the above purposes, or if the Group is not able to effect any part of its future development plans as intended, it is the present intention of the Directors that such net proceeds be placed on short-term deposits.

INFORMATION ON JATF

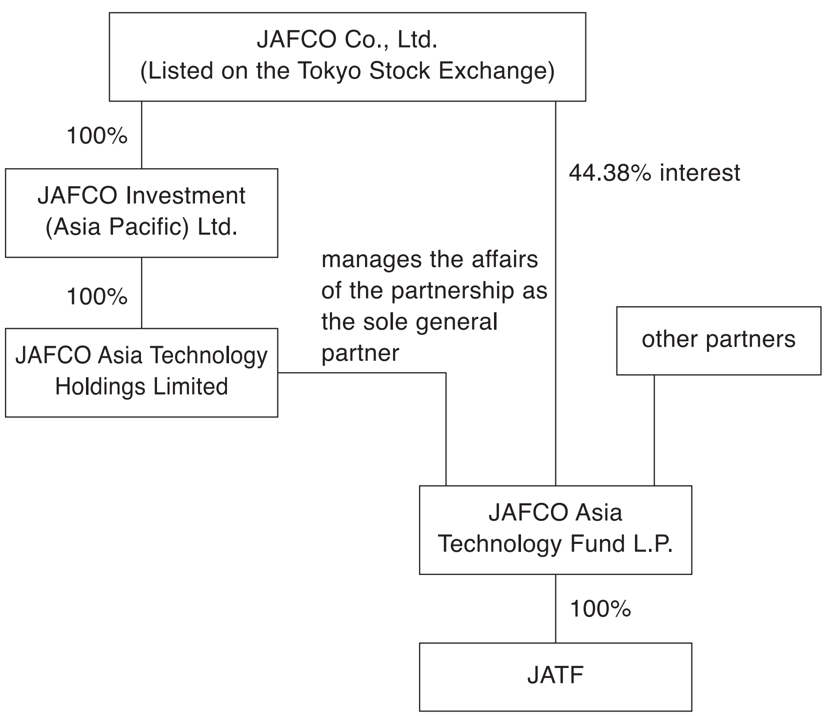
JATF is a Cayman Islands company wholly owned by JAFCO Asia Technology Fund L.P. which is a limited partnership, in which JAFCO Co., Ltd. holds more than 30% interests. JATF invests in other companies apart from the Company.

JAFCO Asia Technology Holdings Limited manages the affairs of JAFCO Asia Technology Fund L.P. as the sole general partner and is wholly owned by JAFCO Investment (Asia Pacific) Ltd.

JAFCO Investment (Asia Pacific) Ltd. was established in March 1990 as a joint venture between JAFCO Co., Ltd. and the Nomura Securities Co., Ltd. group of companies and became a wholly owned subsidiary of JAFCO Co., Ltd. in March 1999. It has managed private equity funds valued in aggregate of more than US$850 million and has a track record of investments in over 270 companies.

JAFCO Co., Ltd., established in 1973, is a company listed on the Tokyo Stock Exchange. Currently, it has an aggregate commitment of over US$3 billion under management worldwide. Globally, it has invested in over 2,700 companies of which more than 710 companies have successfully achieved public listing on various stock exchanges.

The following chart sets out the relationship of the above companies:—



INVESTMENT BY JATF IN THE COMPANY

JATF entered into the Subscription Agreement with the Company, Data Dreamland, Mr. Guo, Ms. Yang and Ms. Ma on 15 August 2003, pursuant to which, among other things:—

(1) JATF agreed to subscribe for 4,000,000 new Preference Shares (which amounted to approximately 18.18% of the enlarged issued share capital of the Company immediately after the completion of such subscription) at an aggregate subscription price of US$4,000,000 (approximately HK$31,200,000);

(2) the Company, Data Dreamland, Mr. Guo, Ms. Yang and Ms. Ma provided certain representations and warranties; and

(3) Mr. Guo, Ms. Yang and Ms. Ma agreed to guarantee to JATF the performance by Data Dreamland of its obligations under the Subscription Agreement.

The issue and subscription of such Preference Shares pursuant to the Subscription Agreement was completed on 22 August 2003 (the "Completion Date").

On the Completion Date, the same parties to the Subscription Agreement entered into a shareholders agreement (the "Shareholders Agreement") to govern certain aspects of the affairs of the Company. The Shareholders Agreement shall automatically terminate and cease to have effect on the date on which an initial public offering (the "IPO") of the Ordinary Shares on an internationally recognised stock exchange is consummated.

On 22 December 2003, JATF converted all the 4,000,000 Preference Shares into 4,000,000 Ordinary Shares of the Company and remained to be interested in 18.18% in the then issued share capital of the Company. Based on the aggregate number of 54,545,455 Shares comprising (i) the 22,545,455 Shares to be held by JATF immediately after the completion of the Capitalisation Issue and the Share Offer and (ii) the 32,000,000 Sale Share, the consideration of investment would be approximately HK$0.57 per Share, representing a discount of approximately 31% to HK$0.83, being the mid-point of the indicative Offer Price range between HK$0.79 and HK$0.87. The Directors consider that the investment by JATF had not only improved the Group's working capital position but also would enhance the Company's shareholder profile and could be viewed as recognition on the Group's capabilities as a wireless solution and equipment provider. The Directors also consider that JATF's connection with wireless communication companies might create potential business opportunities for the Group. Therefore, the Directors are of the view that the consideration of investment by JATF of approximately HK$0.57 per Share is fair and reasonable.

Up to 30 September 2004, approximately US$2.62 million (approximately HK$20 million) of the US$4 million (approximately HK$31,200,000) invested by JATF was used by the Group as general working capital, in particular the manufacturing, sales and marketing in relation to the Group's *Coolpad* smartphones. Approximately US$0.28 million (approximately HK$2 million) was used to settle part of the listing expenses. The Group intends to use the remaining balance of approximately US$1.1 million (approximately HK$9.2 million) as the working capital and to settle the remaining listing expenses.

JATF will undertake with the Company, DBS Asia and the Placing Underwriters in the Placing and Underwriting Agreement to the effect that it shall not, and shall procure that none of its associates, companies controlled by it, nominees or trustees holding in trust for it shall not, sell, transfer or otherwise dispose of or enter into any agreement to dispose of, or create any rights (including, without limitation, by the creation of any rights, interest, option, charge, encumbrance or entering into any agreements or arrangements that transfer or otherwise dispose of, in whole or in part, any of the economic consequence of ownership of any Shares) save pursuant to a pledge or charge as security in favour of an authorised institution for a bona fide commercial loan:

(a) any of the Shares or any interest therein beneficially owned by it or its associates, companies controlled by it, nominees or trustees holding in trust for it (including any interest in any shares in any company controlled by it which is directly or indirectly the beneficial owner of any of the Shares) immediately following the completion of the Share Offer (including, where applicable, the issue of the Over-allotment Shares) and the Capitalisation Issue, during the period commencing on the date of this prospectus and ending on the date which is six months from the Listing Date, save the offer for sale of the Sale Shares by the Vendor; and

(b) any of the Shares to be transferred from Data Dreamland under the Option Agreement or any interest therein beneficially owned by it or the relevant company, nominee or trustee (including any interest in any shares in any company controlled by it which is directly or indirectly the owner of any of such Shares) during a period of six months from the completion of the transfer.

SUMMARY OF THE MAJOR RIGHTS ATTACHED TO THE PREFERENCE SHARES

(1) Dividends: The holders of Ordinary Shares and Preference Shares shall be entitled to receive dividends (in the case of the Preference Shares, based on the number of Ordinary Shares into which Preference Shares are convertible on the date such dividend is declared), when and as declared by a resolution of directors, out of legally available funds. The holders of Preference Shares shall be entitled to receive dividends prior to and in preference to the holders of Ordinary Shares. No dividend, whether in cash, in property or in the shares of the Company, shall be allowed to be paid on any other class or series of shares of the Company unless and until a dividend in like amount and kind was first paid or granted in full on the Preference Shares (based on the number of Ordinary Shares into which Preference Shares are convertible). The dividends payable to the holders of any class of shares shall not be cumulative, and no right shall accrue to the holders thereof by reason of the fact that dividends are not declared or paid in any previous financial year of the Company, whether or not the legally available funds of the Company in that previous financial year was sufficient to pay such dividends in whole or in part.

(2) Liquidation, dissolution, winding up of the Company, or a return of capital (other than upon conversion, redemption or repurchase of shares or with respect to a dividend) whether voluntary or not, or a sale of all or substantially all of the assets and/or stock of the Company, or a merger of consolidation of the Company in which the shareholders of the Company will not retain a majority of the voting power in the surviving company (each a "Liquidation Event"): Each holder of Preference Shares shall be entitled to receive, prior and in preference to any distribution of any assets, surplus or funds of the Company to the holders of the Ordinary Shares or any other class or series of shares of the Company by reason of their ownership of such shares, an amount per Preference Share held by him which shall equal to the summation of (aa) the aggregate amount of the issue price (inclusive of share premium and par value) paid or credited as fully paid

on each Preference Share then in issue, (bb) an amount equal to annual interest rate of 12% to be compounded yearly on the amount referred to in (aa) above calculated on a daily basis and on the basis of the actual number of days lapsed in a year of 365 days, including the Completion Date and the date of commencement of the Liquidation Event, and (cc) all declared but unpaid dividends and distributions on each Preference Share calculated up to and including the date of commencement of the Liquidation Event (collectively, the "Preference Amount"). If, upon the occurrence of a Liquidation Event, the assets and funds available to be distributed among the holders of Preference Shares shall be insufficient to permit the payment to such holders of the full Preference Amount, then the entire assets and funds of the Company legally available for distribution to such holders shall be distributed rateably among the holders of the Preference Shares in proportion to the aggregate Preference Amount for the Preference Shares owned by each such holder. After payment has been made to the holders of Preference Shares of the full Preference Amount to which they are entitled, each holder of Ordinary Shares shall be entitled to receive an amount per Ordinary Share held by him which shall equal to the summation of (aa) the aggregate amount of the subscription price (inclusive of share premium and par value) paid or credited as fully paid on each Ordinary Share then in issue and outstanding and (bb) all declared but unpaid dividends and distributions on each Ordinary Share calculated up to and including the date of commencement of the Liquidation Event. The remaining assets and funds of the Company available for distribution to members of the Company shall be distributed among the shareholders in proportion to their respective shareholding proportions (on the basis that includes the number of Ordinary Shares into which such Preference Shares may be converted at the time).

(3) Voting rights: The holder of each Preference Share shall be entitled to attend all general meetings of the Company and shall have the number of votes equal to the number of Ordinary Shares into which such Preference Shares could be converted at the record date for determination of the members entitled to vote on such matters, or, if no such record date is established, at the date such vote is taken or any written consent of members is solicited, in each case such votes to be counted together with all other shares in the capital of the Company having general voting power and not separately as a class. The holders of the Preference Shares and the Ordinary Shares shall vote together and not as a separate class, except as otherwise specifically required in the Subscription Agreement or by the articles of association of the Company or by any written agreement between the members of the Company.

(4) Conversion: The holders of Preference Shares shall have conversion rights as follows:—

  (a) Right to convert: Each Preference Share shall be convertible, at the option of the holder thereof, at any time after the date of issuance of such share, into such number of fully-paid and non-assessable Ordinary Shares as is determined by dividing US$1.00 (approximately HK$7.80) by the then applicable Conversion Price (as defined below) in effect at the time of conversion.

  (b) Automatic conversion: Each Preference Share shall automatically be converted into Ordinary Shares at the then effective applicable Conversion Price on the date being 6 months before the estimated bulk-print date of the prospectus relating to the IPO in accordance with the timetable approved by the Company and the holders of the Preference Shares.

(c) Conversion Price: The price at which Ordinary Shares shall be deliverable upon conversion of Preference Shares (the "Conversion Price") shall initially be:—

(i) US$1.00 (approximately HK$7.80); or

(ii) US$0.80 (approximately HK$6.24) where conversion of the Preference Shares does not occur within 24 months after the Completion Date.

(5) Failure to achieve an IPO: Where the Company does not achieve an IPO within 8 months after the conversion of the Preference Shares into Ordinary Shares, the then holder of the Ordinary Shares into which the Preferences Shares have been converted shall have the option to require the Company, upon serving on the Company a written notice:—

(a) subject to applicable law, to re-convert such Ordinary Shares into the same number of Preference Shares which had been converted into such Ordinary Shares; or

(b) if the re-conversion referred to in paragraph (a) above is not implemented within 2 months of the written notice from the holder of Ordinary Shares, to redeem such Ordinary Shares.

JATF's re-conversion right has become exercisable from 21 August 2004 onwards. The parties to the Subscription Agreement do not intend to enter into any supplemental agreement in respect of such re-conversion right. Nevertheless, JATF has not exercised the re-conversion option and does not intend to re-convert the Ordinary Shares it holds into Preference Shares if the Share Offer can be completed under the terms set out in this prospectus.

(6) Redemption:—

(a) If not converted, the Preference Shares may, subject to the applicable legal restrictions on the Company's redemption of its shares, be redeemed at the option of the holders thereof:—

(i) at any time beginning on 1 July 2006; or

(ii) at any time after a material default in the performance or observance by the Company, Data Dreamland, Mr. Guo, Ms. Yang or Ms. Ma of its/his/her obligations under the Subscription Agreement or the Shareholders Agreement has occurred and such material default shall continue for 14 days following the service by the holder of the Preference Shares on the Company, Data Dreamland, Mr. Guo, Ms. Yang or Ms. Ma (as the case may be) of notice requiring such material default to be remedied, except where the holder of the Preference Shares certifies in writing that, in its opinion, such material default is not capable of remedy, then no such notice as mentioned above shall be required,

at a redemption price for each Preference Share which shall be equal to the summation of (aa) the aggregate amount of the issue price (inclusive of share premium and par value) paid or credited as fully paid on each Preference Share then in issue, (bb) an amount equal to annual interest rate of 8% to be compounded yearly on the amount referred to in (aa) above calculated on a daily basis and on the basis of the actual number of days lapsed in a year of 365 days, from and including the Completion Date and the date of redemption.

(b) Where the option set out in paragraph (5) above is exercised, such Ordinary Shares shall, subject to the applicable legal restrictions on the Company's redemption of its shares, be redeemed at a redemption price for each Ordinary Share which shall be equal to the summation of (aa) the Conversion Price at which such Ordinary Share had been converted from Preference Shares, (bb) an amount equal to annual interest rate of 8% to be compounded yearly on the amount referred to in (aa) above calculated on a daily basis and on the basis of the actual number of days lapsed in a year of 365 days, from and including the Completion Date and the date of redemption.

OPTION AGREEMENT

In accordance with the Subscription Agreement and as a condition to the conversion, JATF, Data Dreamland, Mr. Guo, Ms. Yang and Ms. Ma entered into an option agreement on 22 December 2003 as varied by a deed of amendment entered into by the same five parties together with Barrie Bay on 23 November 2004 (the option agreement, as amended by the deed of amendment, shall be referred to as the "Option Agreement"). The main purpose of the Option Agreement is to give an option to JATF to purchase more Shares from Data Dreamland at a nominal aggregate consideration of US$1.00 (approximately HK$7.80) in the event that the IPO of the Company does not fulfil any of the following conditions:—

(a) an underwritten public offering of the Ordinary Shares on the Main Board at a public offering price which will result in:—

    (i) where such offering is closed within 12 months after the Completion Date, the Company's total market capitalisation being not less than US$50,000,000 (approximately HK$390,000,000) and the gross proceeds to the Company of the IPO being in excess of US$12,000,000 (approximately HK$93,600,000) where the public float following such an offer is likely to equal or exceed 25% of the enlarged share capital of the Company; or

    (ii) where such offering is closed after 12 months from the Completion Date, the Company's total market capitalisation being not less than US$60,000,000 (approximately HK$468,000,000) and the gross proceeds to the Company of the offering being in excess of US$15,000,000 (approximately HK$117,000,000) where the public float following such an offer is likely to equal or exceed 25% of the enlarged issued share capital of the Company; or

(b) a similar public offering of the Ordinary Shares in a jurisdiction and on a recognised securities exchange outside of Hong Kong approved by JATF and Data Dreamland, provided such public offering in terms of offer price, offering proceeds and regulatory approval is reasonably equivalent to the aforementioned public offering in Hong Kong.

Where the IPO of the Company does not fulfil any of the above conditions and if (1) the number of Ordinary Shares converted from the Preference Shares in accordance with the Subscription Agreement plus the number of Ordinary Shares that would be issued to JATF in the Capitalisation Issue (together, the "Original Number") is less than (2) N calculated in accordance with the following formula, then the number of Ordinary Shares subject to the option will be the difference between N and the Original Number.

$$N = \frac{MC}{\text{Offer Price}} \times \left(1 - \frac{NS}{TS}\right) \times \frac{SC}{TC}$$

Where, MC = US$50,000,000 (approximately HK$390,000,000) where the Company achieves the IPO within 12 months after the Completion Date (i.e. on or before 22 August 2004); or US$60,000,000 (approximately HK$468,000,000) where the Company achieves the IPO after that day

NS = the number of Ordinary Shares to be issued by the Company under the IPO (without taking into account of any Ordinary Shares that may be issued pursuant to any over-allotment option)

TS = the enlarged share capital of the Company immediately following completion of the IPO (without taking into account of any Ordinary Shares that may be issued pursuant to any over-allotment option)

SC = the actual number of Ordinary Shares into which the Preference Shares are converted in accordance with the Subscription Agreement

TC = the total number of Ordinary Shares in the issued share capital of the Company immediately after the conversion of the Preference Shares into Ordinary Shares in accordance with the Subscription Agreement

Such option can only be exercised by JATF after the expiry of the moratorium for Data Dreamland period as set out in the Listing Rules applicable to the IPO. Mr. Guo, Ms. Yang and Ms. Ma agree to guarantee, and Barrie Bay agrees to procure, the performance of the obligations by Data Dreamland under the Option Agreement subject to the moratorium period for Data Dreamland.

Given the terms and the timing of the Share Offer, the Option Agreement will be applicable. Accordingly, JATF will have the option to require Data Dreamland to transfer certain number of Shares to JATF at an aggregate consideration of US$1.00 (approximately HK$7.80). The number of Shares subject to the option will depend on the Share Price. For illustration purpose, three scenarios are set out below:

Share Price	Number of Shares subject to the option	Shareholding (in percentage of the Company's enlarged share capital) after the exercise of the option under the Option Agreement where the Over-allotment Option is not exercised *(Note)*		Shareholding (in percentage of the Company's enlarged share capital) after the exercise of the option under the Option Agreement where the Over-allotment Option is fully exercised *(Note)*	
		JATF	**Data Dreamland**	**JATF**	**Data Dreamland**
HK$0.79	26,237,054	12.20%	50.30%	11.62%	47.93%
HK$0.83	22,343,921	11.22%	51.28%	10.69%	48.86%
HK$0.87	18,808,777	10.34%	52.16%	9.85%	49.70%

Note: The calculations on shareholdings (a) are based on the assumption that there will be no changes in the respective numbers of Shares held by the public and Wintech Consultants between the Listing Date and the date on which the option is exercised by JATF and (b) do not take into account Shares that may be issued upon exercise of any options that may be granted under the Share Option Scheme or issued under the general mandate given to the Directors to issue new Shares or Shares which may be repurchased by the Company. Based on such calculations, there will not be a change in control of the Company solely due to the exercise of the option by JATF under the Option Agreement.

The Company will make an announcement which is to be published in the newspapers as soon as possible when it becomes aware of any exercise by JATF of the option under the Option Agreement.

SUBSTANTIAL SHAREHOLDERS

So far as is known to the Directors, immediately upon completion of the Capitalisation Issue and the Share Offer and assuming the Over-allotment Option is not exercised, no option is granted under the Share Option Scheme and not taking into account any Shares which will be transferred to JATF from Data Dreamland upon exercise of the Option (which is subject to Rule 10.07(1) of the Listing Rules) by JATF under the Option Agreement, the following persons will be entitled to exercise, or control the exercise of, 10% or more of the voting power at any general meeting of the Company and are accordingly considered to be substantial shareholders under the Listing Rules:

Name	Number of Shares	Percentage of shareholding in the Company if the Over-allotment Option is not exercised	Percentage of shareholding in the Company if the Over-allotment Option is fully exercised
Data Dreamland *(Note 1 and 3)*	227,454,545	56.86	54.18
Barrie Bay *(Note 2 and 3)*	227,454,545	56.86	54.18
HSBC Trustee *(Note 2 and 3)*	227,454,545	56.86	54.18

Notes:—

1. The entire issued share capital of Data Dreamland is held by 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 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 and Ms. Yang on 22 November 2004, the beneficiary objects of which include the children of Mr. Guo and Ms. Yang who are under 18 years old.

2. Such Shares are held by Data Dreamland, the entire issued share capital of which is held by Barrie Bay. The entire issued share capital of Barrie Bay is held by HSBC Trustee.

3. The number of Shares held by Data Dreamland will decrease upon exercise of the Option under the Option Agreement. Subject to rule 10.07(1) of the Listing Rules, upon the exercise of the Option by JATF, JATF can purchase a certain number of Shares (to be determined in accordance with the mechanism as set out in the Option Agreement and will vary depending on the Offer Price) from Data Dreamland at a nominal aggregate consideration of US$1.00. Based on the Offer Price of HK$0.79 per Share, being the lower end of the indicative Offer Price, the number of Shares subject to the Option will be 26,237,054. Accordingly, the percentage of shareholding held by Data Dreamland will be reduced to 50.30% (assuming the Over-Allotment Option is not exercised at all) and 47.93% (assuming the Over-Allotment Option is fully exercised) respectively.

INDEPENDENCE FROM THE CONTROLLING SHAREHOLDER

The Directors consider that upon listing, the Group will be able to operate independently from Data Dreamland which is the controlling shareholder (as defined in the Listing Rules) of the Company. The Directors confirm that it is evidenced by the fact that (1) Data Dreamland is an investment company not participating in the operation of the Group on its own; (2) apart from Mr. Guo, being an executive Director, the Group has a full team of senior management staff independent of Data Dreamland; and (3) all of the Group's existing contractual relationship with third parties operate independently from Data Dreamland. Moreover, as at the Latest Practicable Date, there was no and will not be any material outstanding balance due to or from Data Dreamland or its shareholders, or any personal guarantee provided by Data Dreamland or its shareholders for the indebtedness of the Group. The Directors therefore confirm that the Group will also be financially independent from Data Dreamland.

UNDERTAKING BY CONTROLLING SHAREHOLDER AND CERTAIN DIRECTORS

Each of Data Dreamland, Mr. Guo, Ms. Yang and Ms. Ma has confirmed that it does not have any interest in a business which competes or is likely to compete, directly or indirectly, with the Group's business. On 21 November 2004, Data Dreamland, Mr. Guo, Ms. Yang and Ms. Ma (the "Covenantors") executed in favour of the Company a deed of non-competition (the "Deed of Non-Competition") which provides that, so long as (i) Data Dreamland whether directly or indirectly, remains a controlling shareholder (as defined in the Listing Rules) of the Company or (ii) any of Mr. Guo, Ms. Yang and Ms. Ma remains a Director, or (iii) the Shares remain to be listed and traded on the Stock Exchange, each of the Covenantors and its/his/her associates (excluding the Group and its associated companies) irrevocably undertakes to the Company that, he/she/it shall not on his/her/its own account or with each other or in conjunction with or on behalf of any person, firm or company, carry on or be engaged in, concerned with or interested in, directly or indirectly (other than through the Group or its associated companies), whether as a shareholder, director (other than being a director or a shareholder of the Group or its associated company), officer, partner, agent, lender, employee, consultant, proprietor or otherwise and whether for profit, reward or otherwise, the activity of operating, the activity of operating, engaging, managing and investing in any computer related business or company (including, but without limitation, the provision of wireless solution and equipment) that may compete, directly or indirectly, with any business carried on by the Group from time to time ("Restricted Activity"), except that:

(a) each of the Covenantors and/or their associates or any company which they are respectively interested ("Interested Persons") may invest, participate and be engaged in the Restricted Activity provided that (i) the terms of such investment, participation or engagement (which shall be no less favourable than those terms upon which the Interest Persons invest, participate or engage in) have been disclosed and first offered or made available to the Company by a notice in writing setting out details, in relation to such investment, participation or engagement reasonably sufficient for the Company to make an informed decision; and (ii) the board of Directors (with those Directors who are interested in such Restricted Activity and their respective associates abstaining from voting), after reviewing by the independent non-executive Directors, has rejected such offer in writing and has approved the investment, participation or engagement by the relevant Interested Persons in such Restricted Activity; and provided always that the terms on which the relevant Interested Persons invest, participate or engage in such Restricted Activity are the same or no more favourable than those disclosed, offered and made available to the Company;

(b) each of the Interested Persons may hold or be interested in shares or other securities in any company which conducts or is engaged in any Restricted Activity (the "Subject Company") provided that (i) such shares or securities are listed on a Recognised Stock Market or a market operated by a Specified Stock Exchange, (ii) the aggregate number of shares held by the Interested Persons do not exceed 5% in aggregate of the issued shares of the Subject Company; (iii) none of them shall be a director of the Subject Company or is entitled to appoint directly or indirectly any director of the Subject Company or otherwise have any board or management control; and (iv) at all times, there is a holder of such shares or securities holding a larger percentage of voting shares or voting securities in the Subject Company than that of the relevant Interested Person; and

(c) each of the Covenantors may be interested or engaged in the Restricted Activity which is being conducted prior to or on the date of Deed of Non-Competition and which has been disclosed in this prospectus.

Each of the Covenantors further irrevocably undertakes to the Company that he/she/it shall, and shall procure that his/her/its associates (excluding the Group and its associated companies) shall, refer to the Company new business opportunities received by any of them in relation to the Restricted Activity in any territories (including Hong Kong, PRC and overseas) in accordance with the procedures set out in paragraph (a) above.

Each of the Covenantors further unconditionally and irrevocably undertakes to the Company that he/she/it will use his/her/its best endeavours, and will procure his/her/its associates to use their best endeavours to procure that he/she/its employees and any company under he/she/its control, whether directly or indirectly, (except for those within the Group or its associated company) as well as their respective employees to observe the aforesaid restrictions and undertakings.

UNDERTAKING TO AN EX-DIRECTOR

The Company had entered into a subscriber's director indemnity deed in favour of Mr. Zhong Xiaolin ("Mr. Zhong") on 22 August 2003 ("Old Deed of Indemnity") who was a non-executive Director nominated by JATF during the period from 22 August 2003 to 18 March 2004. The Old Deed of Indemnity was terminated and substituted by a new deed of indemnity entered into between Mr. Guo, Ms. Yang, Ms. Ma, Mr. Zhong and the Company dated 21 November 2004 ("New Deed of Indemnity"). Pursuant to the New Deed of Indemnity, the Company and Mr. Zhong agreed to terminate the Old Deed of Indemnity and Mr Guo, Ms. Yang and Ms. Ma jointly and severally agreed to indemnify Mr. Zhong and/or his alternate from and against all liabilities, damages, actions, suits, proceedings, claims, costs, charges and expenses suffered or incurred by or brought or made against Mr. Zhong and/or his alternate as a result of any act, matter or thing done or omitted to be done by him or his alternate in good faith in the course of his or his alternate acting as a Director or alternate director (as the case may be) of the Company unless (a) such liability is a result of the gross negligence or wilful default of Mr. Zhong and/or his alternate or (b) Mr. Zhong and/or his alternate have already been fully indemnified in respect of such liabilities, damages, actions, suits, proceedings, claims, costs, charges and expenses by a separate insurance policy purchased by the Company. Under the New Deed of Indemnity, the Company is no longer required to indemnify Mr. Zhong.

The rights of Mr. Zhong and/or his alternate under the New Deed of Indemnity shall be subject to the following limitations:—

(a) The aggregate liability of Mr. Guo, Ms. Yang and Ms. Ma in respect of the Indemnity, together with any liability for any breach of the warranties given by the Company, Data Dreamland, Mr. Guo, Ms. Yang and Ms. Ma under the Subscription Agreement, shall be limited to the amount of US$4,000,000 (approximately HK$31,200,000), representing the total consideration for the subscription of the Preference Shares by JATF pursuant to the Subscription Agreement ("Claimed Amount") plus an amount equal to annual interest rate of 8% to be compounded yearly on such Claimed Amount calculated on a daily basis; and

(b) Mr. Guo, Ms. Yang and Ms. Ma shall have no liability under the New Deed of Indemnity unless Mr. Zhong shall have given notice in writing to Mr. Guo, Ms. Yang and Ms. Ma of such claim not later than twelve months after the Listing Date.

The Directors confirm that as at the Latest Practicable Date, none of the Company, Mr. Guo, Ms. Yang and Ms. Ma had received any notice from Mr. Zhong in respect of the indemnity under the Old Deed of Indemnity or the New Deed of Indemnity.

DIRECTORS

Executive Directors

Mr. GUO Deying, aged 39, is a founding member and the chairman and chief executive officer of the Group. He is responsible for the Group's overall management and the strategic development. Mr. Guo has been the chairman, the legal representative and the general manager of the Group since its establishment in 1993. Mr. Guo has about 11 years of experience in wireless communication industry. Mr. Guo was certified as an engineer by 深圳市工程技術中評委 (Shenzhen City Engineering Technical Central Examination Board) in December 1991. He holds a master's degree in engineering from 上海交通大學 (Shanghai Jiao Tong University). Mr. Guo was appointed as a guest professor by 西安電子科技大學 (Xidian University) for its computer network and information security department in November 2003. In October 2004, Mr. Guo was accredited as 中國優秀民營科技企業家 (Excellent Entrepreneur of Private-owned Technology Companies in the PRC) by 中華全國工商業聯合會 (China National Industrial and Commercial Association) and 中國民營科技實業家協會 (China Private-owned Technology Industrialists Association).

Mr. JIANG Chao, aged 33, is the chief financial officer, vice president and the company secretary of the Group and is responsible primarily for the finance and administrative functions of the Group. He is an associate member of the Association of Chartered Certified Accountants and a certified public accountant in the PRC. Mr. Jiang joined the Group in June 2002. Mr. Jiang has about 13 years of experience in accounting and finance. Prior to joining the Group, he had worked for the State Audit Bureau. Mr. Jiang had also worked for 僑興電子有限公司 (Qiaoxing Electronic Company Limited) and 深圳市中興新通訊設備有限公司 (Shenzhen Zhong Xing Xin Telecom Equipment Company Limited), being responsible for financial and accounting functions. Mr. Jiang obtained a bachelor's degree in Economics from 中山大學 (Zhongshan University) in 1991.

Non-executive Directors

Ms. MA Dehui, aged 73, is a non-executive Director. Ms. Ma joined the Group in August 2003. She was an associate professor of the faculty of computer science and technology department in 西南民族大學 (South Western University for Nationalities). Ms. Ma is the mother-in-law of Mr. Guo.

Ms. YANG Xiao, aged 35, is a non-executive Director. Ms. Yang joined the Group in August 2001. She graduated with a diploma from 深圳大學 (Shenzhen University). During 1992 to 1995, Ms. Yang worked in 深圳市運輸局 (Shenzhen Transport Bureau). Ms. Yang is the spouse of Mr. Guo.

Ms. Ma and Ms. Yang are only representatives of the controlling Shareholder on the Board and do not hold any management role in the Company.

Independent non-executive Directors

Dr. HUANG Dazhan, aged 46, is an independent non-executive Director and joined the Group in November 2004. Dr Huang obtained his doctorate degree from The Victoria University of Manchester, UK in 1993. Dr. Huang now serves as the managing director of

China Merchants Finance Holdings Co. Ltd.. He is also a non-executive director of China Merchants Bank Co. Ltd. (a company listed in the PRC) and an executive director of China Merchants China Direct Investments Ltd. (a company listed on the Main Board).

Mr. XIE Weixin, aged 62, is an independent non-executive Director and joined the Group in November 2004. Mr. Xie graduated from the Department of Electronics Engineering of Xian University of Electronics Technology in 1965. Mr. Xie is currently a professor of electrical engineering and the chancellor of the 深圳大學 (University of Shenzhen).

Mr. CHAN King Chung, aged 42, is an independent non-executive Director and joined the Group in November 2004. He obtained the bachelor's degrees in business administration and accountancy from the Chinese University of Hong Kong in 1987 and City University of Hong Kong in 1993 respectively. Mr. Chan also holds master's degrees in business administration and accountancy from Murdoch University in 2000 and Charles Sturt University in 1994 respectively. He is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of The Hong Kong Institute of Company Secretaries. With 10 years of experience in corporate governance, management and financial controlling, Mr. Chan is currently the company secretary of Shenzhen High-Tech Holdings Limited (a company listed on the Main Board).

Remuneration for executive Directors

During each of the three years ended 31 December 2003 and the five months ended 31 May 2004, the aggregate of the remuneration paid and benefits in kind granted to the Directors was approximately RMB148,000 (approximately HK$140,000), RMB212,000 (approximately HK$200,000), RMB372,000 (approximately HK$351,000) and RMB155,000 (approximately HK$146,000) respectively. Each of the executive Directors has entered into a service contract with the Company for an initial fixed term of three years commencing on 21 November 2004 and will continue thereafter until terminated by two months' notice in writing served by either party on the other, such notice shall not expire until after the initial fixed term of three years. Each of the executive Directors will receive a salary subject to an annual review. Under the arrangement currently in force, the estimated amount of directors' fees and other emolument payable to the executive Directors for each of the three years ending 31 December 2006 will be approximately RMB500,000 (approximately HK$472,000). Under the present arrangement, the aggregate of the executive Directors' remuneration in cash and in kind for the year ending 31 December 2004 is estimated to be approximately RMB700,000 (approximately HK$660,000).

Particulars of the terms of the above service contracts are set forth in the paragraph headed "Particulars of Directors' service contracts" in the section headed "Further information about Directors, management and staff" in Appendix VI to this prospectus.

AUDIT COMMITTEE

The audit committee was established on 21 November 2004 with written terms of reference in compliance with the Code of Best Practice as set forth in appendix 14 to the Listing Rules. The duties of the audit committee are to review and supervise the Group's financial reporting process and internal control system.

The audit committee has three members, namely Dr. HUANG Dazhan, Mr. XIE Weixin and Mr. CHAN King Chung, of whom Mr. CHAN King Chung is the chairperson.

SENIOR MANAGEMENT

Mr. LI Wang, aged 32, is a deputy general manager of the Group and is responsible for the Group's sales and marketing. He joined the Group in March 2001. He has 7 years of working experience in the information technology industry. Before joining the Group, he worked for 華為技術有限公司 (Hua Wei Technology Company Limited). He obtained a master's degree in business administration from 大連理工大學 (Dalian University of Technology) in 1997.

Mr. LI Ming, aged 40, is a deputy general manager of the Group and is responsible for the R&D of software development. He has about 19 years of experience in software development. Before joining the Group in March 2001, he worked for various famous domestic software companies, some of which are being software developers for mobile phones. He obtained a bachelor's degree in electronic engineering from 上海交通大學 (Shanghai Jiao Tong University) in July 1985. Mr. Li was appointed as a guest professor by 西安電子科技大學 (Xidian University) in November 2003.

Mr. DONG Yongquan, aged 41, is a deputy general manager of the Group and is responsible for the R&D of hardware development. Prior to joining the Group in July 1997, he worked for 深圳雲海通信股份有限公司 (Shenzhen Winhap Communications Inc), which is mainly engaged in the R&D of smartphones. He has over 10 years of experience in developing wireless data communication products. During September 1984 to July 1987, Mr. Dong studied in the faculty of wireless communication of 長春郵電學院 (Changchun Institute of Post and Telecommunications) and graduated in 1987. He was awarded 深圳市青年科技專家中銀集團獎 (Shenzhen Municipal Young Technologist Prize — Bank of China Group Award) in 2000. Mr. Dong was appointed as a guest professor by 西安電子科技大學 (Xidian University) in November 2003.

Mr. LI Liuqun, aged 41, is a deputy general manager of the Group and is responsible for logistic, purchasing and production functions. Mr. Li also acts as the general manager of the mobile industry department. He has about 19 years of experience in the wireless telecommunication industry. Prior to joining the Group in December 2000, he worked for 國營第七六零廠 (State 760 Factory). He obtained a bachelor's degree in engineering from 西北電訊工程學院 (Xian University of Electronics Technology) in 1985.

Mr. LI Bin, aged 34, is a deputy general manager of the Group and the general manager of the systems department. Mr. Li is responsible for the provision of system solutions including R&D, technical support, marketing, and related purchase of materials. He joined the Group in June 1996. Prior to joining the Group, Mr. Li worked in 中國三江航天工業集團公司 (China Sanjiang Aviation Industry Group Company). He obtained a bachelor's degree in computer science and software engineering from 華中理工大學 (Huazhong University of Science and Technology) in 1992.

Ms. FU Qun, aged 29, is an assistant general manager of the Group. Ms. Fu is responsible for the internal management of the Group and secretarial duties of the Board. She joined the Group in July 1998. She obtained a bachelor's degree in accounting from 江西財經大學 (Jiangxi University of Finance and Economics) in 1998.

Each of the above senior management officers has entered into a service agreement with the Company for a term of three years commencing on 21 November 2004.

STAFF

As at the Latest Practicable Date, the Group had 466 full time employees. The following is a breakdown of the employees by function:—

	Total
Management	9
General administration	25
Finance	15
R&D	231
Production and quality control	35
Sales	105
Product marketing and after-sales services	
Smartphone specialists	20
Fixed wireless terminal specialists	16
Wireless system specialists	10
Total	**466**

Relationship with staff

During the Track Record Period, the Group has not experienced difficulty in attracting and retaining qualified key personnel, and it is to the Directors' knowledge that no member of the senior management has plans to retire or leave the Group in the near future. The Group has not experienced any significant problem with its employees or disruption to its operations due to labour disputes nor have they experienced any difficulty in the recruitment and retention of suitable employees. The Directors believe that the Group has a good working relationship with its employees.

Share Option Scheme

The Group has conditionally adopted the Share Option Scheme, the principal terms of which are set forth in the paragraph headed "Share Option Scheme" in Appendix VI to this prospectus.

Staff benefits

The Group, in compliance with the applicable regulations of the PRC, participates in the retirement benefit schemes operated by the relevant government authorities. The Group is required to make contributions on behalf of its employees in the PRC in accordance with the relevant PRC regulations.

SHARE CAPITAL

The following table is prepared on the basis that the Share Offer and the Capitalisation Issue become unconditional. This table does not take into account Shares which may be issued upon exercise of the Over-allotment Option or upon exercise of any options that may be granted under the Share Option Scheme or under the general mandate to issue new Shares (particulars are set forth under "General mandate given to the Directors to issue new Shares" below) or Shares which may be repurchased by the Company (particulars are set forth under "General mandate given to the Directors to repurchase Shares" below).

		HK$
Authorised share capital:—		
1,000,000,000	Shares	10,000,000
Shares in issue or to be issued, paid-up or credited as fully paid:—		
22,000,000	Shares in issue	220,000
278,000,000	Shares to be issued pursuant to the Capitalisation Issue	2,780,000
100,000,000	Shares to be issued pursuant to the Share Offer	1,000,000
400,000,000	Shares	4,000,000

Ranking

The New Shares will rank pari passu in all respects with all Shares in issue and/or to be allotted and issued and will qualify for all dividends or other distributions hereafter declared, paid or made on the Shares save with respect to the Capitalisation Issue.

Pursuant to the written resolutions of all the Shareholders passed on 21 November 2004, conditional on the share premium account of the Company being credited as a result of the New Issue, the Directors were authorised to capitalise HK$2,780,000 standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par 278,000,000 Shares for allotment and issue to the shareholders of the Company on the register of members of the Company at the close of business on 21 November 2004 (or as they may direct) in the following manner:—

Name of Shareholder	No. of Shares to be issued and allotted
Data Dreamland	210,774,545
JATF	50,545,455
Wintech Consultants	16,680,000

GENERAL MANDATE GIVEN TO THE DIRECTORS TO ISSUE NEW SHARES

A general unconditional mandate has been granted to the Directors to allot, issue and deal with Shares with an aggregate nominal value of not more than the sum of:—

— 20% of the aggregate nominal amount of Shares in issue as at the Listing Date and

— the aggregate nominal amount of Shares repurchased by the Company under the authority referred to in the paragraphs headed "General mandate given to the Directors to repurchase Shares" below.

This mandate does not apply to situations where the Directors allot, issue or deal with Shares by way of rights issue, scrip dividend schemes or similar arrangements providing for the allotment and issue of Shares in lieu of whole or part of a dividend in accordance with the articles of association of the Company or pursuant to the exercise of any subscription or conversion rights attaching to any warrants or any securities which are convertible into Shares or in issue prior to the date of the passing of the relevant resolution or pursuant to the exercise of options granted under the Share Option Scheme or under the Share Offer on the Over-allotment Option or the Capitalisation Issue.

This mandate will expire:—

— at the end of the Company's next annual general meeting; or

— at the end of the period within which the Company is required by any applicable laws or the articles of association of the Company to hold its next annual general meeting; or

— when varied or revoked or renewed by an ordinary resolution of the Shareholders in general meeting,

whichever is the earliest.

Particulars of this general mandate are set forth under "Written resolutions of all the shareholders of the Company passed on 21 November 2004" in Appendix VI to this prospectus.

GENERAL MANDATE GIVEN TO THE DIRECTORS TO REPURCHASE SHARES

A general unconditional mandate has been granted to the Directors to exercise all the powers of the Company to repurchase Shares with an aggregate nominal value of up to 10% of the aggregate nominal amount of the Shares in issue as at the Listing Date.

This mandate only relates to repurchases made on the Main Board, or on any other stock exchange on which the Shares are listed (and which are recognised by the SFC and the Stock Exchange for this purpose), and which are in accordance with the Listing Rules. A summary of the relevant Listing Rules are set forth under the paragraphs headed "Repurchase by the Company of it own Shares" in Appendix VI to this prospectus.

This mandate will expire:—

— at the end of the Company's next annual general meeting; or

— at the end of the period within which the Company is required by any applicable laws or the articles of association of the Company to hold its next annual general meeting; or

— when varied or revoked or renewed by an ordinary resolution of the Shareholders in general meeting,

whichever is the earliest.

Particulars of this general mandate are set forth under "Written resolutions of all the shareholders of the Company passed on 21 November 2004" in Appendix VI to this prospectus.

SELECTED FINANCIAL DATA

The selected financial data set forth below is extracted from, and should be read in conjunction with the Group's combined financial information during the Track Record Period which are prepared on the assumption that the Group's current corporate structure had been in existence throughout the periods under review and is extracted from, and has been prepared in accordance with the basis set forth in section I of the accountants' report, the text of which is set forth in Appendix I to this prospectus:—

Profit and loss account data

	Year ended 31 December						Five months ended 31 May			
	2001 (audited)		2002 (audited)		2003 (audited)		2003 (unaudited)		2004 (audited)	
	RMB'000	*% of turnover*	*RMB'000*	*% of turnover*	*RMB'000*	*% of turnover*	*RMB'000*	*% of turnover*	*RMB'000*	*% of turnover*
Turnover(1)	84,767	100.0	101,329	100.0	161,508	100.0	47,028	100.0	84,189	100.0
Cost of sales	(34,317)	(40.5)	(40,454)	(40.0)	(92,845)	(57.5)	(25,151)	(53.5)	(52,372)	(62.2)
Gross profit	50,450	59.5	60,875	60.0	68,663	42.5	21,877	46.5	31,817	37.8
Other revenues	1,063	1.3	3,551	3.5	3,271	2.0	1,540	3.3	1,885	2.2
Selling and distribution costs	(15,716)	(18.5)	(10,155)	(10.0)	(11,818)	(7.3)	(4,620)	(9.8)	(7,503)	(8.9)
Administrative expenses	(18,295)	(21.6)	(16,825)	(16.6)	(15,110)	(9.4)	(5,068)	(10.8)	(7,367)	(8.8)
Other operating expenses	(1,293)	(1.5)	(890)	(0.9)	(494)	(0.3)	(98)	(0.2)	(255)	(0.3)
Operating profit	16,209	19.2	36,556	36.0	44,512	27.5	13,631	29.0	18,577	22.0
Finance costs	(857)	(1.0)	(1,127)	(1.1)	(1,951)	(1.2)	(372)	(0.8)	(828)	(0.9)
Share of losses of an associate	(718)	(0.9)	(315)	(0.2)	(43)	—	(23)	0.0	—	—
PROFIT BEFORE TAX	14,634	17.3	35,114	34.7	42,518	26.3	13,236	28.1	17,749	21.1
Taxation	(1,422)	(1.7)	(2,446)	(2.4)	(3,301)	(2.0)	(895)	(1.9)	(2,316)	(2.8)
PROFIT BEFORE MINORITY INTEREST	13,212	15.6	32,668	32.3	39,217	24.3	12,341	26.2	15,433	18.3
Minority Interest	343	0.4	—	—	—	—	—	—	—	—
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	13,555	16.0	32,668	32.3	39,217	24.3	12,341	26.2	15,433	18.3
Dividends	—		(20,198)		—		—		—	
Earnings per Share *(RMB cent)*(2)	4.52		10.89		13.07		4.11		5.14	

Notes:—

1. Turnover represents the net invoiced value of goods sold and services rendered during the Track Record Period, after deduction of allowances for returns and trade discounts and net of sales tax and value-added tax.

2. The computation of earnings per Share is based on the Group's combined net profit from ordinary activities attributable to Shareholders for the Track Record Period and on the basis of a total of 300,000,000 Shares in issue and expected to be issued immediately following the completion of the Capitalisation Issue.

Selected balance sheet data

		31 December		**31 May**
	2001	**2002**	**2003**	**2004**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Inventories	36,451	19,693	20,883	33,393
Trade receivables	9,362	36,257	108,016	99,484
Prepayments, deposits and other receivables	15,858	9,547	30,810	38,256
Trade payables	10,103	7,580	20,811	25,728
Notes payable	—	4,492	23,090	22,368
Other payables and accruals	60,815	34,513	32,975	49,460
Short term bank and other loans	11,000	6,000	31,600	36,000
Combined shareholders' equity	17,384	30,269	101,201	116,634

Selected financial ratios

	Note	Year ended 31 December 2001	2002	2003	Five months ended 31 May 2003 (unaudited)	2004
Gross profit margin						
Wireless system solutions		**60%**	**61%**	**59%**	**55%**	**70%**
Wireless transceivers for paging network		60%	63%	67%	54%	—
Realink PHS Intelligent Coverage System		—	—	39%	—	75%
Callnet		—	50%	56%	51%	52%
Wireless Value-added Service Platform		19%	62%	67%	64%	58%
Wireless terminals		**45%**	**41%**	**35%**	**29%**	**31%**
One-way wireless terminal		45%	44%	27%	29%	26%
Fixed wireless terminal		—	30%	36%	29%	19%
Smartphone		—	—	38%	—	36%
Inventory turnover days	1	421	253	80	84	79
Debtors' turnover days	2	42	82	163	187	187
Creditors' turnover days	3	140	136	55	49	55
Effective tax rate	4	9.7%	7.0%	7.8%	6.8%	13%

Notes:—

1. Inventory turnover days = (average of opening and closing balances of inventory/cost of sales) x number of days in the relevant period

2. Debtors turnover days = (average of opening and closing balances of trade receivables/turnover) x number of days in the relevant period

3. Creditor's turnover days = (average of opening and closing balances of trade payables/total purchase) x number of days in the relevant period

4. Effective tax rate = taxation/profit before tax

PRINCIPAL FINANCIAL STATEMENT COMPONENTS

Turnover

The Group's turnover was mainly derived from (1) contractual income for designing, delivering, installing and testing, and provision of maintenance and other after-sales services for wireless system solutions to telecommunication operators and other corporations; and (2) sales income from *Realink PHS Intelligent Coverage System* sold to telecommunication equipment or solution distributors and from wireless terminals sold to telecommunication operators and wireless terminal distributors.

Breakdown of turnover by products and solutions

	For the year ended 31 December						For the five months ended 31 May			
	2001		2002		2003		2003 (unaudited)		2004	
	RMB'000	*% of turnover*	*RMB'000*	*% of turnover*	*RMB'000*	*% of turnover*	*RMB'000*	*% of turnover*	*RMB'000*	*% of turnover*
Wireless system solutions										
Wireless transceivers for paging network	83,363	98.3	73,431	72.5	20,608	12.8	18,029	38.3	—	—
Realink PHS Intelligent Coverage System	—	—	—	—	10,034	6.2	—	—	11,424	13.6
Sub-total for wireless coverage system	83,363	98.3	73,431	72.5	30,642	19.0	18,029	38.3	11,424	13.6
Callnet	—	—	13,343	13.1	11,967	7.4	8,121	17.3	2,448	2.9
Wireless Value-added Service Platform	836	1.0	8,176	8.1	6,190	3.8	5,721	12.2	1,488	1.8
Sub-total for integrated telecom business platform	836	1.0	21,519	21.2	18,157	11.2	13,842	29.5	3,936	4.7
Sub-total	84,199	99.3	94,950	93.7	48,799	30.2	31,871	67.8	15,360	18.3
Wireless terminals										
One-way wireless terminals	568	0.7	4,887	4.8	4,220	2.6	2,927	6.2	39	—
Fixed wireless terminals	—	—	1,492	1.5	89,248	55.3	12,230	26.0	22,538	26.8
Smartphone	—	—	—	—	19,241	11.9	—	—	46,252	54.9
Sub-total	568	0.7	6,379	6.3	112,709	69.8	15,157	32.2	68,829	81.7
Total	84,767	100.0	101,329	100.0	161,508	100.0	47,028	100.0	84,189	100.0

Cost of sales

The Group's cost of sales mainly comprises (i) cost of materials; (ii) direct labor cost, which represents salaries of production and installation staff; (iii) depreciation of production facilities; and (iv) manufacturing overhead such as utilities cost.

Breakdown of cost of sales during Track Record Period

	Year ended 31 December						Five months ended 31 May			
	2001		2002		2003		2003 (unaudited)		2004	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%
By components										
Cost of materials	30,535	89.0	37,562	93.0	90,523	97.6	24,342	96.8	51,449	98.2
Direct labor	904	2.6	334	0.8	526	0.5	205	0.8	374	0.7
Depreciation	432	1.3	600	1.4	324	0.3	211	0.8	63	0.2
Manufacturing overhead	2,446	7.1	1,958	4.8	1,472	1.6	393	1.6	486	0.9
Total	34,317	100.0	40,454	100.0	92,845	100.0	25,151	100.0	52,372	100.0
By products and solutions										
Wireless transceivers for paging network	33,332	97.1	26,865	66.4	6,810	7.3	8,313	33.1	—	—
Realink PHS Intelligent Coverage System	—	—	—	—	6,103	6.6	—	—	2,844	5.4
Callnet	—	—	6,672	16.5	5,301	5.7	3,984	15.8	1,170	2.2
Wireless Value-added Service Platform	673	2.0	3,127	7.7	2,060	2.2	2,060	8.2	620	1.2
	34,005	99.1	36,664	90.6	20,274	21.8	14,357	57.1	4,634	8.8
One-way wireless terminal	312	0.9	2,746	6.8	3,074	3.3	2,078	8.3	29	0.1
Fixed wireless terminal	—	—	1,044	2.6	57,542	62.0	8,716	34.6	18,230	34.8
Smartphone	—	—	—	—	11,955	12.9	—	—	29,479	56.3
	312	0.9	3,790	9.4	72,571	78.2	10,794	42.9	47,738	91.2
Total	34,317	100.0	40,454	100.0	92,845	100.0	25,151	100.0	52,372	100.0

During the Track Record Period, cost of materials as a percentage of the total cost of sales increased from approximately 89% in 2001 to approximately 98.2% in the five months ended 31 May 2004. This is mainly due to the increasing use of OEMs for the manufacturing of the Group's wireless terminal products, under which the Group only purchased the raw materials for the OEMs but did not participate in manufacturing.

During the Track Record Period, cost of sales of wireless system solutions as a percentage of the total cost of sales decreased from approximately 99.1% in 2001 to approximately 8.8% in the five months ended 31 May 2004, while that of wireless terminals increased from approximately 0.9% in 2001 to approximately 91.2% in the five months ended 31 May 2004. Such changes are in line with the Group's shift of product mix, whereby wireless terminals gradually replaced wireless system solutions as the Group's major source of turnover.

During the Track Record Period, the cost structure for each major product category did not vary significantly. For each of wireless coverage system solutions, integrated telecom business platform and one-way wireless information receivers, amount paid to the OEMs accounted for approximately 89%, 93%, 97.5% and 98.2% of the total cost of sales for each of the three years ended 31 December 2003 and the five months ended 31 May 2004 respectively, while labor cost and other manufacturing overhead accounted for the remaining portion. For fixed wireless terminals, amount paid to the OEMs accounted for approximately 93%, 97.5% and 98.2% of the cost of sales for each of the two years ended 31 December 2003 and the five months ended 31 May 2004 respectively; while for smartphone, amount paid to the OEMs accounted for approximately 97.5% and 97.5% of the cost of sales for the year ended 31 December 2003 and the five months ended 31 May 2004 respectively.

Other revenue

Other revenue mainly represented government grants from 深圳財務局 (Shenzhen Finance Bureau), tax refund, interest income, maintenance income and rental income. The PRC Lawyers confirmed that it is legally permissible for companies to receive and recognise government grants and tax refund as revenue in the PRC.

Breakdown of other revenue during Track Record Period

	Year ended 31 December						Five months ended 31 May			
	2001		2002		2003		2003 (unaudited)		2004	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Gain on disposal of an associate	—	—	—	—	—	—	—	—	1,076	57.1
Rental income	—	—	207	5.8	310	9.5	129	8.4	129	6.8
Interest income	60	5.6	77	2.2	117	3.6	41	2.7	50	2.7
Government grants	—	—	2,529	71.2	—	—	—	—	—	—
Corporate income tax refund	—	—	—	—	559	17.1	—	—	—	—
Value-added tax refund	—	—	—	—	1,251	38.2	1,205	78.2	443	23.5
Maintenance income	550	51.7	379	10.7	733	22.4	165	10.7	56	3.0
Sundry income	453	42.7	359	10.1	301	9.2	—	—	131	6.9
Total	1,063	100	3,551	100	3,271	100	1,540	100	1,885	100

Selling and distribution costs

Selling and distribution costs consisted mainly of the following expenses incurred by the sales and marketing department: (i) staff salaries and welfare; (ii) transportation and travelling expenses; (iii) office expenses such as telephone charges and utilities costs; (iv) entertainment expenses; and (v) others, such as rental and depreciation. During the Track Record Period, staff costs accounted for the largest portion, representing an average of approximately 43% of the total selling and distribution costs.

Breakdown of selling and distribution costs during Track Record Period

	Year ended 31 December						Five months ended 31 May			
	2001		**2002**		**2003**		**2003 (unaudited)**		**2004**	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Staff costs	5,474	34.8	4,344	42.8	6,050	51.2	2,414	52.3	3,485	46.4
Transportation and travelling expenses	4,330	12.9	2,288	22.5	2,523	21.3	916	19.8	1,380	18.4
Office expenses	2,019	27.6	1,030	10.1	726	6.1	313	6.8	1,128	15.0
Entertainment expenses	2,044	13.0	1,043	10.3	1,394	11.8	641	13.9	598	8.0
Others	1,849	11.7	1,450	14.3	1,125	9.6	336	7.2	912	12.2
Total	15,716	100.0	10,155	100.0	11,818	100.0	4,620	100.0	7,503	100.0

Administrative expenses

Administrative expenses consisted mainly of (i) salaries and welfare of staff for administrative personnel and directors' remuneration; (ii) audit, legal and professional fees; (iii) office expenses such as telephone charges and utilities costs; (iv) transportation and travelling expenses; and (v) others such as depreciation and rental, provision for doubtful debts and obsolete and slow-moving inventories, and amortisation of capitalised R&D expenses. During the Track Record Period, staff costs and directors' remuneration accounted for the largest portion, representing an average of approximately 46% of the administrative expenses during the Track Record Period.

Breakdown of administrative expenses during Track Record Period

	Year ended 31 December						Five months ended 31 May			
	2001		**2002**		**2003**		**2003 (unaudited)**		**2004**	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Staff costs and directors' remuneration	7,448	40.7	6,827	40.6	7,713	51.0	2,697	53.2	2,651	36.0
Audit, legal and professional fees	1,609	8.8	922	5.5	1,319	8.7	128	2.5	924	12.5
Office expenses	2,804	15.3	2,244	13.4	2,157	14.3	627	12.4	1,065	14.5
Transportation and travelling expenses	1,409	7.7	1,319	7.8	1,090	7.2	395	7.8	543	7.4
Others	5,025	27.5	5,513	32.7	2,831	18.8	1,221	24.1	2,184	29.6
Total	18,295	100.0	16,825	100.0	15,110	100.0	5,068	100.0	7,367	100.0

Other operating expenses

Other operating expenses represented mainly (i) sales of scraps; (ii) loss on materials and products, being deficiency noted during stocktake; and (iii) others, such as bank charges.

Breakdown of other operating expenses during Track Record Period

	Year ended 31 December						Five months ended 31 May			
	2001		2002		2003		2003 (unaudited)		2004	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Sales of scraps	—	—	65	7.3	77	15.7	70	71.4	—	—
Loss on materials and products	1,096	84.8	663	74.5	82	16.7	—	—	141	55.3
Others	197	15.2	162	18.2	335	67.6	28	28.6	114	44.7
Total	1,293	100.0	890	100.0	494	100.0	98	100.0	255	100.0

Finance costs

Finance costs represented interest expenses on bank loans and an amount due to a director and on discounted trade receivables.

Taxation

Tax in Hong Kong

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising or derived from Hong Kong during the Track Record Period.

Corporate income tax in the PRC

According to the《中華人民共和國外商投資企業和外國企業所得稅法》(Income Tax Law of the PRC for Foreign Investment Enterprises and Foreign Enterprises) and as approved by relevant tax authorities, Yulong Shenzhen, as a WFOE registered in Shenzhen Special Economic Zone, the PRC, is exempted from local corporate income tax and its applicable State corporate income tax rate is 15%. Moreover, according to《政策性減免稅批覆書》(Reply on policy tax exemption and relief) issued by 深圳市地方稅局福田增收分局 (Shenzhen Futian Local Tax Bureau), Yulong Shenzhen is exempted from the State corporate income tax of the PRC for the two years starting from the first profitable year of operation and a 50% relief from the State corporate income tax of the PRC for the following three years. The first profitable year of operation of Yulong Shenzhen is 1996 and therefore Yulong Shenzhen was exempted from the State corporate income tax for the two years ended 31 December 1997 and was entitled to the State corporate income tax rate of 7.5% for the three years ended 31 December 2000. On 20 July 1999, Yulong Shenzhen was accredited as the 深圳市高新技術企業 (Shenzhen Hi-tech Enterprise) by 深圳市科學技術局 (Shenzhen Science and Technology Council). According to《關於深圳宇龍計算機通信科技有限公司企業所得稅減免問題的覆函》(Reply on exemption and relief of corporate income tax of Yulong Shenzhen) issued by 深圳市地方稅務局涉外檢查分局 (Shenzhen Tax Bureau External Affair Department), Yulong Shenzhen was entitled to 50% tax relief from the State corporate income tax of the PRC for another three years starting from 2001. Therefore, the applicable corporate income tax rate for Yulong Shenzhen was 7.5% for the three years ended 31 December 2003. The applicable corporate income tax rate for Yulong Shenzhen is 15% starting from 1 January 2004.

The PRC Lawyers confirmed that Yulong Shenzhen's entitlement to the tax exemption and tax relief as a WFOE in the Shenzhen Special Economic Zone and as a high-tech enterprise during the Track Record Period is in line with the relevant PRC laws and regulations.

Value-added tax ("VAT") in the PRC

Based on《中華人民共和國增值稅暫行條例》(Provisional rules regarding value-added tax in the PRC), for general VAT payers, VAT is levied at 17% on the invoiced value of their domestic sales and is payable by the purchaser. The VAT payers are then required to remit the VAT they collect on their sales to the tax authority, but may deduct such VAT from the VAT they have paid on eligible purchases. However, for small scale VAT payers, which typically are (i) companies mainly engaged in manufacturing or labour intensive business and with turnover of less than RMB1 million; or (ii) companies mainly engaged in wholesale or retail business and with turnover of less than RMB1.8 million, VAT is levied at 6% on the invoiced value of their domestic sales but no deduction is allowed from the VAT they have paid on eligible purchases. VAT payers other than small-scale VAT payers are general VAT payers. Once become a general VAT payer, a company cannot be qualified as a small-scale VAT payer subsequently.

Before 1 May 2002, Yulong Shenzhen was a small-scale VAT payer, and could not deduct the VAT they had paid on eligible purchases. Based on《增值稅一般納稅人申請認定辦法》(Rules on qualification as and application for a general VAT payer) issued by 國家稅務總局 (State Administration of Taxation) and approved by 深圳市福田區國家稅局 (Shenzhen Futian State Tax Bureau) ("Qualification Rules"), Yulong Shenzhen was certified as a general VAT payer from 1 May 2002, and since then may deduct the VAT from the VAT it has paid on eligible purchases from the VAT it has collected. Moreover, according to《關於鼓勵軟件產業和集成電路產業發展和有關稅收政策問題的通知》(Notice on tax policy to encourage the development of software enterprises and integrated electronic enterprises) (the "Notice"), general VAT payers are entitled to refund for the VAT they had paid for more than 3% of the sales in relation to software products. Therefore, starting from 1 May 2002, the Group's sales in relation to software products are effectively only subject to 3% of VAT tax under the Notice by applying for VAT refund from tax bureau based on invoices issued for sales of software, while sales not in relation to software products are subject to 17% VAT.

The following table illustrates the various VAT rates the Group was subject to during the Track Record Period:

	Year ended 31 December			Five months ended 31 May	
	2001	2002	2003	2003 (unaudited)	2004
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
VAT rate					
17%	—	70,988	158,015	45,115	84,189
6%	84,767	21,735	—	—	—
3%	—	8,606	3,493	1,913	—
Total turnover	84,767	101,329	161,508	47,028	84,189

The PRC Lawyers confirmed that based on the Qualification Rules, a small scale VAT payer is not obligated to apply for a general VAT payer status even if its turnover exceeds the relevant thresholds and is entitled to continue to enjoy the benefits of being a small scale VAT payer. Therefore, the PRC Lawyers confirmed that notwithstanding the fact that Yulong Shenzhen's turnover exceeded the relevant thresholds of being a small scale VAT payer before 1 May 2002, Yulong Shenzhen's status as a small-scale VAT payers before 1 May 2002 and as a general VAT payer after 1 May 2002, as well as Yulong Shenzhen's entitlement to VAT refund in relation to sales of software products, are in line with the relevant PRC laws and regulations, and Yulong Shenzhen will not be subject to any tax penalties or legal claims in this regard. The PRC Lawyers further confirmed that Yulong Shenzhen should be qualified for enjoying such benefits so long as it meets the requirement of generating revenue by way of development and sales of software as stipulated by the relevant PRC laws and regulations.

Other

Since its establishment, Yulong Shenzhen has been imposed two tax penalties: (i) in May 1999, Yulong Shenzhen was fined for RMB50,943.40 in relation to delayed payment of VAT of RMB169,811.32, Yulong Shenzhen has fully paid the fine and the VAT; and (ii) in September 2001, Yulong Shenzhen was fined for RMB554.28 in relation to delayed payment of real estate tax of RMB5,542.84, Yulong Shenzhen has fully paid the fine and the real estate tax. The Directors confirmed that other than the above two tax penalties, the Group was not subject to any other tax penalties during the Track Record Period.

PRINCIPAL ACCOUNTING POLICIES

A summary of the principal accounting policies applied in the preparation of the Group's accountants' report set forth in Appendix I to this prospectus are set forth in note 2 "Principal accounting policies" thereof. Principal accounting policies are important to the presentation of the Group's financial conditions and results of operations, and require management's most careful, subjective and complex judgement, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. Certain estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting the estimates may differ significantly from the management's current judgement. The Directors consider that the following principal accounting policies involve the most significant judgement and estimates in preparation for the Group's financial statements.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group, and when the revenue can be measured reliably, on the following bases:—

(i) for wireless system solutions (other than *Realink PHS Intelligent Coverage System*) sold to telecommunication operators and corporations, revenue is generally recognised by two installments. The first installment of about 40% to 80% of the contract amount is normally recognised when the customer issues a preliminary certification after the installation and testing, while the second installment of the remaining contract amount is normally recognised when the customer issues the final certification after the trial run.

The Group normally provides one-year warranty for its wireless system solutions. At the end of the warranty period, payment for the retention money of about 5% to 10% of the contract amount would be received from the customers. Such retention money would have been already recognised by the Group upon final certification for acceptance by the customer.

(ii) for *Realink PHS Intelligent Coverage System* sold to telecommunication equipment or solution distributors and wireless terminals sold to telecommunication operators and wireless terminal distributors, revenue is typically recognised upon delivery of the products;

(iii) from the rendering of services associated with goods sold, upon completion of such services;

(iv) for rental income, on a time proportion basis over the lease terms;

(v) for interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and

(vi) for government grants and tax refund, on receipt of such grants and refund.

Provision for obsolete and slow-moving inventories

It is the policy of the Group to make specific provision against slow-moving and obsolete inventories. Typically, the Group performs physical count of its inventories and reports to the management on a monthly basis. The management then determines the provision against slow-moving and obsolete inventories and items to be written off based on the information and their experience.

Provision for doubtful debts

The Group adopts the general policy of making general provision equivalent to 50% of the gross amount of receivables due over 1 year and 100% of the gross amount of receivables due over 2 years. It is the Group's policy to access the recoverability of trade receivable from each customer individually on a monthly basis and to make specific provision accordingly, by checking sufficiency against the provision made under the general provision policy. If the specific provision is less than that under the general provision policy, additional provision will be made.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS

The following discussion of the results of the Group's operation should be read in conjunction with the combined financial statement during the Track Record Period as set forth in the accountants' report, the text of which is set forth in Appendix I to this prospectus.

Overview

The Group is a wireless solution and equipment provider in the PRC. The Group's products and solutions can be summarised as follows:—

1. ***Wireless system solutions***

    (1) *Wireless coverage system solutions*

    — Wireless transceivers for paging network

    — *Realink PHS Intelligent Coverage System* (a multiple-channel PHS coverage system)

    (2) *Integrated telecom business platform*

    — *Callnet* (a call center solution)

    — *Wireless Value-added Services Platform* (a back-end support system for provision of wireless voice and data value-added services with management functions)

2. ***Wireless terminals***

    (1) One-way wireless terminals

    (2) Fixed wireless terminals

    (3) Smartphone

During the Track Record Period, the Group achieved continuous growth in turnover and net profit from ordinary activities attributable to Shareholders due to the expansion of the Group's business and launch of new products and solutions to cater for the demand of the growing telecommunication market in the PRC. Turnover grew from approximately RMB84.8 million (approximately HK$80.0 million) in 2001 to approximately RMB161.5 million (approximately HK$152.4 million) in 2003, representing a CAGR of approximately 38%. Net profit attributable to Shareholders grew from approximately RMB13.6 million (approximately HK$12.8 million) in 2001 to approximately RMB39.2 million (approximately HK$37.0 million) in 2003, representing a CAGR of approximately 70.1%. During the five months ended 31 May 2004, the Group's turnover was approximately RMB84.2 million (approximately HK$79.4 million), increased by approximately 79.2% from the same period in 2003. Net profit from ordinary activities attributable to Shareholders was approximately RMB15.4 million (approximately HK$14.5 million), increased by approximately 25.1% from the same period in 2003.

During the Track Record Period, the Group's major source of turnover changed from sales of wireless system solutions to wireless terminals. The contribution from wireless system solutions decreased from approximately 99.3% in 2001 to approximately 18.3% in the five months ended 31 May 2004, while that from wireless terminals increased from approximately 0.7% in 2001 to approximately 81.7% in the five months ended 31 May 2004. As a result, the Group's overall gross profit margin declined from approximately 60% in 2001 to 37.8% in the five months ended 31 May 2004, as the wireless terminals have a lower gross margin than that of the wireless system solutions facing intense pricing pressure and competition. Such change of product mix during the Track Record Period is in line with the shift of investment focus of the telecommunication operators in the PRC from network infrastructure to value-added services and industry applications.

Key factors affecting the results of the Group's operations

The Group's turnover and ability to continue to generate profits are affected by a number of factors, including the following principal factors:—

- Emergence of new technologies in wireless telecommunication;
- Change of regulations for the telecommunication industry in the PRC;
- The Group's R&D capabilities;
- The Group's ability to manage and control operating costs; and
- The Group's effectiveness in competing with other wireless solution and equipment providers.

Prospects and growth strategy

During the Track Record Period, the Group was able to effectively adjust its products and solutions in line with the investment focus of the telecommunication industry in the PRC. As basic infrastructure of the existing telecommunication network in the PRC matures and the competition among telecommunication operators intensifies, the Directors expect that the contribution of wireless system solutions to the Group would either become stable or decrease gradually till the emergence of new technology or standard. On the other hand, given the huge size and population of the PRC, the increasing use of wireless services and requirement for more sophiscated data handling capability of wireless terminals, the Directors envisage the potential of the Group's wireless terminal products based on its proprietary operating system, particularly smartphone, to be substantial. Under the current market condition, the Group expects to derive growth from wireless terminal products, particularly smartphone, while the Group would continue to provide wireless system solutions and relevant services to telecommunication operators in order to gain insight of technological and other developments. The Directors believe that such development will most likely shape the wireless service user behavior, which is one of the important considerations for designing terminal products by the Group. In the long term, the Group expects to continue to generate growth by providing products and solutions in response to the emergence of new technology and the changing requirements of the telecommunication operators and corporate clients by utilising core wireless technologies.

Year ended 31 December 2002 compared to year ended 31 December 2001

Turnover

The Group's turnover increased by approximately 19.5% from approximately RMB84.8 million (approximately HK$80 million) in 2001 to approximately RMB101.3 million (approximately HK$95.6 million) in 2002. The increase was mainly due to the sales of the Group's newly launched solutions under the integrated telecom business platform in 2002. In 2002, the major source of turnover was sales of wireless system solution, representing approximately 93.7% of the Group's turnover.

Turnover from wireless system solutions increased by approximately 12.8% to approximately RMB95 million (approximately HK$89.6 million) in 2002, which was mainly due to:—

(i) sales from the Group's *Callnet* call centre solutions, which was launched in June 2002 and a total of 3 projects were delivered to the provincial branches of the China Unicom Group; and

(ii) substantial increase of sales from *Wireless Value-added Services Platform*, which was only launched in June 2001. In 2002, 11 *Wireless Value-added Services Platform* were delivered, compared to 2 in 2001.

Turnover from wireless terminals increased by approximately 1,023% to approximately RMB6.4 million (approximately HK$6 million) in 2002, accounting for approximately 6.3% of the Group's total turnover in 2002. Such substantial increase was mainly due to:—

(i) substantial increase of approximately RMB4.3 million (approximately HK$4.1 million) from sales of its one-way wireless terminals due to the well-acceptance of the Group's paging information receivers, which was launched in late 2001; and

(ii) sales from the Group's newly-launched fixed wireless terminal products for GSM/GPRS network, which generated sales of approximately RMB1.5 million (approximately HK$1.4 million).

The increase was partly offset by the decrease in sales of the Group's wireless transceivers by approximately 11.9% as a result of the maturing of the paging network in the PRC. During 2002, 58 wireless transceiver solutions were delivered, compared to 107 in 2001.

Cost of sales

Cost of sales increased by approximately 17.9% from approximately RMB34.3 million (approximately HK$32.6 million) in 2001 to approximately RMB40.5 million (approximately HK$38.2 million) in 2002. Such increase was in line with the growth in the Group's turnover. In 2002, cost of materials accounted for approximately 93% of the total cost of sales, compared to approximately 89% in 2001. Such increase was mainly due to the Group's engagement of one OEM in Shenzhen for the production of the Group's wireless terminals. By engaging the OEM, the Group provided materials and components to the OEM, who carried out the manufacturing. As a result, the proportion of cost of materials increased and that of labor cost and manufacturing overhead decreased.

Gross profit

The Group's gross profit increased by approximately 20.6% from approximately RMB50.5 million (approximately HK$47.6 million) in 2001 to approximately RMB60.9 million (approximately HK$57.5 million) in 2002. Gross profit margin increased slightly from approximately 59.5% in 2001 to 60% in 2002. During 2002, the gross profit margin for wireless system solutions and wireless terminal products were approximately 61% and 41% respectively. The higher gross profit margin for the wireless system solutions is due to higher proportion of services and software element of the wireless system solutions as compared to wireless terminal products. Gross profit margin of wireless system solutions increased slightly from approximately 60% in 2001 to approximately 61% in 2002, which was mainly due to the Group's ability to charge a higher price for its newly launched *Callnet*. Gross profit margin of wireless terminals decreased slightly from approximately 45% in 2001 to approximately 41% in 2002, which was mainly due to the increase in cost of materials as mentioned above.

Other revenue

The Group's other revenue increased by approximately 234.1% from approximately RMB1.1 million (approximately HK$1 million) in 2001 to approximately RMB3.6 million (approximately HK$3.4 million) in 2002. Such increase was mainly due to the receipt of government grant from 深圳財務局 (Shenzhen Finance Bureau) by the Group as a high-technology enterprise of approximately RMB2.5 million (approximately HK$2.4 million). There was no such grant received in 2001.

Selling and distribution costs

The Group's selling and distribution costs decreased by approximately 35.4% from approximately RMB15.7 million (approximately HK$14.8 million) in 2001 to approximately RMB10.2 million (approximately HK$9.6 million) in 2002. As a percentage of turnover, the selling and distribution costs decreased from approximately 18% in 2001 to approximately 10% in 2002. Such decrease is principally due to the decrease in headcount of the sales team from 58 in 2001 to 47 in 2002, since major sales and marketing activities in relation to the launch of the *Callnet* call centre solution and the new wireless terminal products were carried out in 2001, while in 2002, the sales and marketing activities reduced as the market had become aware of the product and the solution.

Administrative expenses

The Group's administrative expenses decreased by approximately 8% from approximately RMB18.3 million (approximately HK$17.3 million) in 2001 to approximately RMB16.8 million (approximately HK$15.8 million) in 2002. As a percentage of turnover, the administrative expenses decreased from approximately 21.6% in 2001 to approximately 16.6% in 2002. Such decrease was mainly due to the decrease in staff headcount of the general administration department from 223 in 2001 to 196 in 2002.

Other operating expenses

The Group's other operating expenses decreased by approximately 31.2% from approximately RMB1.3 million (approximately HK$1.2 million) in 2001 to approximately RMB0.9 million (approximately HK$0.8 million) in 2002. As a percentage of turnover, other operating expenses decreased from approximately 1.5% to 0.9% in 2002. Such decrease was mainly due to the decrease in loss on materials and products as a result of the Group's effort in inventory control during 2002.

Finance costs

The Group's finance costs increased by approximately 31.5% from approximately RMB0.9 million (approximately HK$0.8 million) in 2001 to approximately RMB1.1 million (approximately HK$1 million) in 2002. Such increase mainly represented the increase in interest payments for mortgage loans in relation to properties used by the Group as office and R&D centre.

Share of loss of an associate

The amount of share of loss of an associate represented the Group's share of loss in its 30% owned associate Shenzhen Yi Wei Digital Technologies Co,. Ltd. ("Shenzhen Yi Wei"). Shenzhen Yi Wei was mainly engaged in development and design of website and software of online gaming and incurred loss since its establishment in January 2001. Shenzhen Yi Wei became dormant since June 2002. As a result, the Group's share of its loss decreased by approximately 56% from approximately RMB0.7 million (approximately HK$0.67 million) in 2001 to approximately RMB0.3 million (approximately HK$0.28 million) in 2002.

Taxation

As mentioned in the paragraph headed "Principal financial statements components — Taxation", the Group's applicable corporate income tax rate was 7.5% for 2001 and 2002. In 2001, the Group's effective tax rate was approximately 9.7%, the difference from the applicable tax rate was mainly due to the adjustment for expenses not deductible for tax purpose of approximately RMB324,000 (approximately HK$306,000). In 2002, the Group's effective tax rate was approximately 7%, the difference from the applicable tax rate was mainly due to the receipt of government grant of approximately RMB2.5 million, from 深圳財務局 (Shenzhen Finance Bureau) with a tax effect of RMB188,000 (approximately HK$177,000), which was exempted from corporate income tax.

Minority interest

The Group recorded a minority interest of approximately RMB343,000 (approximately HK$324,000) in 2001, which represented the share of the Group's loss for the five months ended 31 May 2001 by Yulong Shenzhen's then minority shareholder, Dickman Enterprises Company Limited. The Group's sales are generally lower during the first quarter of the year, when the telecommunication operators are still in the process of annual budget. Therefore, the Group's revenue for the five months ended 31 May 2001 was not enough to cover its fixed cost and incurred a loss during the period. No minority interest was recorded in 2002 as Dickman Enterprises Company Limited has ceased to be a minority shareholder of Yulong Shenzhen since June 2001. For details of Dickman Enterprises Company Limited, please refer to the paragraph headed "History and development — Shareholding" in the section headed "Business" in this prospectus.

Net profit from ordinary activities attributable to shareholders

The Group's net profit from ordinary activities attributable to shareholders increased by approximately 141% from approximately RMB13.6 million (approximately HK$12.8 million) in 2001 to approximately RMB32.7 million (approximately HK$30.8 million) in 2002. The increase was mainly due to the increase in the Group's turnover in 2002. The Group's net profit margin increased from approximately 16% in 2001 to approximately 32.3% in 2002. The increase was mainly due to the (i) relatively stable gross profit margin in 2002 compared to 2001; and (ii) decrease of selling and distributions expenses and administrative expenses as a percentage of turnover.

Year ended 31 December 2003 compared to year ended 31 December 2002

Turnover

The Group's turnover increased by approximately 59.4% from approximately RMB101.3 million (approximately HK$95.6 million) in 2002 to approximately RMB161.5 million (approximately HK$152.4 million) in 2003. The increase was mainly due to the Group's newly launched *Realink PHS Intelligent Coverage System*, fixed wireless terminals and CDMA1X smartphones for CDMA network. In 2003, the major source of turnover was sales of wireless terminals, representing approximately 69.8% of the Group's turnover.

Turnover from the Group's wireless system solutions decreased by approximately 48.6% to approximately RMB48.8 million (approximately HK$46 million) in 2003, accounted for approximately 30.2% of the Group's turnover in 2003. Such decrease was mainly due to:—

(i) decrease in sales of wireless transceivers for paging network as a result of the maturing of paging network in the PRC. In 2003, 15 wireless transceiver solutions were delivered, compared with 58 such projects in 2002;

(ii) decrease in sales of *Callnet* call centre solution. 3 *Callnet* call centre solutions were delivered in 2003, same as those in 2002, but the average project price of *Callnet* decreased from approximately RMB4.4 million (approximately HK$4.2 million) in 2002 to approximately RMB4 million (approximately HK$3.8 million) in 2003, as a result of the smaller size of projects delivered during the year; and

(iii) decrease in sales of *Wireless Value-added Service Platform*. In 2003, 9 projects were delivered compared with 11 in 2002.

The decrease in turnover from wireless system solutions was partly offset by the sales from the Group's newly launched *Realink PHS Intelligent Coverage System*. In 2003, 6 such projects were delivered.

Sales of wireless terminal products increased substantially by approximately 1,666.9% to approximately RMB112.7 million (approximately HK$106.3 million) in 2003. Such increase was mainly due to:—

(i) substantial increase in sales from the fixed wireless terminals by approximately 58 times due to expanded sales and marketing efforts and launch of fixed wireless terminals for CDMA network; and

(ii) successful launch of the *Coolpad* CDMA1X smartphones in December 2003, which generated sales of approximately RMB19.2 million (approximately HK$18.1 million).

Cost of sales

Cost of sales increased by approximately 129.5% from approximately RMB40.5 million (approximately HK$38.2 million) in 2002 to approximately RMB92.8 million (approximately HK$87.5 million) in 2003. Such increase was in line with the growth in the Group's turnover and shift in product mix. In 2003, raw material accounted for approximately 97.6% of the Group's cost of sales, compared with that of approximately 93% in 2002. Such increase was mainly due to increase of sales of wireless terminals.

Gross profit

Gross profit increased by approximately 12.8% from approximately RMB60.9 million (approximately RMB57.5 million) in 2002 to approximately RMB68.7 million (approximately HK$64.8 million) in 2003. Gross profit margin decreased from approximately 60% in 2002 to approximately 42.5% in 2003. Such decrease was principally due to shift in product mix as explained under the paragraph headed "Turnover" above. The gross profit margin for wireless system solutions of approximately 59% remained higher than that of the wireless terminals of approximately 35%, as there is higher proportion of services and software element of the wireless system solutions than wireless terminal products.

Gross profit margin for wireless system solution decreased slightly from approximately 61% in 2002 to 59% in 2003, as the Group was able to maintain sales price of its wireless system solutions through the launch of the *Realink PHS Intelligent Coverage System* and establishment of its reputation in this field. Gross profit margin for wireless terminals decreased from approximately 41% in 2002 to 35% in 2003, which was mainly due to the pressure on the pricing of one-way wireless terminal products, for which market demand was not particularly strong. Smartphone was newly launched towards the end of 2003. The gross margin of smartphone was around 38%, which was similar to the average gross profit margin of the other wireless terminal products of the Group.

Other revenue

Other revenue decreased slightly by approximately 8% from approximately RMB3.6 million (approximately HK$3.4 million) in 2002 to approximately RMB3.3 million (approximately HK$3.1 million) in 2003. In 2003, the Group received VAT refund of approximately RMB1.3 million (approximately HK$1.2 million) for sales of software products. The Group became eligible for such refund since it became a general VAT payer on 1 May 2002.

Selling and distribution costs

Selling and distribution costs increased by approximately 16.4% from approximately RMB10.2 million (approximately HK$9.6 million) to approximately RMB11.8 million (approximately HK$11.1 million) in 2003. The increase was mainly attributable to the increase in headcount in sales team from 47 to 86 in 2003 in order to carry out the sales and marketing activities in relation to the Group's CDMA fixed wireless terminal products and launch of the *Coolpad* CDMA1X smartphones. Nevertheless, as a percentage of turnover, selling and distribution costs decreased from approximately 10% to approximately 7.3% in 2003, which was mainly due to increase in awareness of importance of control cost. In 2004, the Group implemented a performance assessment system in some departments such as the wireless system solutions department and the sales department which includes operating expenditure as one of the performance measurements.

Administrative expenses

The Group's administrative expenses decreased by approximately 10.2% from approximately RMB16.8 million (approximately HK$15.8 million) to approximately RMB15.1 million (approximately HK$14.2 million) in 2003. As a percentage of turnover, administrative expenses decreased from approximately 16.6% to approximately 9.4% in 2003. The decrease was mainly due to implementation of cost control measures during 2003 as mentioned above.

Other operating expenses

The Group's other operating expenses decreased by approximately 44.5% from approximately RMB0.9 million (approximately HK$0.8 million) to approximately RMB0.5 million (approximately HK$0.46 million) in 2003. As a percentage of turnover, other operating expenses decreased from approximately 0.9% to 0.3% in 2003. The decrease was also mainly due to the implementation of the cost control measures as mentioned above.

Finance costs

The Group's finance costs increased by approximately 73.1% from approximately RMB1.1 million (approximately HK$1 million) to approximately RMB2 million (approximately HK$1.8 million) in 2003. The increase is mainly due to the increase in short-term bank loans used to support the Group's business expansion.

Share of loss of an associate

The amount of share of loss of Shenzhen Yi Wei decreased by approximately 86.3% from approximately RMB315,000 (approximately HK$297,000) to approximately RMB43,000 (approximately HK$40,000) in 2003 as Shenzhen Yi Wei continued to remain dormant during 2003. The loss was mainly due to depreciation of office equipment held by Shenzhen Yi Wei.

Taxation

As mentioned in the paragraph headed "Principal financial statements components — Taxation", the Group's applicable corporate income tax rate was 7.5% for 2002 and 2003. In 2003, the Group's effective tax rate was approximately 7.8%, the difference from the applicable tax rate was mainly due to adjustment for expenses not deductible for tax purpose of approximately RMB112,000 (equivalent to approximately HK$106,000).

Net profit from ordinary activities attributable to shareholders

The Group's net profit from ordinary activities attributable to shareholders increased by approximately 20% from approximately RMB32.7 million (approximately HK$30.8 million) in 2002 to approximately RMB39.2 million (approximately HK$37 million) in 2003. The increase was mainly due to the increase in the Group's turnover in 2003. The Group's net profit margin decreased from approximately 32.3% in 2002 to approximately 24.3% in 2003. The decrease was mainly due to a change of product mix and more products of lower gross margin were sold in 2003.

Five months ended 31 May 2004 compared to five months ended 31 May 2003 (unaudited)

Turnover

The Group's turnover increased by approximately 79% from approximately RMB47 million (approximately HK$44.3 million) for the five months ended 31 May 2003 to approximately RMB84.2 million (approximately HK$79.4 million) for the five months ended 31 May 2004. The increase was mainly due to the substantial increase in sales of the Group's smartphone products.

For the five months ended 31 May 2004, turnover from wireless system solutions decreased by approximately 51.8% to approximately RMB15.4 million (approximately HK$14.5 million). Such decrease was mainly due to:—

(i) the Group did not deliver any wireless transceiver for paging network during the five months ended 31 May 2004 as a result of the maturing of the paging network market in the PRC. During the five months ended 31 May 2003, the Group delivered 9 such projects;

(ii) decrease in sales of *Callnet* call centre solution. For the five months ended 31 May 2004, the Group delivered 1 *Callnet* call centre solution, compared with 2 such projects in the five months ended 31 May 2003; and

(iii) decrease in sales of *Wireless Value-added Service Platform*. For the five months ended 31 May 2004, the Group delivered 5 such projects, compared with 6 in the five months ended 31 May 2003.

The decrease in turnover of wireless system solutions was partly offset by the sales from the Group's *Realink PHS Intelligent Coverage System*. In the five months ended 31 May 2004, the Group delivered 30 *Realink PHS Intelligent Coverage System*, but did not deliver any such project in the five months ended 31 May 2003 as the *Realink PHS Intelligent Coverage System* was launched in December 2003.

Sales of wireless terminals increased substantially by approximately 354.1% to approximately RMB68.8 million (approximately HK$64.9 million) for the five months ended 31 May 2004. Such increase was mainly due to:—

(i) increase in sales of fixed wireless terminal, as the Group launched new models with less functions and of lower prices in response to increasing market competition in the end of 2003, therefore boosting sales; and

(ii) the sales of the Group's CDMA1X smartphones, which was launched in December 2003.

The increase was partly offset by decrease in sales of one-way wireless terminals. The Directors believe that the decrease was resulted from the shrinking paging market of the PRC. In the future, the Group would not put substantial resources in the R&D or marketing of this product. Instead, the Group will only deliver this type of products based on specific order from earlier customers.

Cost of sales

Cost of sales increased by approximately 108.2% from approximately RMB25.2 million (approximately HK$23.7 million) for the five months ended 31 May 2003 to approximately RMB52.4 million (approximately HK$49.4 million) for the five months ended 31 May 2004. Such increase was in line with the Group's increase in turnover, especially that of smartphones, the major raw materials of which, such as LCD, are relatively more expensive.

Gross profit

Gross profit margin decreased from approximately 46.5% for the five months ended 31 May 2003 to approximately 37.8% for the five months ended 31 May 2004, which was mainly due to the increase of turnover from wireless terminals, which in general has a lower profit margin than that of the wireless system solution.

Gross profit margin for wireless system solutions increased from approximately 55% for the five months ended 31 May 2003 to approximately 70% for the five months ended 31 May 2004, mainly due to the increase in the selling price of *Realink PHS Intelligent Coverage System*, which was set at a relatively low price in 2003 as a newly launched product. Gross profit margin for wireless terminals was approximately 31% for the five months ended 31 May 2004, increased from approximately 29% for the five months ended 31 May 2003. Such increase was mainly due to the Group's launch of smartphone product, which has a higher gross profit margin.

Other revenue

Other revenue increased by approximately 22.4% from approximately RMB1.5 million (approximately HK$1.4 million) in the five months ended 31 May 2003 to approximately RMB1.9 million (approximately HK$1.8 million) in the five months ended 31 May 2004. Such increase was mainly due to the gain in the disposal of Shenzhen Yi Wei of approximately RMB1.1 million (approximately HK$1 million) in February 2004.

Selling and distribution costs

Selling and distribution costs increased by approximately 62.4% from approximately RMB4.6 million (approximately HK$4.4 million) in the five months ended 31 May 2003 to approximately RMB7.5 million (approximately HK$7.1 million) in the five months ended 31 May 2004. The increase was mainly due to the increase in the headcount of the sales team from 76 in the five months ended 31 May 2003 to 105 in the five months ended 31 May 2004 due to the promotion activities for the Group's smartphones.

Administrative expenses

Administrative expenses increased by approximately 45.4% from approximately RMB5.1 million (approximately HK$4.8 million) in the five months ended 31 May 2003 to approximately RMB7.4 million (approximately HK$7 million) in the five months ended 31 May 2004. Such increase was mainly due to the expansion of the Group's business as a result of the launch of smartphone in December 2003.

Other operation expenses

Other operation expenses increased by approximately 160.2% from approximately RMB98,000 (approximately HK$92,000) in the five months ended 31 May 2003 to approximately RMB255,000 (approximately HK$241,000) in the five months ended 31 May 2004. Such increase was mainly due to increase in loss on materials and products of approximately RMB141,000 (approximately HK$133,000) during the five months ended 31 May 2004.

Finance costs

Finance costs increased by approximately 122.6% from approximately RMB372,000 (approximately HK$351,000) in the five months ended 31 May 2003 to approximately RMB828,000 (approximately HK$781,000) in the five months ended 31 May 2004. The increase was mainly due to increase in short-term bank loan during the five months ended 31 May 2004 to finance the Group's business expansion.

Taxation

As mentioned in the paragraphs headed "Principal financial statements components — Taxation", the Group's applicable corporate income tax rate was 15% in 2004. During the five months ended 31 May 2004, the Group's effective tax rate was approximately 13%. The difference from the applicable tax rate was mainly due to adjustment for gain on disposal of an associate which was exempted from corporate income tax.

Net profit from ordinary activities attributable to shareholders

The Group's net profit from ordinary activities attributable to shareholders increased by approximately 25.1% from approximately RMB12.3 million (approximately HK$11.6 million) for the five months ended 31 May 2003 to approximately RMB15.4 million (approximately HK$14.5 million) for the five months ended 31 May 2004. The increase was mainly due to the increase in the Group's turnover during the period. The Group's net profit margin decreased from approximately 26.2% for the five months ended 31 May 2003 to approximately 18.3% for the five months ended 31 May 2004. The decrease was mainly due to the decrease in gross profit margin for the five months ended 31 May 2004 compared to the five months ended 31 May 2003 due to change of product mix.

Inventories

Breakdown of inventories during the Track Record Period is set out as follows:—

	31 December			31 May
	2001	**2002**	**2003**	**2004**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	6,037	6,691	10,484	13,509
Work in progress	1,501	2,086	2,652	2,341
Finished goods	28,913	10,916	7,747	17,543
	36,451	19,693	20,883	33,393

All of the inventory balances as at 31 May 2004 had less than 6-months aging. Up to the Latest Practicable Date, all of the inventory balances as at 31 May 2004 and as at 31 December 2003 had been fully used.

In 2001, approximately RMB804,000 (equivalent to approximately HK$758,000) provision was made against obsolete and slow-moving inventories, while no such provision was made in 2002, 2003 and the five months ended 31 May 2004. The Directors confirm that the Group's provision for obsolete and slow-moving inventories are sufficient.

The inventory turnover days in 2001, 2002, 2003 and in the five months ended 31 May 2004 were approximately 421 days, 253 days, 80 days and 79 days, respectively. The decrease of turnover days during the Track Record Period was mainly attributable to the Group's improvement in inventory management and shift of product mix from wireless system solutions products to wireless terminal products.

For wireless system solution, since materials and components are normally purchased at the beginning of a project but used by stages in accordance with the progress of the project, inventory turnover days are relatively long. Therefore, the Group's inventory turnover days were relatively long in 2001 and 2002 when revenue from wireless system solutions accounted for the majority of the Group's turnover. Starting from 2003, inventory turnover days improved significantly as wireless terminals replaced wireless system solutions as the Group's major source of turnover.

Trade receivables

An aging analysis of the trade receivables based on invoice date is as follows:—

	31 December			31 May
	2001	2002	2003	2004
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 3 months				
Wireless system solutions	2,783	11,970	8,339	6,667
Wireless terminals	103	2,398	37,247	20,877
4–6 months				
Wireless system solutions	3,173	9,927	1,979	9,025
Wireless terminals	295	259	22,909	31,621
7–12 months				
Wireless system solutions	2,362	10,441	24,617	15,334
Wireless terminals	—	4	11,808	14,940
1–2 years				
Wireless system solutions	1,292	2,212	1,496	1,496
Wireless terminals	—	304	738	543
More than 2 years				
Wireless system solutions	2,738	3,853	3,529	3,620
Wireless terminals	—	—	150	150
Sub-total	12,746	41,368	112,812	104,273
Less: provision for doubtful debts	(3,384)	(5,111)	(4,796)	(4,789)
Total	9,362	36,257	108,016	99,484
Subsequent settlement up to 30 September 2004	12,737	40,188	104,404	59,299

The increase of trade receivable during the Track Record Period was mainly due to the increase of the Group's turnover and the extended credit term give to one of the Group's largest customers, the China Unicom Group. As at 31 December 2001, 2002, 2003 and 31 May 2004, trade receivables from the China Unicom Group represented approximately 65%, 41%, 56% and 55% of the total trade receivables, respectively.

Aging analysis of trade receivables due from the China Unicom Group

	As at 31 December							
	2001		2002		2003		31 May 2004	
		As % of total trade receivable		As % of total trade receivable		As % of total trade receivable		As % of total trade receivable
	RMB'000		*RMB'000*		*RMB'000*		*RMB'000*	
Within 3 months								
Wireless system solutions	1,384	11%	4,298	10%	—	—	1,032	1%
Wireless terminals	—	—	1,840	4%	16,552	15%	8,578	8%
4–6 months								
Wireless system solutions	2,684	21%	8,176	20%	926	1%	4,372	4%
Wireless terminals	—	—	10	—	19,721	17%	23,273	22%
7–12 months								
Wireless system solutions	1,986	16%	656	2%	12,190	11%	5,232	5%
Wireless terminals	—	—	—	—	11,808	10%	12,229	12%
1–2 years								
Wireless system solutions	188	1%	459	1%	320	—	806	1%
Wireless terminals	—	—	—	—	—	—	35	—
More than 2 years								
Wireless system solutions	2,091	16%	1,512	4%	2,167	2%	1,645	2%
Wireless terminals	—	—	—	—	—	—	23	—
Sub-total	8,333	65%	16,951	41%	63,684	56%	57,225	55%
Less: provision for doubtful debts	(2,185)		(1,742)		(2,327)		(2,048)	
Total	6,148		15,209		61,357		55,177	
Subsequent settlement up to 30 September 2004	8,333		16,951		60,224		26,685	

Aging analysis

Generally, credit terms of three months are granted to the Group's customers. However, in 2003, after considering the substantial percentage of the sales to the China Unicom Group, its strong financial background, leading market position and the resulting strong bargaining power, the Group extended the credit terms to the China Unicom Group for both wireless system solutions and wireless terminal products to around six months. Notwithstanding such extended credit terms, the payment by the China Unicom Group was further delayed, causing some of the trade receivables to be overdue for seven months and above. As at 31 December 2003 and 31 May 2004, trade receivables from the China Unicom Group accounted for approximately 63% and 55% of the trade receivables overdue for seven months and above, respectively. The remaining of the trade receivables overdue for seven months and above as at 31 December 2003 and 31 May 2004 mainly consisted of those from other telecommunication operator and large-scale State-owned enterprises. The Directors understand that the relatively slow settlement was mainly due to additional time required by the internal procedures of the aforesaid customers (including the China Unicom Group).

During the five months ended 31 May 2004, most of the Group's wireless terminals, especially smartphones, were sold to wireless terminal distributors. The breakdown of the Group's sales by customer type is set out under the paragraphs headed "Customers" in the section headed "Business" in this prospectus. Settlements from these distributors were generally in line with the Group's credit policy and therefore trade receivables of less than 3 months decreased. Trade receivables of 4 to 6 months as at 31 May 2004 were mainly related to the sale of fixed wireless terminal, which was launched in December 2003, to the China Unicom Group between December 2003 and January 2004. As a result, trade receivables of 4 to 6 months as at 31 May 2004 increased.

During the Track Record Period, the prolonged repayment by the customers negatively impacted on the operating cash flow of the Group. Further details about the Group's cash flow position during the Track Record Period are elaborated under the paragraph headed "Liquidity, financial resources and capital structure — Cash flows — Operating activities" in this section.

Debtors' turnover days

During 2001, 2002, 2003 and the five months ended 31 May 2004, the Group's overall debtors' turnover days were approximately 42 days, 82 days, 163 days and 187 days, respectively. The increase in debtors' turnover days during the Track Record Period was mainly due to the slow-down of settlement from one of the Group's then largest customers, the China Unicom Group, and the overall delay in settlement from the Group's other customers, comprising members of other telecommunication operators and large-scale State-owned enterprises ("Other Customers"). The Directors understand that they took additional time under their internal procedures to process and obtain clearance for the payment. Debtors' turnover days for Other Customers was approximately 39 days, 89 days, 186 days and 94 days for each of the three years ended 31 December 2003 and 31 May 2004, respectively; while trade receivables from Other Customers accounted for approximately 86%, 88%, 74% and 44% of the trade receivables of more than 90 days excluding those from the China Unicom Group as at 31 December 2001, 2002, 2003 and 31 May 2004, respectively.

In 2003, debtors' turnover days increased substantially to approximately 163 days, which was mainly due to (i) the Group extended credit term to China Unicom to six months for both wireless system solutions and wireless terminal products in light of the substantial percentage of the Group's sales to the China Unicom Group and its strong bargaining position; (ii) the outbreak of the severe acute respiratory syndrome; and (iii) the continued prolonged settlement from the China Unicom Group and Other Customers. For the five months ended 31 May 2004, the Group's debtors' turnover days further increased to approximately 187 days. The Directors understand that telecommunication operators such as the China Unicom Group and State-owned enterprises normally spend the first quarter of the year for finalisation of annual budget and planning. As a result, settlement from these companies during the first half of the year is slow as compared to full year of 2003.

The Directors confirmed that at present, the Group does not intend to shorten the credit term granted to the China Unicom Group in light of the Group substantial sales to China Unicom Group and China Unicom's bargaining position. The Directors consider that solution/ equipment providers such as the Group need to work with its customers to achieve mutually beneficial position instead of maintaining a strong stand in negotiation, especially in the case of dealing with major telecommunication operators such as China Unicom. The Directors consider that the extended credit term to the telecommunication operators is in line with market practice.

Notwithstanding the above, the Directors confirm that in light of the relatively long debtors' turnover days during the Track Record Period, the Group has made an effort to increase sales to telecommunication equipment and terminal distributors, whose settlement period is generally shorter than those from the telecommunication operators and large-scale State-owned enterprises. Moreover, in early 2004, the Group has strengthened the debt collection process whereby the result and efficiency of trade receivables recovery became one of the factors for evaluation of performance of the Group's sales staff. As a result, up to 30 September 2004, approximately 43% of the Group's trade receivable balances as at 31 May 2004 has been settled.

By assessing the recoverability of individual accounts and in accordance with the Group's general provision policy based on the age of the trade receivables, provisions of doubtful debts were made against balance of gross amount of trade receivables as at each period end as follows:—

Provision for doubtful debts during the Track Record Period

	31 December			31 May
	2001	**2002**	**2003**	**2004**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
As at 1 January	2,596	3,384	5,111	4,796
Increase/(decrease) during the year	788	1,727	(315)	(7)
As at 31 December/ 31 May	3,384	5,111	4,796	4,789

As at 31 May 2004, the Group's provision for doubtful debts was approximately RMB4.8 million (equivalent to approximately HK$4.5 million). In view of the fact that (i) the China Unicom Group is not in dispute with the Group about the amount of trade receivables; and (ii) the Group has not experienced any default in payment during the Track Record Period, the Directors consider that the Group's provision for doubtful debts is sufficient. Up to 30 September 2004, approximately RMB59.3 million (approximately HK$52.2 million) of the trade receivable outstanding as at 31 May 2004 was settled.

Subsequent settlement of trade receivables

	Within 3 months	4–6 months	7–12 months	1–2 years	More than 2 years	Total
Balance as at 31 May 2004 (before provision)	27,544	40,646	30,274	2,039	3,770	104,273
Subsequent settlement up to 30 September 2004	(5,968)	(26,578)	(21,621)	(1,832)	(3,300)	(59,299)
Balance outstanding as at 30 September 2004 (before provision)	21,576	14,068	8,653	207	470	44,974

Prepayments, deposits and other receivables

During the Track Record Period, prepayments, deposits and other receivables mainly consists of (i) prepayment to suppliers; (ii) advance to sales staff for business trip and operation, and advance to representative office and sales liaison points for office maintenance and purchase of daily necessities; (iii) product samples borrowed by sales staff for promotion activities and exhibitions, which are to be returned to the Group after the promotions and exhibitions; and (iv) other prepayments.

	Year ended 31 December			31 May
	2001	**2002**	**2003**	**2004**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Prepayment to suppliers	10,067	5,007	17,902	18,666
Advance to sales staff and sales liaison points	3,160	1,688	6,605	8,561
Sample borrowed by sales staff	1,625	1,908	2,390	3,342
Others	1,006	944	3,913	7,687
Total	15,858	9,547	30,810	38,256

The increase in 2003 was mainly due to (i) the prepayments for the materials and components of fixed wireless terminals and smartphones, which was in line with the increase in turnover; and (ii) increase in advance to staff and sales liaison points as a result of the increasing promotion activities in relation to the Group's fixed wireless terminals and smartphones. The increase in 2004 was mainly due to increase in other prepayments in relation to listing expenses.

Trade payables

As at 31 December 2001, 2002, 2003 and 31 May 2004, the Group's trade payable amounted to approximately RMB10.1 million (approximately HK$9.5 million), RMB7.6 million (approximately HK$7.2 million), RMB20.8 million (approximately HK$19.6 million) and RMB25.7 million (approximately HK$24.2 million) respectively.

During 2001, 2002, 2003 and the five months ended 31 May 2004, creditors' turnover days were approximately 140 days, 136 days, 55 days and 55 days respectively. The decrease of creditors' turnover days during the Track Record Period was mainly due to the more stringent control in relation to the purchase of raw materials for the Group's fixed wireless terminals and smartphones, such as LCDs.

Notes payable

Notes payable represented mainly bank draft against acceptance (承兑滙票) in relation to the purchase of materials and components for the Group's wireless terminal products. As at 31 December 2002, 2003 and 31 May 2004, notes payable amounted approximately RMB4.5 million (approximately HK$4.2 million), RMB23.1 million (approximately HK$21.8 million) and RMB22.4 million (approximately HK$21.1 million) respectively. There was no notes payable as at 31 December 2001. Most of the Group's notes payable carried a payment term of about 90 days. The substantial increase in notes payable in 2003 was in line with the substantial increase in sales of fixed wireless terminals and launch of smartphones, for which payments of materials and components were mainly settled by bank draft against acceptance. Balance of notes payable as at 31 May 2004 was similar to that of 31 December 2003.

Short term bank loans

As at 31 December 2001, 2002, 2003 and 31 May 2004, the Group's short term bank loans amounted to approximately RMB11 million (approximately HK$10.4 million), RMB6 million (approximately HK$5.7 million), RMB31.6 million (approximately HK$29.8 million) and RMB36 million (approximately HK$34.0 million) respectively. The significant increase in 2003 was used mainly to finance purchase of materials and components for manufacturing of fixed wireless terminals and smartphones for which prepayments are normally required by the suppliers. The increase in 2004 was due to the need of the Group to finance the purchase of materials and components for smartphones for which prepayments are normally required by the suppliers.

Other payables and accruals

Breakdown of other payable and accruals during the Track Record Period is:

	31 December			31 May
	2001	**2002**	**2003**	**2004**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Prepayment from customers				
— wireless system solution	54,291	20,140	2,121	974
— wireless terminal	458	1,751	317	7,883
VAT payable	(1,661)	4,663	19,630	28,231
Accrued subcontracting fee	—	—	1,284	1,903
Accrued salary	1,781	1,160	1,626	1,820
Amount due to Dickman Enterprises Company Limited *(Note)*	3,179	3,179	3,179	3,179
Others	2,767	3,620	4,818	5,470
Total	60,815	34,513	32,975	49,460

Note: Dickman Enterprises Company Limited was a minority shareholder of Yulong Shenzhen prior to June 2001. The amount due to this company represents the consideration to be collected by it. For details regarding Dickman Enterprises Company Limited, please refer to the paragraph headed "History and development — Shareholding" in the section headed "Business" in this prospectus.

The decrease of prepayment from customers during the Track Record Period was in line with the decrease in turnover of wireless system solutions. Prepayment from customers increased from RMB2.4 million (approximately HK$2.3 million) in 2003 to RMB8.9 million (approximately HK$8.4 million) in 2004, mainly because more prepayment from customers were required for the sales of smartphones. VAT payable also increased during the Track Record Period, which was in line with the Group's overall increase in turnover during the Track Record Period.

PROFIT FORECAST

The Directors forecast that, in the absence of unforeseen circumstances and based on the audited results of the Group for the five months ended 31 May 2004, the unaudited results of the Group for the five months ended 31 October 2004 and a forecast of the results of the Group for the remaining two months ending 31 December 2004 and on the basis that the current Group structure had been in existence throughout the whole financial year ending 31 December 2004, the consolidated profit after taxation but before extraordinary items of the Group for the year ending 31 December 2004 will not be less than RMB46.0 million (approximately HK$43.4 million). The Directors are not aware of any extraordinary items which have arisen or are likely to arise during the year ending 31 December 2004.

On the basis of the above profit forecast and on the basis of 400,000,000 Shares to be in issue immediately after completion of the Capitalisation Issue and Share Offer but takes no account of (i) any Shares which may be issued upon the exercise of the Over-allotment Option; (ii) any Shares which may be issued upon the exercise of any options which may be granted under the Share Option Scheme; and (iii) any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandates referred to in Appendix VI to this prospectus, the forecast earnings per Share on a fully diluted basis will be approximately RMB11.5 cents (approximately HK10.9 cents), representing a prospective price/earnings multiple on a fully diluted basis of approximately 7.3 times and 8 times respectively, based on the indicative Offer Price range between HK$0.79 and HK$0.87 per Share. Please refer to Appendix II to this prospectus for further details.

The texts of letters from Ernst & Young, the reporting accountants, and from the Sponsor in respect of the profit forecast are set forth in Appendix III to this prospectus.

INDEBTEDNESS

Borrowings

As at 30 September 2004, the Group had outstanding borrowings of RMB30 million (approximately HK$28 million), comprising secured short-term bank loans of RMB10 million (approximately HK$9.4 million) and unsecured short-term bank loans of approximately RMB20 million (approximately HK$18.9 million).

Securities and guarantees

As at 30 September 2004, the Group's outstanding short-term bank borrowing of RMB10 million (approximately HK$9.4 million) were secured by the office building and investment property of Yulong Shenzhen with a net book value of approximately RMB13 million (approximately HK$12.3 million) and RMB2 million (approximately HK$1.9 million), respectively as at 30 September 2004.

Contingent liabilities

As at 30 September 2004, the Group had RMB0.8 million (approximately HK$0.7 million) trade receivable discounted with recourse. The receivables belonged to Yulong Shenzhen, a subsidiary of the Company.

Commitment

The Group leases certain of its warehouses premises and office building premises under operating lease arrangements for a lease term of 51 months and 12 months, respectively. As at 30 September 2004, the commitment in relation to such operating lease arrangement was approximately RMB0.3 million (approximately HK$0.28 million).

Disclaimers

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, the Group did not have outstanding mortgages, charges, debentures, loan capital, bank overdrafts, loans, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities outstanding at the close of business on 30 September 2004.

The Directors confirm that there have been no material changes in the Group's indebtedness and contingent liabilities since 30 September 2004.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Cash flows

During the Track Record Period, the Group has financed its working capital primarily through internally generated cash flows, bank borrowings and shareholder's loan. Cash generated from operations, when not needed for working capital requirements, is held principally in the form of short-term deposits with banks.

The following summarises the Group's cash flow during the Track Record Period:—

	Year ended 31 December			31 May	
	2001	2002	2003	2003	2004
				(unaudited)	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
New cash inflow/(outflow) from operating activities	(2,890)	24,825	(13,714)	(9,004)	23,454
Net cash inflow/(outflow) from investing activities	(3,488)	(2,353)	(32,394)	(1,764)	3,932
Net cash inflow/(outflow) from financing activities	8,443	(25,910)	55,364	8,428	3,572
Increase/(decrease) in cash and cash equivalents	2,065	(3,438)	9,256	(2,340)	30,957
Cash and cash equivalent as at 1 January	10,830	12,895	9,457	9,457	18,713
Cash and cash equivalent as at 31 December/31 May	12,895	9,457	18,713	7,117	49,670

Operating activities

In 2001, the Group had a net cash outflow from operating activities of approximately RMB2.9 million (approximately HK$2.7 million), compared with profit before tax of approximately RMB14.6 million (approximately HK$13.8 million). The difference was mainly due to decrease in accrued liabilities and other payables of approximately RMB29.2 million (approximately HK$27.5 million), which was mainly due to decrease in prepayment from the customers of wireless system solutions and was partly offset by adjustment for non-cash items such as depreciation, and decrease in inventories of approximately RMB5.4 million (approximately HK$5.1 million).

In 2002, the Group had a net cash inflow from operating activities of approximately RMB24.8 million (approximately HK$23.4 million), compared with profit before tax of approximately RMB35.1 million (approximately HK$33.1 million). The difference was mainly due to (i) decrease in accrued liabilities and other payables of approximately RMB27 million (approximately HK$25.5 million), as a result of the decrease in advance from the Group's customers for wireless coverage systems; (ii) increase in trade receivables of approximately RMB28.6 million (approximately HK$27 million); and was partly offset by (i) decrease in inventories of approximately RMB16.8 million (approximately HK$15.8 million); (ii) increase in amount due from related companies of approximately RMB14.3 million (approximately HK$13.5 million); and (iii) increase in net amounts due to Directors of approximately RMB6.2 million (approximately HK$5.8 million).

In 2003, the Group had net cash outflow from operating activities of approximately RMB13.7 million (approximately HK$12.9 million), compared with profit before tax of approximately RMB42.5 million (approximately HK$40.1 million). The difference was mainly due to (i) increase in trade receivables of approximately RMB71.4 million (approximately HK$67.4 million), as a result of the slow settlement from the Group's major customer, China Unicom Group; and (ii) increase in prepayments, deposit and other receivables of approximately RMB21.1 million (approximately HK$19.9 million), as the Group was required to pay for deposits for the purchase of raw materials for its fixed wireless terminals and smartphones; and was partly offset by increase in trade and notes payables of approximately RMB31.8 million (approximately HK$30 million) in relation to the purchase of the raw materials for the production of the Group's fixed wireless terminals and smartphones.

For the five months ended 31 May 2004, the Group had net cash inflow from operating activities of approximately RMB23.5 million (approximately HK$22.2 million), compared with profit before tax of approximately RMB17.7 million (approximately HK$17.7 million). The difference was mainly due to increase in accrued liabilities and other payables of approximately RMB16.5 million (approximately HK$15.6 million), mainly as a result of increase in VAT payables; and was partly offset by increase in inventories of approximately RMB12.5 million (approximately HK$11.8 million), mainly represents inventories of smartphones for sales in the second half of the year.

In the future, the Directors expect the cashflow from operating activities to continue to improve as a result of: (1) increase in sales to telecommunication equipment or solution distributors in the PRC, which have a shorter credit term than those of the telecommunication operators; (2) improved relationship with suppliers of raw materials and components of fixed wireless terminals and smartphones, for whom less prepayment are expected to be required; and (3) the strengthening of the debt collection process.

Investing activities

During the Track Record Period, the Group's major investing activities included purchase of fixed assets and expenditure on research and development. The Group had a net cash outflow from investing activities of approximately RMB3.5 million (approximately HK$3.3 million), RMB2.4 million (approximately HK$2.3 million) and RMB32.4 million (approximately HK$30.6 million) for each of the three years ended 31 December 2003 and a net cash inflow of approximately RMB3.9 million (approximately HK$3.7 million) for the five months ended 31 May 2004. The significant increase in net cash outflow from investing activities in 2003 was mainly due to the payment for the Group's purchase of office in Shenzhen, the PRC. The Group had a net cash inflow for the five months ended 31 May 2004 as a result of a decrease in pledged time deposit of RMB8.3 million (approximately HK$7.8 million).

Financing activities

The Group had a net cash inflow from financing activities of approximately RMB8.4 million (approximately HK$7.9 million), RMB55.4 million (approximately HK$52.3 million) and RMB3.6 million (approximately HK$3.4 million) for each of the two years ended 31 December 2001 and 2003 and the five months ended 31 May 2004. For the year ended 31 December 2002, the Group had net cash outflow of approximately RMB25.9 million (approximately HK$24.4 million) mainly due to the Group's repayment of bank loans of RMB18 million (approximately HK$17 million) and dividend payment of approximately RMB20.2 million (approximately HK$19.1 million). In 2003, the cash flow from financing activities significantly improved due to the issuance of shares to JATF and borrowing of new bank loans.

Net current assets

As at 30 September 2004, being the latest practicable date for the purpose of this statement, the Group's net current assets was approximately RMB100.7 million (approximately HK$94.1 million), comprising the following:—

	30 September 2004 *RMB'000*
CURRENT ASSETS	
Inventories	36,440
Trade receivables	100,463
Prepayments, deposits and other receivables	72,436
Due from a director	646
Cash and bank balances	33,797
	243,782
CURRENT LIABILITIES	
Trade payables	33,010
Notes payables	5,670
Tax payable	27,930
Other payables and accruals	46,269
Short-term bank and other loans	30,000
Due to related companies	170
	143,049
NET CURRENT ASSETS	100,733

Financial resources and capital structure

During the Track Record Periods, the Group generally financed its operations through internally generated cash flows, bank borrowings and shareholders' loans and equity.

The debt to equity ratio (net debts/shareholders' equity) of the Group was approximately 29%, 56% and 10% as at 31 December 2001, 2002 and 2003, respectively. The increase in 2002 was mainly due to the increase in bank loans. The decrease in 2003 was mainly due to the increase in the Group's shareholders' equity of approximately RMB70.9 million (approximately HK$66.9 million) as a result of profit attributable to shareholders for 2003 and investment by JATF during the year. The Group has a net cash balance of approximately RMB13.6 million (approximately HK$12.9 million) as at 31 May 2004.

The Group's gearing ratio (total debts/total assets) was approximately 17%, 25%, 17% and 14% as at 31 December 2001, 2002, 2003 and 31 May 2004, respectively. The increase of the gearing ratio in 2002 to approximately 25% was mainly due to increase in amount due from the Directors of approximately RMB17.8 million (approximately HK$16.8 million) in 2002. The decrease in 2003 to approximately 17% was mainly due to the increase in total assets as a result of the increase in trade receivable of approximately RMB71.8 million (approximately HK$67.7 million) in 2003. As at 31 May 2004, gearing ratio further decreased to approximately 14% mainly as a result of the increase in total assets during the five months ended 31 May 2004.

Following the completion of the Share Offer, the Directors expect to fund the capital and operating requirements through internally generated cash flows, net proceeds from the New Issue, cash on hand, and, if necessary, additional bank borrowings.

Director's opinion of the working capital

The Directors are of the opinion that, taking into account the financial resources available to the Group, including internally generated fund and the estimated net proceeds from the New Issue, the Group has sufficient working capital to meet its present requirements for at least the next twelve months from the date of this prospectus.

Foreign exchange

The expenditure of the Group are mainly in Renminbi and the assets and liabilities of the Group are also denominated in Renminbi. Taking into account the Group's operational and capital requirements, the Directors do not consider the Group is significantly exposed to any foreign currency risk.

DIVIDEND

For the year ended 31 December 2002, members of the Group declared dividends of approximately RMB20.2 million (approximately HK$19.1 million). Such dividend was declared and approved after the respective balance sheet date and was recognised in the periods in which it was approved by shareholders in general meetings. Save for the above, no other dividend was declared by any member of the Group during the Track Record Period.

Such dividend should not be regarded as an indication of the dividend policy to be adopted by the Company following the listing of the Shares on the Main Board. The amount of dividends to be declared by the Group will be subject to the discretion of the Directors and will depend upon the earnings of the Group, its financial condition, cash requirements and availability and such other factors as the Directors may deem relevant.

Based on《關於外滙指定銀行辦理利潤、股息、紅利滙出有關問題的通知》(Notice in relation to the distribution of profit, dividend and bonus in foreign currencies by designated banks), in order for foreign investment enterprises or overseas listed companies to repatriate dividend by converting RMB into foreign currencies to foreign investors or shareholders, the following documents must be submitted to the banks designated to handle conversion of RMB into foreign currencies (the "Banks"): (1) tax filing and tax clearance issued by relevant tax bureaus; (2) audited annual report, including the profit and dividend; (3) board resolution in relation to the declaration of dividends; (4) foreign currencies registration; and (5) verification report on capital injection issued by the accountants. The Banks will then handle the conversion and remittance after verification of such documents.

DISTRIBUTABLE RESERVES

As at 31 May 2004, being the date to which the Group's latest audited financial statements were made up, the Group had reserves available for distribution of approximately RMB82 million (approximately HK$77.4 million).

UNAUDITED ADJUSTED NET TANGIBLE ASSETS

The following statement of the Group's unaudited adjusted net tangible assets is based on the Group's audited combined net assets as at 31 May 2004 as shown in the accountants' report, the text of which is set forth in Appendix I to this prospectus, adjusted as follows:—

	Audited combined net tangible assets of the Group as at 31 May 2004 *(note 1)* *RMB$'000*	**Estimated net proceeds from the New Issue (assuming that the Over-allotment Option is not exercised)** *RMB$'000*	**Unaudited adjusted net tangible assets** *RMB$'000*	**Unaudited adjusted net tangible assets value per Share** *(note 2)*
Based on the Offer Price of HK$0.79 per Share	108,284	70,800	179,084	RMB44.8 cents
Based on the Offer Price of HK$0.87 per Share	108,284	79,100	187,384	RMB46.9 cents

Note:—

1. Audited combined net tangible assets of the Group was calculated by deducting the product development cost of approximately RMB8,350,000 from the Group's net assets of approximately RMB116,634,000 as at 31 May 2004.

2. The unaudited adjusted net tangible asset value per Share is arrived at after the adjustments referred to in this section and on the basis of 400,000,000 Shares in issue and to be issued as mentioned herein but takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option and any options that may be granted under the Share Option Scheme or which may be allotted and issued or purchased by the Company pursuant to the general mandates for the allotment and issue or purchase of Shares described under "Written resolutions of all the shareholders of the Company passed on 21 November 2004" in Appendix VI to this prospectus.

3. The Group did not incorporate any revaluation surplus or deficit in its financial statements. It is the Group's accounting policy to state its fixed assets at cost less accumulated depreciation and any impairment loss in accordance with the Statement of Standard Accounting Practice No. 17, rather than at revalued amounts. The impairment reviews performed by the Company as at 31 May 2004 did not indicate the need to book any impairment loss for its fixed assets. There was a revaluation surplus of the Group's land and building of approximately RMB4.4 million (approximately HK$4.2 million) as at 31 May 2004. Had the revaluation surplus been incorporated in the Group's financial statements, there would be an increase in the annual depreciation charge of the buildings of approximately RMB0.2 million (approximately HK$0.19 million).

PROPERTY INTERESTS

Particulars of the Group's property interests are set out in Appendix IV to this prospectus.

Property interests held by the Group in the PRC

The Group holds 7 industrial units, comprising a total gross floor area of approximately 3,802 sq.m., in High Tech Plaza, Tian An Cyberpark, Che Gongmiao, Futian District, Shenzhen, Guangdong Province. Portion of the property is occupied by the Group as the headquarter and for research and training center, warehouse and ancillary office use whilst the remaining portion is currently leased to an Independent Third Party. The Group maintained only part of its testing and simple assembly works in these units, and contracting out most of the manufacturing process. Apart from the abovementioned, the Group does not own or lease any production plants.

The Group holds 12 residential units, comprising a total gross floor area of approximately 885 sq.m., in Taoyuan Village, Longzhu Avenue, Nansan District, Shenzhen, Guangdong Province as staff quarters. These 12 residential units are in the nature of Public Community Housing which are not allowed to be transferred. No value is assigned to the property. The Directors consider the 12 residential units are not crucial to the Group's operations.

The Group has obtained Real Estate Title Certificates for all the abovementioned properties.

Property interests leased by the Group in the PRC

The Group leases 2 office units, comprising a total gross floor area of approximately 446 sq.m., on Level 8 East, Tairan Industrial Zone, Futian District, Shenzhen, Guangdong Province as office.

The Group leases 1 office unit, comprising a gross floor area of 58.93 sq.m., on Level 4, Zhongshui Building, 31 Wenfeng Alley, Xidan, Xicheng District, Beijing as office.

Property valuation

DTZ Debenham Tie Leung Limited, an independent valuer, has undertaken a valuation of the Group's property interests as at 30 September 2004 at RMB23,500,000. The full text of the letter, summary of valuations and valuation certificates with regard to such property interests are set forth in Appendix IV to this prospectus.

The statement below shows the reconciliation of leasehold land and buildings from the audited combined financial statements as at 31 May 2004 to the unaudited combined management accounts as at 30 September 2004:

	RMB'000
Net book value as at 31 May 2004	
— Buildings	16,830
— Investment property	2,274
	19,104
Depreciation from 1 June 2004 to 30 September 2004	(328)
Net book value as at 30 September 2004	18,776
Valuation surplus	4,724
Valuation as at 30 September 2004	23,500

NO MATERIAL ADVERSE CHANGE

The Directors confirm that there has been no material adverse change in the financial or trading positions or prospects of the Company or its subsidiaries since 31 May 2004, the date on which latest audited combined financial statements of the Company and its subsidiaries were made up.

DISCLOSURE UNDER RULE 13.13 TO RULE 13.19 OF THE LISTING RULES

The Directors have confirmed that they were not aware of any circumstance which would give rise to a disclosure obligation under rule 13.13 to rule 13.19 of the Listing Rules.

PRICE PAYABLE ON APPLICATION

Investors will be required to pay the maximum indicative Offer Price of HK$0.87, plus 1% brokerage, 0.005% Stock Exchange trading fee, 0.005% transaction levy and 0.002% investor compensation levy imposed by the SFC amounting to a total of HK$3,515.21 per board lot of 4,000 Shares.

If the final Offer Price is less than the maximum indicative Offer Price, arrangement will be made to refund any excess amount to the investors, **WITHOUT INTEREST.**

The Offer Price is expected to be determined by the Vendor, the Company and DBS Asia (acting for itself and on behalf of the other Underwriters) on 6 December 2004 or such later date as may be agreed by the Vendor, the Company and DBS Asia but in any event no later than 7 December 2004.

If, based on the level of interests expressed by prospective professional and institutional investors during the book-building process, DBS Asia (with the consent of the Vendor and the Company) think it appropriate, the indicative Offer Price range may be reduced below that stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Public Offer. In such case, the Company will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Public Offer, cause there to be published in the South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) a notice of the reduction of the indicative Offer Price range. Such notice will also include any financial information which may change as a result of any such reduction. If applications for Public Offer Shares have been submitted prior to the last day for lodging applications under the Public Offer, then even if the Offer Price range is so reduced, such applications cannot be subsequently withdrawn.

If, for any reason, the Offer Price is not agreed between the Vendor, the Company and DBS Asia, the Share Offer will not proceed and will lapse.

CONDITIONS OF THE SHARE OFFER

The Share Offer is conditional on:—

1. the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Shares in issue and the Shares to be issued pursuant to the Capitalisation Issue and the Share Offer (including the additional Shares which may be issued pursuant to the exercise of the Over-allotment Option) and any Shares which fall to be issued pursuant to the exercise of any options that may be granted under the Share Option Scheme;

2. the execution and delivery of the Placing and Underwriting Agreement on or around the Price Determination Date;

3. the agreement on the Offer Price between DBS Asia, the Company and the Vendor on the Price Determination Date; and

4. the obligations of the Underwriters under each of the Underwriting Agreements becoming unconditional (including, if relevant, as a result of the waiver of any condition(s) by DBS Asia (acting for itself and on behalf of the other Underwriters)) and not being terminated in accordance with the terms of that agreement or otherwise.

in each case, on or before the dates and times specified in the Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than the date which is 30 days after the date of this prospectus.

If such conditions are not fulfilled or waived prior to the times and dates specified, the Share Offer will lapse and the Stock Exchange will be notified immediately. Notice of lapse of the Share Offer will be caused to be published by the Company in South China Morning Post in English and Hong Kong Economic Times in Chinese on the next day following such lapse. In such event, all application money will be returned, **WITHOUT** interest. The terms on which the application money will be returned are set forth under the heading "Refund of your application money" on the Application Forms. In the meantime, all application money will be held in a separate bank account or separate bank accounts with the receiving banker or other bank(s) licenced under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

SHARE OFFER

The Share Offer comprises the Public Offer and the Placing. The 132,000,000 Offer Shares (comprising 100,000,000 New Shares and 32,000,000 Sale Shares) initially being offered in the Share Offer will represent 33% of the Company's enlarged issued share capital immediately following completion of the Share Offer and the Capitalisation Issue (assuming that the Over-allotment Option is not exercised). Out of the 132,000,000 Offer Shares initially available under the Share Offer, 118,800,000 Offer Shares (comprising 86,800,000 New Shares and 32,000,000 Sale Shares), representing 90% of the Offer Shares initially available under the Share Offer, will be conditionally placed with professional, institutional, corporate and other investors anticipated to have a sizeable demand for shares and other securities in Hong Kong and certain other jurisdictions under the Placing. The remaining 13,200,000 New Shares, representing 10% of the number of Offer Shares initially available under the Share Offer, will be offered to members of the public in Hong Kong under the Public Offer. Both the Placing and the Public Offer are subject to reallocation on the basis described under the paragraphs headed "Public Offer" below.

Investors are free to select whether to apply for Shares under the Public Offer or the Placing, but may not apply under both of these tranches. In particular, applicants for Shares under the Public Offer cannot apply for Shares under the Placing and applicants who apply for Shares under the Placing may not apply for Shares under the Public Offer. Investors may only receive Shares under the Public Offer or the Placing but not both of these tranches. The Directors and DBS Asia (for itself and on behalf of the other Underwriters) will take all reasonable steps to identify any multiple applications between Public Offer and Placing which are not allowed and are bound to be rejected.

PUBLIC OFFER

The Company is initially offering 13,200,000 New Shares at the Offer Price, representing an aggregate of 10% of the Offer Shares initially available under the Share Offer assuming the Over-allotment Option is not exercised, for subscription by members of the public in Hong Kong, subject to the reallocation arrangement stated below. The Public Offer is fully underwritten by the Public Offer Underwriters, subject to the terms and conditions of the Public Offer Underwriting Agreement, including the agreement on the Offer Price between DBS Asia, the Company and the Vendor on the Price Determination Date.

The Public Offer is open to all members of the public in Hong Kong. Persons allotted Shares under the Public Offer cannot apply for Shares under the Placing. The Public Offer will be subject to the conditions stated under the paragraphs headed "Conditions of the Share Offer" above.

Allocation of the Public Offer Shares to investors under the Public Offer will be based solely on the level of valid applications received under the Public Offer. When there is over-subscription under the Public Offer, allocation of the Public Offer Shares may involve balloting, which would mean that some applicants may be allotted more Public Offer Shares than others who have applied for the same number of Public Offer Shares, and those applicants who are not successful in the ballot may not receive any Public Offer Shares.

If the Public Offer is not fully subscribed and demand for the Placing Shares exceeds the number of Placing Shares initially available under the Share Offer, DBS Asia (for itself and on behalf of the other Underwriters) will have the absolute discretion to reallocate any unsubscribed Shares originally included in the Public Offer to the Placing in such number as they deem appropriate pursuant to the terms of the Underwriting Agreements.

The total number of the Public Offer Shares to be allotted and issued pursuant to the Public Offer may change as a result of the clawback arrangement referred to in the paragraphs headed under "Over-subscription" below.

There will initially be a total of 13,200,000 Public Offer Shares available for subscription under the Public Offer under the **WHITE** and **YELLOW** Application Forms. For allocation purposes only, the number of the Public Offer Shares will be divided equally into two pools:— pool A and pool B. The Public Offer Shares in pool A will consist of 6,600,000 Shares and will be allocated on an equitable basis to applicants who have applied for the Public Offer Shares in the value of HK$5,000,000 (excluding transaction levy and investor compensation levy imposed by the SFC, the Stock Exchange trading fee and brokerage payable thereon) or less. The Public Offer Shares available in pool B will consist of 6,600,000 Shares and will be allocated on an equitable basis to applicants who have applied for Public Offer Shares in the value of more than HK$5,000,000 (excluding transaction levy and investor compensation levy imposed by the SFC, the Stock Exchange trading fee and brokerage) and up to the total initial value of pool B.

Investors should be aware that allocation ratios for applications in the two pools, as well as the allocation ratios for applications in the same pools, are likely to be different. Where one of the pools is undersubscribed, the surplus Public Offer Shares will be transferred to satisfy the demand in the other pool and be allocated accordingly. Applicants can only receive an allocation of Public Offer Shares from any one pool but not from both pools and can only make applications to either pool A or pool B. Any application made for more than 100% of the Public Offer Shares initially available under pool A or pool B will be rejected.

Over-subscription

The number of the Offer Shares initially offered under the Public Offer and the Placing is subject to reallocation.

If the number of Offer Shares validly applied for under the Public Offer represents 15 times or more but less than 50 times the number of the Offer Shares initially available for subscription under the Public Offer, then 26,400,000 Offer Shares will be reallocated to the Public Offer from the Placing, so that an aggregate of 39,600,000 Offer Shares will be available under the Public Offer, representing 30% of the Offer Shares initially available under the Share Offer.

If the number of Offer Shares validly applied for under the Public Offer represents 50 times or more but less than 100 times the number of the Offer Shares initially available for subscription under the Public Offer, then 39,600,000 Offer Shares will be reallocated to the Public Offer from the Placing, so that an aggregate of 52,800,000 Offer Shares will be available under the Public Offer, representing 40% of the Offer Shares initially available under the Share Offer.

If the number of Offer Shares validly applied for under the Public Offer represents 100 times or more than the number of the Offer Shares initially available for subscription under the Public Offer, then 52,800,000 Offer Shares will be reallocated to the Public Offer from the Placing, so that an aggregate of 66,000,000 Offer Shares will be available under the Public Offer, representing 50% of the Offer Shares initially available under the Share Offer.

In each such case, the additional Offer Shares reallocated to the Public Offer from the Placing will be allocated equally between pool A and pool B and the number of Shares allocated to the Placing will be correspondingly reduced.

PLACING

The Company and the Vendor are initially offering 118,800,000 Offer Shares (comprising 86,800,000 New Shares and 32,000,000 Sale Shares) at the Offer Price, representing an aggregate of 90% of the total number of Offer Shares initially available under the Share Offer, for subscription and purchase by professional, institutional, corporate and other investors by way of Placing, subject to the clawback arrangement as mentioned in the paragraphs headed "Over-subscription" above and the exercise of the Over-allotment Option as mentioned in the paragraphs headed "Over-allotment Option" below. The Placing is expected to be fully underwritten by the Placing Underwriters, subject to the terms and conditions of the Placing and Underwriting Agreement and the agreement on the Offer Price between DBS Asia, the Company and the Vendor on the Price Determination Date.

Pursuant to the Placing, it is expected that the Placing Underwriters or selling agents nominated by the Placing Underwriters on behalf of the Company shall place the Placing Shares at the Offer Price payable by the subscribers and purchasers of the Placing Shares. Investors subscribing for or purchasing the Placing Shares are also required to pay 1.0% brokerage, 0.005% Stock Exchange trading fee, 0.005% transaction levy and 0.002% investor compensation levy imposed by the SFC. Placing Shares will be placed with professional, institutional, corporate and other investors anticipated to have a sizeable demand for shares and other securities in Hong Kong and certain other jurisdictions outside the United States. Professional investors generally include brokers, dealers and companies (including fund managers) whose ordinary business involves dealings in shares and other securities and entities which regularly invest in shares and other securities.

In Hong Kong, retail investors should apply for the Offer Shares under the Public Offer, as retail investors applying for Placing Shares (including applying through banks and other institutions) are unlikely to be allocated any Placing Shares. If you are a professional, institutional or individual investor and have applied for the Placing Shares, you are required to declare that you have applied for the Placing Shares only. In such event, you will not receive any Offer Shares under the Public Offer.

The total number of Placing Shares to be allocated may change as a result of the clawback arrangement referred to in the paragraphs headed "Over-subscription" above and any reallocation to the Placing of all or any unsubscribed Shares originally included in the Public Offer as referred to in the paragraphs headed "Public Offer" above. Further, DBS Asia (for itself and on behalf of the other Underwriters) may, in its absolute discretion, reallocate all or any of the untaken Placing Shares from the Placing to the Public Offer in such amounts and manner as it deems appropriate.

Allocation of the Placing Shares will be based on a number of factors, including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the potential investors are likely to buy further Shares, or hold or sell their Shares, after the listing of the Shares on the Main Board. Such allocation is intended to result in a distribution of the Placing Shares which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of the Company and its shareholders as a whole. In addition, the Directors and DBS Asia (acting for itself and on behalf of the other Placing Underwriters) will use their best endeavours to observe the minimum public float requirement under the Listing Rules when making allocations of the Placing Shares to investors who are anticipated to have a sizeable demand for such Shares.

OVER-ALLOTMENT OPTION

Pursuant to the Placing and Underwriting Agreement, the Company is expected to grant the Over-allotment Option to the Placing Underwriters, exercisable by DBS Asia (acting for itself and on behalf of the other Placing Underwriters) at any time prior to the date falling 30 days after the last day for lodging applications under the Public Offer, to require the Company to allot and issue up to an aggregate of 19,800,000 additional new Shares, equivalent to 15% of the number of Offer Shares initially being offered under the Share Offer, at the Offer Price. The Over-allotment Shares issued under the Over-allotment Option (if exercised) will be issued on the same terms and conditions as the New Shares initially available under the Placing.

If the Over-allotment Option is exercised in full, the Offer Shares being offered under the Share Offer will represent approximately 36.16% of the Company's enlarged issued share capital immediately following completion of the Share Offer, the Capitalisation Issue and the exercise of the Over-allotment Option. The Over-allotment Option will be granted to DBS Asia to cover any over-allocations in the Placing and/or the obligations of DBS Asia to return securities borrowed under the Stock Borrowing Agreement. DBS Asia may exercise the Over-allotment Option, whether in part or in full. If the Over-allotment Option is exercised, a press announcement will be made.

STABILISATION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may purchase the newly issued securities in the secondary market during a specified period of time to retard and, if possible, prevent a decline in the initial public offer prices of the securities. In Hong Kong and certain other jurisdictions, such secondary market purchases actively aimed at reducing the market price are prohibited, and the price at which stabilisation is effected is not permitted to exceed the initial offering price.

DBS Asia has been appointed by the Company as the stabilising manager for the purposes of the Share Offer in accordance with the Securities and Futures (Price Stabilising) Rules made under the SFO. In connection with the Share Offer, DBS Asia, as stabilising manager, or any person acting for it, may over-allot or effect any other transactions with a view to stabilising or maintaining the market price of the Shares at a level higher than that which might otherwise prevail in the open market for a limited period after the Listing Date. Stabilising activities may include, among other things, the exercise of the Over-allotment Option, in whole or in part, or purchases of the Shares in the secondary market or selling the Shares to liquidate a position held as a result of the purchase. Any such market purchase will be effected in compliance with all applicable laws, rules and regulatory requirements in place in Hong Kong on stabilisation including the Securities and Futures (Price Stabilising) Rules made under the SFO. However there is no obligation on DBS Asia or any person acting for it to conduct any such stabilising activity which, if commenced, will be done at the absolute discretion of DBS Asia and may be discontinued at any time and is required to be brought to an end after a limited period. The number of the Shares that may be over-allocated will not exceed the number of the Shares that may be issued under the Over-allotment Option, namely 19,800,000 Shares, which is 15% of the number of the Shares initially available under the Share Offer.

The possible stabilising action which may be taken by DBS Asia in connection with the Share Offer may involve (among other things) (a) over-allocation of Shares; (b) exercising Over-allotment Option in whole or in part; (c) purchases of Shares; (d) establishing, hedging and liquidating positions in Shares; and/or (e) offering or attempting to do anything mentioned in (b), (c) or (d).

Prospective applicants for and investors in the Offer Shares should note that:—

(a) DBS Asia may, in connection with the stabilising action, maintain a long position in the Shares;

(b) there is no certainty regarding the size of the long position and the period for which DBS Asia will maintain such position, which is at the absolute discretion of DBS Asia;

(c) in the event that DBS Asia liquidates the long position by making sales in the open market, this may lead to a decline in the market price of the Shares;

(d) stabilising action cannot be taken to support the price of the Shares for longer than the stabilising period which begins on the Listing Date and ends on the 30th day after the last date for lodging applications under the Public Offer, currently expected to be 2 January 2005, and after this date, when no further stabilising action may be taken, demand for the Shares and therefore its price, could fall;

(e) any stabilising action taken by DBS Asia may not necessarily result in the market price of the Shares staying at or above the Offer Price whether during or after the stabilising period; and

(f) stabilising bids may be made or transactions effected in the course of the stabilising action at any price at or below the Offer Price, which means that purchase of Shares by DBS Asia may be made at prices at or below the Offer Price.

An announcement will be made to the public within seven days after the end of the stablisation period as required under the Securities and Futures (Price Stabilising) Rules made under the SFO.

STOCK BORROWING AGREEMENT

In order to facilitate settlement of the over-allocations under the Placing, if any, Data Dreamland is expected to agree with DBS Asia (acting in the capacity as the lead manager of the Placing) that, if so requested by DBS Asia, it may, subject to the terms of the Stock Borrowing Agreement, making available to DBS Asia up to 19,800,000 Shares held by it to facilitate settlement of over-allocations in the Placing. **As a result of an application on behalf of the Company, Barrie Bay and Data Dreamland by the Sponsor, the Stock Exchange has granted a waiver to Barrie Bay and Data Dreamland from strict compliance with Rule 10.07(1)(a) of the Listing Rules which restricts the disposal of Shares by controlling shareholders following a new listing, in order to allow Data Dreamland to enter into and perform its obligations under the Stock Borrowing Agreement. The waiver is granted subject to the conditions that:—**

— such stock borrowing arrangement with Data Dreamland made under the Stock Borrowing Agreement will only be effected by DBS Asia for settlement of over-allocations in the Placing;

— the maximum number of Shares borrowed from Data Dreamland under the Stock Borrowing Agreement will be limited to the maximum number of Shares which may be issued upon exercise of the Over-allotment Option;

— the same number of Shares so borrowed must be returned to Data Dreamland no later than the third business day following the earlier of (i) the last day on which the Over-allotment Option may be exercised, or (ii) the day on which the Over-allotment Option is exercised in full and the relevant Over-allotment Shares have been issued;

— the stock borrowing arrangement under the Stock Borrowing Agreement will be effected in compliance with all applicable laws, rules and regulatory requirements; and

— no payment will be made to Data Dreamland by DBS Asia in consideration for such borrowing arrangement.

TRANSFER OF THE SALE SHARES

All transfer of the Sale Shares to placees or their designated person(s) will be effected on the Company's principal register of members in the Cayman Islands. Completion of the acknowledgement form in a placing letter shall constitute an irrevocable instruction by the placee(s) that the registration of all the Sale Shares in respect of which the relevant application is accepted shall be removed from the Company's principal register of members in the Cayman Islands to the Company's Hong Kong branch register of members after (i) the Placing has become unconditional and (ii) neither of the Underwriting Agreements has been terminated in accordance with its terms at or before 8:00 a.m. on the Listing Date.

UNDERWRITERS

Public Offer Underwriters

DBS Asia Capital Limited
SBI E2-Capital Securities Limited

Placing Underwriters

DBS Asia Capital Limited
Kingsway Financial Services Group Limited
SBI E2-Capital Securities Limited
Crosby Capital Partners (Hong Kong) Limited (*formerly Crosby Limited*)
Guangdong Securities Limited
Guotai Junan Securities (Hong Kong) Limited
Tai Fook Securities Company Limited
KGI Capital Asia Limited
VC Capital Limited
South China Securities Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Public Offer

Public Offer Underwriting Agreement

Pursuant to the Public Offer Underwriting Agreement, the Company offers the Public Offer Shares at the Offer Price (subject to reallocation) for subscription by way of Public Offer on and subject to the terms and conditions set forth in this prospectus and the related Application Forms.

Subject to, inter alia, the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus on or before 30 December 2004, or such later date as the Company and the Sponsor may agree, the Public Offer Underwriters have severally agreed, subject to the terms and conditions of the Public Offer Underwriting Agreement, to subscribe for or procure subscribers for, on the terms and conditions of this prospectus and the related Application Forms, their respective applicable proportions of the Public Offer Shares which are not taken up under the Public Offer.

Grounds for termination

The respective obligations of the Public Offer Underwriters to subscribe for or procure subscribers for the Public Offer Shares are subject to termination. DBS Asia (acting for itself and on behalf of the other Public Offer Underwriters) shall be entitled to terminate the Public Offer Underwriters' obligations under the Public Offer Underwriting Agreement by giving notice in writing to the Company at any time prior to 8:00 a.m. on the Listing Date (the "Termination Time"):—

(a) there comes to the notice of DBS Asia or any of the other Public Offer Underwriters before the Termination Time that:

(i) any statement contained in any of this prospectus or the Application Forms was when such document was issued, or has become, untrue, incorrect or misleading in any material respect in the absolute opinion of DBS Asia (for itself and on behalf of the other Public Offer Underwriters); or

(ii) any matter has arisen or been discovered which would, had it arisen or been discovered immediately before the date of this prospectus or the Application Forms, constitute a material omission therefrom in the absolute opinion of DBS Asia (for itself and on behalf of the other Public Offer Underwriters); or

(iii) any of the representations, warranties or undertakings given by the Company, the executive Directors, Data Dreamland, Ms. Yang and Ms. Ma in the Public Offer Underwriting Agreement is untrue or inaccurate in any respect which DBS Asia (for itself and on behalf of the other Public Offer Underwriters) in its absolute opinion considers to be material in the context of the Share Offer; or

(iv) any event, act or omission which gives or is likely to give rise to a liability of any of the Company, the executive Directors, Data Dreamland, Ms. Yang and Ms. Ma pursuant to the indemnities given by them under the Public Offer Underwriting Agreement; or

(v) any of the obligations or undertakings expressed to be assumed by or imposed on any of the Company, the executive Directors, Data Dreamland, Barrie Bay, Ms. Yang and Ms. Ma under the Public Offer Underwriting Agreement has not been complied with or observed in any respect considered by DBS Asia (for itself and on behalf of the other Public Offer Underwriters) to be material; or

(vi) any information, matter or event which in the absolute opinion of DBS Asia (for itself and on behalf of the other Public Offer Underwriters) may lead to a material adverse change in the business or in the financial or trading position or prospect of the Group; or

(b) there shall develop, occur, exist or come into effect:

(i) any new law or any change in existing laws of any nature whatsoever or change in the interpretation or application thereof by any court or other competent authority of any relevant jurisdiction; or

(ii) any change (whether or not forming part of a series of changes occurring or continuing before, on and/or after the date hereof and including an event or change in relation to or a development of an existing state of affairs) in local, national or international financial, political, military, industrial, fiscal or economic conditions or prospects; or

(iii) any change in the conditions of local, national or international securities or commodities markets (or in conditions affecting a sector only of such market) including, for the avoidance of doubt, any significant adverse change in index level or volume of turnover of any such markets; or

(iv) the imposition of any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange occurring due to exceptional financial circumstances or otherwise; or

(v) a change or development involving a prospective change in taxation or exchange control (or the implementation of exchange control) in Hong Kong, the Cayman Islands, the BVI or the PRC or other relevant jurisdiction; or

(vi) a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States is managed or a change in the value of Hong Kong currency under such system,

which, in the absolute opinion of DBS Asia (for itself and on behalf of the other Public Offer Underwriters):

(1) is or will or is likely to be materially adverse to the business, financial or other condition or prospects of the Group or to any present or prospective shareholders of the Company in his capacity as such; or

(2) has or will have or is likely to have a material adverse effect on the success of the Share Offer or the level of the Offer Shares being applied for or accepted or the distribution of the Offer Shares; or

(3) makes it inadvisable or inexpedient to proceed with the Share Offer or the delivery of the Offer Shares on the terms and in the manner contemplated by this prospectus and the Application Forms.

Listing Rules obligations

Pursuant to Rule 10.08 of the Listing Rules, no further Shares or securities convertible into equity securities of the Company (whether or not of a class already listed) may be issued or form the subject of any agreement to such an issue within six months from the Listing Date (whether or not such issue of Shares or securities will be completed within six months from the Listing Date), except in certain prescribed circumstances, which includes the issue of Shares pursuant to the Share Option Scheme.

Pursuant to Rule 10.07(1) of the Listing Rules, Data Dreamland and Barrie Bay have jointly and severally undertaken to the Stock Exchange and the Company that each of them shall not, and shall procure that the relevant registered holder(s), the associates or companies controlled by or nominees or trustees holding on trust for each of the them shall not:

(1) in the period commencing on the date by reference to which disclosure of its shareholding is made in this prospectus and ending on the date which is six months from the Listing Date, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of those securities of the Company in respect of which it is or they are shown by this prospectus to be the beneficial owner(s); or

(2) in the period of six months commencing on the date on which the period referred to in (1) above expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the securities referred to in (1) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it would cease to be a controlling shareholder.

Pursuant to Rule 10.07(3) of the Listing Rules, each of Data Dreamland and Barrie Bay has also jointly and severally undertaken to the Stock Exchange and the Company that each of them shall, and shall procure HSBC Trustee (in the capacity as trustee of the Barrie Bay Trust) shall, during the period commencing on the date by reference to which disclosure of its shareholding is made in this prospectus and ending on the date which is twelve months from the Listing Date:

(1) when each of Data Dreamland, Barrie Bay and HSBC Trustee pledges or charges any Shares or other securities of the Company beneficially owned by each of Data Dreamland, Barrie Bay and HSBC Trustee (in the capacity as trustee of the Barrie Bay Trust) in favour of an authorised institution, immediately inform the Company of such pledge or charge together with the number of Shares or securities so pledged or charged; and

(2) when each of Data Dreamland, Barrie Bay and HSBC Trustee receives indications, either verbal or written, from the pledgee or chargee that any of the pledged or charged Shares or securities will be disposed of, immediately inform the Company of such indications.

Undertakings

Pursuant to the Public Offer Underwriting Agreement, each of Data Dreamland, Barrie Bay, Mr. Guo and Ms. Yang (together, the "Covenantors") has undertaken with the Company, the Sponsor and the Public Offer Underwriters to the effect that:—

(1) save in connection with the stock borrowing arrangement described under the paragraphs headed "Stock Borrowing Agreement" in the section headed "Structure and conditions of the Share Offer" in this prospectus, it or he or she shall not, and shall procure that its or his or her associates or companies controlled by it or him or her or any nominee or trustee holding in trust for it or him or her shall not, sell, transfer or otherwise dispose of or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of (save pursuant to a pledge or charge as security in favour of an authorised institution for a bona fide commercial loan) any of the Shares or any interest therein beneficially owned by it or him or her or the relevant company, nominee or trustee (including any interest in any shares in any company controlled by it or him or her which is directly or indirectly the beneficial owner of any of the Shares) immediately following the completion of the Share Offer (including the issue of Over-allotment Shares (if applicable)) and the Capitalisation Issue (the "Relevant Securities") during the period commencing on the date of this prospectus and ending on the date which is six months from the Listing Date (the "First Period"); and

(2) it or he or she shall not, and shall procure that its or his or her associates or companies controlled by it or him or her or any nominee or trustee holding in trust for it or him or her shall not, within the period of a further six months immediately after the expiry of the First Period (the "Second Period"), sell, transfer or otherwise dispose of or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of (save pursuant to a pledge or charge as security in favour of an authorised institution for a bona fide commercial loan and any transfer of Shares by Data Dreamland under the Option Agreement) any of the Relevant Securities, if immediately following such sale, transfer, disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he or it or she, either individually or taken together with his or its associates, would cease to be a controlling shareholder (as defined in the Listing Rules) of the Company, provided always that, in the event of any such sale, transfer, disposal or agreement, all reasonable steps shall be taken to ensure that such sale, transfer, disposal or agreement shall be effected in such a manner so as not to create a disorderly or false market for the Shares after completion of such sale, transfer or disposal.

Each of the Covenantors has undertaken to the Company, the Sponsor and the Public Offer Underwriters to the effect that, within the period commencing on the date of this prospectus and ending on the date which is twelve months from the Listing Date, it or he or she will:—

(i) when it or he or she mortgages or pledges or charges any direct or indirect interest in any securities of the Company beneficially owned by it or him or her as permitted by the Listing Rules or pursuant to any right or waiver granted by the Stock

Exchange, immediately inform the Company and the Sponsor of such mortgage/pledge/charge together with the details of securities so mortgaged/pledged/charged; and

(ii) when it or he or she receives indications, either verbal or written, from the mortgagee/pledgee/chargee that any of the mortgaged/pledged/charged securities of the Company will be disposed of, immediately inform the Company and the Sponsor of details of such indications.

The Company has undertaken to the Sponsor and the Public Offer Underwriters that it shall inform the Stock Exchange as soon as it has been informed of matters referred to in (i) and (ii) above by any of the Covenantors and disclose such matters by way of an announcement which is to be published in the newspapers as soon as possible.

The Company has undertaken to the Sponsor and the Public Offer Underwriters, and each of Data Dreamland, Barrie Bay, Ms. Yang and the executive Directors has jointly and severally undertaken to the Sponsor and the Public Offer Underwriters to procure that, without the prior written consent of DBS Asia (such consent not to be unreasonably withheld), and unless in compliance with the requirements of the Listing Rules and subject always to the requirements of the Stock Exchange, save for the New Shares and the Shares to be issued pursuant to the Capitalisation Issue, the grant of any options under the Share Option Scheme, and any Shares which may fall to be issued pursuant to the exercise of the Over-allotment Option or any options that may be granted under the Share Option Scheme or by way of scrip dividend schemes or similar arrangements in accordance with the articles of association of the Company, neither the Company nor any of the subsidiaries from time to time may (a) allot and issue or agree to allot and issue (i) any shares in the Company or (ii) any securities of the Company or any of the subsidiaries of the Company from time to time which are convertible into equity securities of the Company (whether or not of a class already listed on the Main Board) or which are issued to parties other than the Company and its wholly-owned subsidiaries or (b) agree to issue such shares or securities or agree to grant any options, warrants or other rights carrying any rights to subscribe for or otherwise acquire any securities of the Company or any subsidiary of the Company from time to time, during a period of twelve months from the Listing Date.

Commissions

The Public Offer Underwriters will receive an underwriting commission of 2.5% of the aggregate Offer Price payable for the Public Offer Shares, out of which they will pay any sub-underwriting commissions. The Sponsor will also receive a financial advisory fee.

Sponsor's and Public Offer Underwriters' Interests in the Company

Save as disclosed in the paragraphs headed "Public Offer Underwriting Agreement" and "Commissions" above, none of the Sponsor and the Public Offer Underwriters is interested legally or beneficially in any Shares or securities or equity interest in any member of the Group or has any right or option (whether legally enforceable or not) to subscribe for or purchase or to nominate persons to subscribe for or purchase securities or equity interest in any member of the Group nor any interest in the Share Offer.

Placing

Placing and Underwriting Agreement

In connection with the Placing, the Company, the Vendor and other parties are expected to enter into the Placing and Underwriting Agreement with the Placing Underwriters. Under the Placing and Underwriting Agreement, the Placing Underwriters would, subject to certain conditions, severally agree to subscribe for or purchase the Placing Shares or procure subscribers or purchasers for the Placing Shares.

Under the Placing and Underwriting Agreement, the Company is expected to grant to the Placing Underwriters the Over-allotment Option, exercisable by DBS Asia (for itself and on behalf of the other Placing Underwriters) at any time prior to the date falling 30 days after the last day for lodging applications under the Public Offer, to require the Company to issue up to an aggregate of 19,800,000 new Shares (equivalent to 15% of the Offer Shares initially available under the Share Offer), solely to cover over-allocations in the Placing and/or the obligations of DBS Asia to return securities borrowed under the Stock Borrowing Agreement.

Total expenses

The aggregate commissions and fees, together with the listing fees, legal and other professional fees, and printing and other fees and expenses relating to the Share Offer are estimated to be approximately HK$16.1 million in aggregate (assuming that the Over-allotment Option is not exercised and based on the Offer Price of HK$0.83 (being the mid-point of the indicative Offer Price range between HK$0.79 and HK$0.87)), and will be payable by the Company and the Vendor as to 75.8% and 24.2%, respectively. The Company will also pay for all expenses in connection with any exercise of the Over-allotment Option.

Public float

The Directors and the Sponsor will ensure there will be a minimum of 25% of the total issued share capital of the Company in public hands in accordance with Rule 8.08 of the Listing Rules after completion of the Share Offer and the Capitalisation Issue. In the event DBS Asia is required to fulfill its obligation under the Underwriting Agreements to take up any of the Offer Shares, DBS Asia undertakes to the Company that the applicants, purchasers or placees procured by it shall be Independent Third Parties that are not connected to DBS Asia or its directors and their respective associates before the date of the announcement of the results of the Share Offer.

WHICH APPLICATION FORM TO USE

1. Use a **WHITE** Application Form if you want the Public Offer Shares to be issued in your own name.

2. Use a **YELLOW** Application Form if you want the Public Offer Shares to be issued in the name of HKSCC Nominees Limited and deposited directly into CCASS for credit to your Investor Participant stock account or the stock account of your designated CCASS Participant maintained in CCASS.

Note:—

The Public Offer Shares are not available to the Directors or chief executive of the Company or its subsidiaries or existing beneficial owners of Shares or associates of any of them.

WHERE TO COLLECT THE PROSPECTUSES AND THE APPLICATION FORMS FOR THE PUBLIC OFFER SHARES

1. You can collect a **WHITE** Application Form and a prospectus from:—

Any Participant of the Stock Exchange

or

DBS Asia Capital Limited
16th Floor
Man Yee Building
68 Des Voeux Road Central
Hong Kong

or

Kingsway Financial Services Group Limited
5th Floor, Hutchison House
10 Harcourt Road
Central
Hong Kong

SBI E2-Capital Securities Limited
43rd Floor, Jardine House
One Connaught Place
Central
Hong Kong

or

Crosby Capital Partners (Hong Kong) Limited
(formerly Crosby Limited)
2701 Citibank Tower
Citibank Plaza
3 Garden Road
Central
Hong Kong

Guangdong Securities Limited
Units 2505–06, 25th Floor
Low Block, Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

or

Guotai Junan Securities (Hong Kong) Limited
27th Floor
Low Block, Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

Tai Fook Securities Company Limited
25th Floor, New World Tower
16–18 Queen's Road Central
Hong Kong

or

KGI Capital Asia Limited
27th Floor, ICBC Tower
Citibank Plaza
3 Garden Road
Central
Hong Kong

VC Capital Limited
Penthouse 38th Floor, The Centrium
60 Wyndham Street
Central
Hong Kong

or

South China Securities Limited
28th Floor, Bank of China Tower
1 Garden Road
Central
Hong Kong

or any of the following branches of DBS Bank (Hong Kong) Limited:—

Region	Branch	Address
Hong Kong Island	Hong Kong Main Branch	Ground Floor, The Center, 99 Queen's Road Central, Hong Kong
	United Centre Branch	1st Floor, United Centre, 95 Queensway, Hong Kong
	Sheung Wan Branch	Ground Floor, 259–265 Des Voeux Road Central, Hong Kong
	North Point Branch	Ground Floor, 391 King's Road, North Point, Hong Kong
Kowloon	Nathan Road Branch	Ground Floor, 742–744 Nathan Road, Kowloon
	Tsimshatsui Branch	Ground Floor, 22–24 Cameron Road, Tsimshatsui, Kowloon
	Yue Man Square Branch	Shop 3–5 & Ground Floor, Mido Mansion, 51–63 Yue Man Square, Kwun Tong, Kowloon
New Territories	Yuen Long Branch	Ground Floor, 1–5 Tai Tong Road, Yuen Long, New Territories
	New Town Plaza Branch	Shop Nos. 567–571, Level 5, New Town Plaza Phase 1, Shatin, New Territories
	Tsuen Wan Branch	Ground Floor, 23 Chung On Street, Tsuen Wan, New Territories

2. You can collect a **YELLOW** Application Form and a prospectus from:—

the Depository Counter of HKSCC
2nd Floor, Vicwood Plaza
199 Des Voeux Road Central
Hong Kong

or

the Customer Service Centre of HKSCC
Upper Ground Floor
V-Heun Building
128–140 Queen's Road Central
Hong Kong

or your stockbrokers may have forms available.

HOW TO COMPLETE THE APPLICATION FORMS FOR THE PUBLIC OFFER SHARES

There are detailed instructions on each Application Form. You should read these instructions carefully. If you do not follow the instructions your application may be rejected and returned by ordinary post together with the accompanying cheque(s) or banker's cashier order(s) to you (or the first-named applicant in the case of joint applicant(s)) at your own risk at the address stated in the Application Form.

If your application is made through a duly authorised attorney, DBS Asia, in consultation with the Company, as agent of the Company, may accept the application at its discretion, and subject to any conditions it thinks fit, including evidence of the authority of your attorney. DBS Asia in its capacity as agent of the Company has full discretion to reject or accept any application, in full or in part, without assigning any reason.

OFFER PRICE

You must pay the maximum indicative Offer Price of the Public Offer Shares at HK$0.87 each. You must also pay brokerage of 1%, transaction levy imposed by the SFC of 0.005%, Stock Exchange trading fee of 0.005% and investor compensation levy of 0.002% of the Offer Price on application in Hong Kong dollars. This means that for every 4,000 Public Offer Shares you will pay HK$3,515.21. The Application Forms have tables showing the exact amount payable for certain multiples of the Public Offer Shares. Your payment must be made by one cheque or one banker's cashier order and must comply with the terms of the Application Forms.

If your application is successful, brokerage is paid to Participants of the Stock Exchange, the transaction levy and the investor compensation levy are paid to the SFC and the trading fee is paid to the Stock Exchange.

If the Offer Price as finally determined is less than HK$0.87 per Share, appropriate refund payments (including brokerage, the Stock Exchange trading fee, the transaction levy imposed by the SFC and the investor compensation levy attributable to the surplus application monies) will be made to successful applicants without interest. Details of the procedure for refund are set out below in the paragraph headed "If your application for Public Offer Shares is successful (in whole or in part)" and "Refund of money" in this section.

TIME FOR APPLYING FOR THE PUBLIC OFFER SHARES

Completed **WHITE** or **YELLOW** Application Forms, with payment in Hong Kong dollars for the full amount payable on application attached must be lodged by 12:00 noon (Hong Kong time) on 3 December 2004, or, if the application lists of the Public Offer are not open on that day, then by 12:00 noon (Hong Kong time) on the day the lists are open.

Your completed Application Form, with payment in Hong Kong dollars for the full amount payable on application attached, should be deposited into the special collection boxes provided at any of the locations listed under "Where to collect the Prospectuses and the Application Forms for the Public Offer Shares" above at the following times:—

Tuesday, 30 November 2004 – 9:00 a.m. to 4:00 p.m.
Wednesday, 1 December 2004 – 9:00 a.m. to 4:00 p.m.
Thursday, 2 December 2004 – 9:00 a.m. to 4:00 p.m.
Friday, 3 December 2004 – 9:00 a.m. to 12:00 noon

The application lists of the Public Offer will open from 11:45 a.m. (Hong Kong time) to 12:00 noon (Hong Kong time) on 3 December 2004.

Application for the Public Offer Shares will not be processed, and no allotment and transfer of any such Public Offer Shares will be made, until the closing of the application lists.

EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS OF THE PUBLIC OFFER

The application lists of the Public Offer will not open if there is:—

— a tropical cyclone warning signal number 8 or above, or

— a **black** rainstorm warning signal

in force at any time between 9:00 a.m. (Hong Kong time) and 12:00 noon (Hong Kong time) on 3 December 2004 in Hong Kong. Instead, the application lists will open between 11:45 a.m. (Hong Kong time) and 12:00 noon (Hong Kong time) on the next business day which does not have either of those warnings in force at any time between 9:00 a.m. (Hong Kong time) and 12:00 noon (Hong Kong time).

Business day means a day that is not a Saturday, Sunday or public holiday in Hong Kong.

If the application lists of the Public Offer do not open and close on 3 December 2004, the dates mentioned in the section headed "Expected timetable of the Public Offer" in this prospectus and the related Application Forms and other dates mentioned in this prospectus (including, without limitation, the latest time for the exercise of termination rights under the Underwriting Agreements) may be affected. A press announcement will be made in such event in South China Morning Post in English and Hong Kong Economic Times in Chinese.

PUBLICATION OF RESULTS

The Company expects to announce the Offer Price, the final number of Public Offer Shares, the level of applications under the Public Offer, the basis and results of allocation of the Public Offer, the level of indication of interests in the Placing, the number of Shares (if any) reallocated between the Placing and the Public Offer and the Hong Kong Identity Card/passport/Hong Kong Business Registration number of successful applicants, where applicable, under the Public Offer on 8 December 2004 in South China Morning Post in English and Hong Kong Economic Times in Chinese.

FURTHER TERMS AND CONDITIONS OF THE PUBLIC OFFER

1. General

(a) If you apply for Public Offer Shares in the Public Offer, you will be agreeing with the Company and DBS Asia (on behalf of the Public Offer Underwriters) as set out below.

(b) Applicants should read carefully this prospectus, including the terms and conditions of the Public Offer, and the terms and conditions set out in the relevant Application Form prior to making an application.

2. Offer to subscribe Public Offer Shares

(a) You offer to subscribe at the Offer Price the number of the Public Offer Shares indicated in your Application Form as the case may be (or any smaller number in respect of which your application is accepted), is made on the terms and subject to the conditions set out in this prospectus and the relevant Application Form.

(b) If you use an Application Form, a refund cheque in respect of the surplus application monies (if any) representing the Public Offer Shares applied for but not allocated to you and representing the difference (if any) between the Offer Price, as finally determined, and the maximum Offer Price (including brokerage, the Stock Exchange trading fee, the SFC transaction levy and the investor compensation levy attributable thereto), is expected to be sent to you (or the first-named applicant in the case of joint applicant(s)) by ordinary post at your own risk to the address stated on your Application Form on or before 8 December 2004.

Details of the procedure for refunds relating to each of the Public Offer methods are contained below in the paragraphs headed "If your application for Public Offer Shares is successful (in whole or in part)" and "Refund of money" in this section.

(c) Any application may be rejected in whole or in part.

(d) Applicants under the Public Offer should note that in no circumstances (save for those provided under section 40 of the Companies Ordinance (as applied by section 342E of the Companies Ordinance)) can applications be withdrawn once submitted.

3. Acceptance of your offer

(a) The Public Offer Shares will be allocated after the application lists close. The Company expects to announce the Offer Price, the final number of Public Offer Shares, the level of applications under the Public Offer, the basis and results of allocation of the Public Offer, the level of indication of interests in the Placing, the number of Shares (if any) reallocated between the Placing and the Public Offer and the Hong Kong Identity Card/passport/Hong Kong Business Registration number of successful applicants, where applicable, under the Public Offer on 8 December 2004 in South China Morning Post in English and Hong Kong Economic Times in Chinese.

(b) The Company may accept your offer to subscribe (if your application is received, valid, processed and not rejected) by announcing the basis of allocations and/or making available the results of allocations publicly.

(c) If the Company accepts your offer to subscribe (in whole or in part), there will be a binding contract under which you will be required to subscribe the Public Offer Shares in respect of which your offer has been accepted if the conditions of the Offering are satisfied and the Offering is not otherwise terminated. Further details are contained in "Structure and conditions of the Share Offer".

(d) You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance. This does not affect any other right you may have.

4. Effect of making any application

(a) By completing and submitting the Application Form, you (and if you are joint applicants, each of you jointly and severally for yourself or as agent or nominee and on behalf of each person for whom you act as agent or nominee):—

- **instruct** and **authorise** the Company and/or the Sponsor and/or the Public Offer Underwriters (or their respective agents or nominees) to do on your behalf all things necessary to register any Public Offer Shares allotted to you in your name(s), and otherwise to give effect to the arrangements described in the Prospectus;

- **undertake** to sign all documents and to do all things necessary to enable you to be registered as the holder(s) of the Public Offer Shares allotted to you, and as required by the memorandum and articles of association of the Company;

- **represent and warrant** that you understand that the Public Offer Shares have not been and will not be registered under the U.S. Securities Act and you are outside the United States (as defined in Regulation S under the U.S. Securities Act) when completing the Application Form or a person described in the paragraph (i) (3) of Rule 902 of Regulation S under the U.S. Securities Act;

- **confirm** that you have received a copy of this prospectus and have only relied on the information and representations contained in this prospectus and the Application Form in making your application and not on any other information or representation concerning the Company;

- **agree** that the Company, the Sponsor, the Underwriters, their respective directors, and any other parties involved in the Share Offer are not liable for the information and representations not contained in this prospectus and the Application Form;

- **agree** (without prejudice to any other rights which you may have) that once your application has been accepted, you may not rescind it because of an innocent misrepresentation and you may not revoke it other than as provided for in this prospectus and this Application Form;

- (if the application is made for your own benefit) **warrant** that this is the only application which will be made, whether by yourself, by your agent or by any other person, for your benefit on a **WHITE** or **YELLOW** Application Form;

- (if the application is made by an agent on your behalf) warrant that you have validly and irrevocably conferred on your agent all necessary power and authority to make this application;

- (if you are making this application as an agent for another person) **warrant** that reasonable enquiries have been made with the beneficial owner that this is the only application which will be made for the benefit of that other person on a **WHITE** or **YELLOW** Application Form, and that you are duly authorised to sign this form as the other person's agent;

- **warrant** the truth and accuracy of the information contained in your application;

- **undertake** and **confirm** that you (if the application is made for your benefit) or the person(s) for whose benefit you have made this application have not applied for or taken up or indicated an interest in or received or been placed or allocated (conditional and/or provisional) and will not apply for or take up or indicate any interest in any Placing Shares or otherwise participated in the Placing;

- **agree** that your application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong;

- **undertake** and **agree** to accept the Public Offer Shares applied for, or any lesser number allocated to you under this application;

- **agree** to disclose to the Company, the Sponsor, the Public Offer Underwriters, or their respective agents or nominees any information which they require about you or the person(s) for whose benefit you have made the application; and

- **agree** with the Company and each shareholder of the Company that Shares in the Company are freely transferrable by the holders thereof.

(b) If you apply for the Public Offer Shares using a **YELLOW** Application Form, in addition to the confirmations and agreements referred to in (a) above you (and if you are joint applicants, each of you jointly and severally) for yourself or as agent or nominee and on behalf of each person for whom you act as agent or nominee are deemed to do the following:—

- **instruct and authorise** the Company and/or the Sponsor and/or their respective agents or nominees to execute any transfer forms, contract notes or other documents on your behalf and to do on your behalf all things necessary to register any Public Offer Shares allotted to you in the name of HKSCC Nominees Limited, and otherwise to give effect to the arrangements described in this prospectus and the application form;

- **undertake** to sign all documents and to do all things necessary to enable HKSCC Nominees Limited to be registered as the holder of the Public Offer Shares allotted to you, and as required by the memorandum and articles of association of the Company;

- **agree** that the shares to be allotted shall be issued in the name of HKSCC Nominees Limited and deposited directly into CCASS for credit to your Investor Participant stock account or the stock account of your designated CCASS Participant;

- **agree** that each of HKSCC and HKSCC Nominees Limited reserves the right at its absolute discretion (1) **not to accept** any or part of such allotted shares issued in the name of HKSCC Nominees Limited or **not to accept** such allotted shares for deposit into CCASS; (2) to cause such allotted shares to be **withdrawn** from CCASS and transferred into your name (or, if you are joint applicants, into the name of the first-name applicant), at your own risk and costs; and (3) to cause such **allotted shares to be issued in your name** (or, if you are a joint applicant, to the first-named applicant) and in such a case, to **post the certificate(s)** for such allotted shares at your own risk to the address specified on your application form by ordinary post **or to make available the same for your collection**;

- **agree** that each of HKSCC and HKSCC Nominees Limited may adjust the number of Public Offer Shares allotted to you and issued in the name of HKSCC Nominees Limited;

- **agree** that neither HKSCC nor HKSCC Nominees Limited shall have any liability for the information and representations not so contained in this prospectus and the Application Form; and

- **agree** that neither HKSCC nor HKSCC Nominees Limited shall be liable to you in any way.

5. Circumstances in which you will not be allocated Public Offer Shares

Full details of the circumstances in which you will not be allocated Public Offer Shares are set out in the notes attached to the Application Forms, and you should read them carefully. You should note, in particular, the following situations in which Public Offer Shares will not be allocated to you:

(a) *At the discretion of the Company, the Sponsor and/or the Underwriters or their respective agents, your application is rejected:—*

The Company and the Sponsor (acting on behalf of the Underwriters) as agents for the Company, have full discretion to reject or accept any application, or to accept only part of any application. The Company and the Sponsor (acting on behalf of the Underwriters) as agents for the Company do not have to give any reason for any rejection or acceptance.

(b) *Your application is rejected:—*

Your application will be rejected if:—

- it is a multiple application or suspected multiple application;
- your application on this Application Form is for more than 50% of the Public Offer Shares initially made available under the Public Offer;
- your Application Form is not completed correctly;
- you or the person for whose benefit you are applying for have indicated an interest in or have been or will be allotted any Placing Shares;
- your payment is not in the correct form; or
- you pay by cheque or banker's cashier order and the cheque or banker's cashier order is dishonoured on its first presentation.

(c) *All of your applications will also be rejected as multiple applications if more than one application is made for your benefit. If an application is made by an unlisted company and:—*

— the only business of that company is dealing in securities; and

— you exercise statutory control over that company,

then that application will be treated as being for your benefit.

Unlisted company means a company with no equity securities listed on the Stock Exchange.

Statutory control means you:—

— control the composition of the board of directors of that company;

— control more than half the voting power of that company; or

— hold more than half the issued share capital of that company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

(d) *There is only one situation where you may make more than one application for the Public Offer Shares:—*

If you are a nominee, you may lodge more than one application in your own name on behalf of different beneficial owners. In the box on the Application Form(s) marked "For nominees" you must include:—

— an account number; or

— some other identification code

for each beneficial owner. If you do not include this information, the application will be treated as being for your benefit.

Otherwise, multiple applications are not allowed.

(e) *Your application is not accepted:—*

Your application will not be accepted if the Underwriting Agreements do not become unconditional and any acceptance is subject to the Underwriting Agreements not being terminated in accordance with its terms.

(f) *If you revoke your application:—*

You cannot revoke your application until after the expiration of the fifth business day after the time of the opening of application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) unless a person responsible for this prospectus under section 40 of the Companies Ordinance (as applied by section 342E of the Companies Ordinance) gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus before the expiration of that fifth day.

If your application has been accepted, it cannot be revoked. Acceptance of application will be constituted by notification to the press of the basis of allocation and, where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to satisfaction of such conditions or the results of such ballot, respectively.

(g) *The allotment of Public Offer Shares is void:—*

Your allotment of the Public Offer Shares will be void if the Listing Committee does not grant permission to list and deal in the Shares either:—

- within three weeks from the closing date of the application lists; or

- within a longer period of up to six weeks if the Listing Committee notifies the Company of that longer period within three weeks of the closing of the application lists.

6. If your application for public offer shares is successful (in whole or in part)

The Company will not issue temporary documents of title. No receipt will be issued for application money paid.

Share certificates will only become valid certificates of title provided that the Share Offer has become unconditional and has not been terminated in accordance with its terms.

(a) *If you are applying using a* ***WHITE*** Application Form and you elect to receive any share certificate(s) in your name:—

If you have applied for 1,000,000 or more Public Offer Shares and indicated on this Application Form that you will collect your share certificate(s) and/or refund cheque(s) (if any) personally, you may collect them in person from:—

Computershare Hong Kong Investor Services Limited
Shops 1712–1716
17/F Hopewell Centre
183 Queen's Road East
Hong Kong

between 9:00 a.m. and 1:00 p.m. on the date notified by the Company in the newspapers as the date of despatch of share certificate(s) and refund cheque(s) (if any). The despatch date is expected to be on 8 December 2004.

If you are an individual who opts for personal collection, you must not authorise any other person to make collection on your behalf. If you are a corporate applicant which opts for personal collection, you must attend by your authorised representative bearing a letter of authorisation from your company stamped with your company's chop. Both individuals and authorised representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to Computershare Hong Kong Investor Services Limited.

If you do not collect your share certificate(s) and/or refund cheque(s) (if any) personally within the time specified for collection, it/they will be sent to you (or the first-named applicant if you are joint applicant(s)) at the address on your Application Form shortly after the time specified for collection, by ordinary post and at your own risk.

If you have applied for less than 1,000,000 Public Offer Shares, or if you have applied for 1,000,000 or more Public Offer Shares and have not indicated on this Application Form that you will collect your share certificate(s) and/or refund cheque(s) (if any) personally, then your share certificate(s) and/or refund cheque(s) (if any) will be sent to you (or the first-named applicant if you are joint applicant(s)) at the address on your Application Form on the date of despatch, being 8 December 2004 by ordinary post and at your own risk.

(b) *If you are applying on a* ***YELLOW*** Application Form

No receipt will be issued for application money paid.

If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees Limited and deposited into CCASS for the credit of your Investor Participant stock account or your designated CCASS Participant's stock account as instructed by you at the close of business on 8 December 2004 or under contingent situation, on any other date HKSCC or HKSCC Nominees Limited chooses.

If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant):—

— for Public Offer Shares credited to the stock account of your designated CCASS Participant (other than CCASS Investor Participant), you can check the number of Public Offer Shares allotted to you with that CCASS Participant.

If you are applying as a CCASS Investor Participant:—

— the Company will publish the results of CCASS Investor Participants' applications together with the results of the Public Offer in the newspapers on 8 December 2004. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on 8 December 2004 or any other date HKSCC or HKSCC Nominees Limited chooses. Immediately following the credit of the Public Offer Shares to your stock account) you can check your new account balance via the CCASS Phone System and CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC will also make available to you an activity statement showing the number of Public Offer Shares credited to your stock account.

- The Company will not issue temporary documents of title.

- Shares will be eligible for CCASS

Subject to the granting of the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus on the Main Board and the Shares comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealing in the Shares on the Main Board or any other date as determined by HKSCC. Settlement of transactions between Participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day. Investors should seek the advice of their stockbroker(s) or other professional adviser(s) for details of those settlement arrangements as such arrangements will affect their rights and interests.

All activities under CCASS are subject to the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made for the Shares to be admitted into CCASS.

7. Refund of money

If you do not receive any Public Offer Shares for any of the above reasons, the application monies, or the appropriate portion or surplus thereof, together with the brokerage fee, the SFC transaction levy, investor compensation levy and Stock Exchange trading fee, will be refunded to you, without interest (all interest will be retained for the benefit of the Company). The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheques or banker's cashier orders.

Part of your Hong Kong Identity Card number/passport number, or, if you are joint applicants, part of the Hong Kong Identity Card number/passport number of the first-named applicant, provided by you may be printed on your refund cheque(s), if any. Such data would also be transferred to a third party for refund purpose. Your banker may require verification of your Hong Kong Identity Card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong Identity Card number/passport number may lead to delay in encashment of or may invalidate your refund cheque(s).

8. Commencement of Dealings in the Shares on the Main Board

Dealings in the Shares on the Main Board are expected to commence on 9:30 a.m. (Hong Kong time) on 9 December 2004.

Shares will be traded in board lots of 4,000 Shares each. The stock code for the Shares on the Main Board is 2369.

ERNST & YOUNG
安永會計師事務所

15th Floor
Hutchison House
10 Harcourt Road
Central
Hong Kong

30 November 2004

The Directors
China Wireless Technologies Limited
DBS Asia Capital Limited

Dear Sirs,

We set out below our report on the financial information regarding China Wireless Technologies Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for the years ended 31 December 2001, 2002, 2003 and the five months ended 31 May 2004 (the "Relevant Periods") prepared on the basis set out in Section 1 below, for inclusion in the prospectus of the Company dated 30 November 2004 (the "Prospectus").

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 11 June 2002 under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised), of the Cayman Islands for the purpose of acting as a holding company of the subsidiaries set out in Section 1 below. The Company has not carried on any business since the date of its incorporation, save for the acquisition on 31 July 2003 of the entire issued share capital of Yulong Infotech Inc. ("YII") and Digital Tech Inc. ("DTI"), companies incorporated in the British Virgin Islands, which are, as at the date of this report, the intermediate holding companies of the other subsidiary set out in Section 1 below.

At the date of this report, no audited financial statements have been prepared for YII and DTI since their dates of incorporation. We have, however, performed independent audits of the management accounts of these companies since the dates of their incorporation and carried out such procedures as we considered necessary for the inclusion of financial information relating to these companies in this report.

We have audited the combined financial statements of the Group for the three years ended 31 December 2001, 2002, 2003 and the five months ended 31 May 2004 and the financial statements of the Company since the date of its incorporation, which were prepared in accordance with accounting principles generally accepted in Hong Kong. For the purpose of this report, we have undertaken an independent audit of the combined financial statements of the Group for each of the Relevant Periods in accordance with Hong Kong Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants (formerly the Hong Kong Society of Accountants) (the "HKICPA"), and have carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" issued by the HKICPA.

We have acted as auditors of the Company and its subsidiaries for each of the Relevant Periods except for Yulong Computer Telecommunications Scientific (Shenzhen) Co., Ltd. ("Shenzhen Yulong"), the Company's subsidiary established in the People's Republic of

China (the "PRC"). The statutory financial statements of Shenzhen Yulong for the three years ended 31 December 2001, 2002, 2003 were prepared in accordance with accounting principles generally accepted in the PRC and audited by Shenzhen Jing Ye Certified Public Accountants, a firm of certified public accountants in the PRC. We have, however, undertaken an independent audit of the financial statements of these companies for each of the Relevant Periods for the purpose of determining the adjustments necessary to comply with the accounting principles generally accepted in Hong Kong, for inclusion of these companies' financial statements in the combined financial statements of the Group.

The summaries of the combined results, combined statements of changes in equity and combined cash flow statements of the Group for the Relevant Periods and the combined balance sheets of the Group as at 31 December 2001, 2002, 2003 and 31 May 2004 (the "Summaries") and the balance sheets of the Company as at 31 December 2003 and 31 May 2004, together with the notes thereto, set out in this report have been prepared from the audited combined financial statements of the Group, as if the current group structure had been in existence throughout the Relevant Periods or since the respective dates of their incorporation/establishment, whichever is shorter. All material intra-group transactions and balances have been eliminated on combination.

The preparation of the Summaries is the responsibility of the directors of the respective companies, who approve their issuance. The directors of the Company are responsible for the contents of the Prospectus in which this report is included. It is our responsibility to form an independent opinion on the Summaries.

In our opinion, the Summaries together with the notes thereto give, for the purpose of this report, a true and fair view of the combined results and cash flows of the Group for each of the Relevant Periods and of the combined balance sheets of the Group as at 31 December 2001, 2002, 2003 and 31 May 2004 and the balance sheets of the Company as at 31 December 2003 and 31 May 2004.

1. BASIS OF PRESENTATION

The Summaries, which are based on the audited financial statements or, where appropriate, the management accounts of the companies now comprising the Group, include the combined results, combined statements of changes in equity, combined cash flow statements and combined balance sheets of the companies now comprising the Group as if the current group structure had been in existence throughout the Relevant Periods or since the respective dates of their incorporation/establishment, whichever is shorter, except that the results of YII were combined into the Summaries since 11 June 2001, being the date of acquisition of the remaining 48% issued share capital of Shenzhen Yulong from independent third party. All material intra-group transactions and balances have been eliminated on combination.

At the date of this report, the ultimate holding company of the Company is Data Dreamland Holding Limited, a company incorporated in the British Virgin Islands. At the date of this report, the Company had direct or indirect interests in the following subsidiaries, all of which are private companies (or, if incorporated outside Hong Kong, have substantially similar characteristics to a private company incorporated in Hong Kong), the particulars of which are as set out below:

Company name	Place and date of incorporation/ registration and operations	Issued and fully paid-up registered share capital	Equity interest attributable to the Company	Principal activities
Yulong Infotech Inc.	British Virgin Islands ("BVI") 27 June 2000	Ordinary US$50,000	100%	Investment holding
Digital Tech Inc.	BVI 25 March 2002	Ordinary US$10	100%	Investment holding
Yulong Computer Telecommunications Scientific (Shenzhen) Co., Ltd.	The PRC 29 April 1993	Paid-up and registered RMB30,000,000	100% *(Note)*	Wireless solutions and equipment provider for the wireless telecommunication market in the PRC

Note: Shenzhen Yulong is a wholly-foreign-owned enterprise with an operating period of 15 years commencing 29 April 1993 with an original registered capital of RMB3,100,000. On 30 September 2003, Shenzhen Yulong increased its registered capital to RMB30,000,0000 which was fully paid up on the same date.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted by the Group in arriving at the financial information set out in this report, which conform with accounting principles generally accepted in Hong Kong, are as follows:

(a) Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the Relevant Periods were combined from or to their effective dates of acquisition or disposal, respectively.

The results of subsidiaries are included in the Company's combined results to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

(b) Associate

An associate is a company, not being a subsidiary, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The results of associates are included in the Company's combined results to the extent of dividends received and receivable. The Company's interests in associates are treated as long term assets and are stated at cost less any impairment losses.

(c) Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group, and when the revenue can be measured reliably, on the following bases:

(i) for wireless system solutions (other than *Realink PHS Intelligent Coverage System*) sold to telecommunication operators and corporations, revenue is generally recognised by two installments. The first installment of about 40% to 80% of the contract amount is normally recognised when the customer issues a preliminary certification after the installation and testing, while the second installment of the remaining contract amount is normally recognised when the customer issues the final certification after the trial run.

The Group normally provides one-year warranty for its wireless system solutions. At the end of the warranty period, billing for the retention money of about 5% to 10% of the contract amount would be issued to the customers. Such retention money would have been already recognised by the Group upon final certification for acceptance by the customer;

(ii) for *Realink PHS Intelligent Coverage System* sold to telecommunication equipment or solution distributors and wireless terminals sold to telecommunication operators and wireless terminal distributors, revenue is typically recognised upon delivery of the products;

(iii) from the rendering of services associated with goods sold, upon completion of such services;

(iv) rental income, on a time proportion basis over the lease terms;

(v) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and

(vi) government grants, on receipt of such grants.

(d) Fixed assets and depreciation

Fixed assets, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. Construction in progress is stated at cost. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed assets, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life, after taking into account its estimated residual value. The estimated useful lives used for this purpose are as follows:

Buildings	20 years
Furniture, fixtures and office equipment	5 years
Motor vehicles	5 years

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

(e) Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year, except where the unexpired term of the lease is 20 years or less, in which case depreciation is provided on the then carrying amount over the remaining term of the lease.

(f) Research and development costs

All research costs are charged to the profit and loss account as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably, there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are amortised using the straight-line basis over the commercial lives of the underlying products of not exceeding five years commencing from the date when the products are put into commercial production.

At each balance sheet date, the Group assesses whether there is any indication of impairment. If any such indication exists, the recoverable amount will be estimated.

(g) Impairment of assets

An assessment is made at the end of each of the Relevant Periods of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises.

(h) Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the shareholders' capital and reserves section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

(i) Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

Provisions for product warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs and returns.

(j) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any further costs expected to be incurred to completion and disposal.

(k) Leases assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing.

Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

(l) Tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet dates between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised.

(m) Government grants and subsidies

Grants and subsidies from the government are recognised at their fair value where there is reasonable assurance that the grants or subsidies will be received and all attaching conditions will be complied with. When a grant or subsidy relates to an expense item, it is recognised as income over the periods necessary to match it on a systematic basis to the costs which it is intended to compensate. Where the grant or subsidy relates to an asset, the fair value is deducted on arriving at the carrying amount of the related asset.

(n) Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On combination, the financial statements of overseas subsidiaries are translated into Renminbi using the net investment method. The profit and loss accounts of overseas subsidiaries are translated in Renminbi at the weighted average exchange rates for the year. The balance sheets of overseas subsidiaries are translated to Renminbi at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the combined cash flow statement, the cash flows of overseas subsidiaries are translated into Renminbi at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Renminbi at the weighted average exchange rates for the year.

(o) Cash and cash equivalents

For the purpose of the combined cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits which are not restricted as to use.

(p) Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

(q) Borrowing costs

Borrowing costs are expensed in the year in which they are incurred.

(r) Retirement benefits scheme

The Company, YII and DTI have not participated in any retirement benefits scheme since the dates of their incorporation.

The employees of the Group's subsidiary which operates in the Mainland China are required to participate in a central pension scheme operated by the local municipal government. The subsidiary is required to contribute a certain percentage of its payroll costs to the central pension scheme. The contributions are charged to the profit and loss account as they become payable in accordance with the rules of the central pension scheme.

3. COMBINED RESULTS

The following is a summary of the combined results of the Group for the Relevant Periods, prepared on the basis set out in Section 1 above:

		Year ended 31 December			Five months ended 31 May	
		2001	2002	2003	2003	2004
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
		Audited	*Audited*	*Audited*	*Unaudited*	*Audited*
TURNOVER	(a)	84,767	101,329	161,508	47,028	84,189
Cost of sales		(34,317)	(40,454)	(92,845)	(25,151)	(52,372)
Gross profit		50,450	60,875	68,663	21,877	31,817
Other revenue	(a)	1,063	3,551	3,271	1,540	1,885
Selling and distribution costs		(15,716)	(10,155)	(11,818)	(4,620)	(7,503)
Administrative expenses		(18,295)	(16,825)	(15,110)	(5,068)	(7,367)
Other operating expenses		(1,293)	(890)	(494)	(98)	(255)
Profit from operating activities	(b)	16,209	36,556	44,512	13,631	18,577
Finance costs	(d)	(857)	(1,127)	(1,951)	(372)	(828)
Share of losses of an associate		(718)	(315)	(43)	(23)	—
PROFIT BEFORE TAX		14,634	35,114	42,518	13,236	17,749
Tax	(e)	(1,422)	(2,446)	(3,301)	(895)	(2,316)
PROFIT BEFORE MINORITY INTEREST		13,212	32,668	39,217	12,341	15,433
Minority interest		343	—	—	—	—
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		13,555	32,668	39,217	12,341	15,433
Dividends	(f)	—	(20,198)	—	—	—
Earnings per share — Basic (RMB)	(g)	0.05	0.11	0.13	0.04	0.05

Notes:—

(a) Turnover and revenue

Turnover represents the net invoiced value of goods sold and services rendered during the Relevant Periods, 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 combination.

Revenue is analysed as follows:

	Year ended 31 December			Five months ended 31 May	
	2001	**2002**	**2003**	**2003**	**2004**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Audited	*Audited*	*Audited*	*Unaudited*	*Audited*
Turnover					
Sale of wireless system solutions and wireless terminals	84,767	101,329	161,508	47,028	84,189
Other revenue					
Gain on disposal of an associate — note 4(c)	—	—	—	—	1,076
Rental income	—	207	310	129	129
Interest income	60	77	117	41	50
Government grants	—	2,529	1,810	1,205	443
Maintenance income	550	379	733	165	56
Sundry income	453	359	301	—	131
	1,063	3,551	3,271	1,540	1,885
	85,830	104,880	164,779	48,568	86,074

(b) Profit from operating activities

The Group's profit from operating activities is arrived at after charging/(crediting):

	Year ended 31 December			Five months ended 31 May	
	2001	**2002**	**2003**	**2003**	**2004**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Audited	*Audited*	*Audited*	*Unaudited*	*Audited*
Cost of inventories sold and services provided	34,317	40,454	92,845	25,151	52,372
Auditors' remuneration	212	493	854	—	428
Amortisation of product development costs	—	28	400	307	563
Depreciation	2,985	3,155	2,556	1,198	1,154
Operating lease rental	—	—	110	158	46
Provision/(write-back) for doubtful debts	788	1,727	(315)	—	(7)
Provision for other receivables	—	299	—	—	—
Write-off of obsolete inventories	804	—	—	—	—
Loss on disposal of fixed assets	473	791	74	9	98
Staff costs (including directors' and senior executives' emoluments — note 3(c)):					
Salaries and wages	11,882	9,497	11,117	5,396	7,612
Staff welfare expenses	625	499	585	313	401
Pension scheme contributions	565	656	960	358	509
Total staff costs	13,072	10,652	12,662	6,067	8,522
Rental income	—	(207)	(310)	(129)	(129)
Interest income	(60)	(77)	(117)	(41)	(50)

(c) Directors' and five highest paid individuals

Details of directors' remuneration are as follows:

	Year ended 31 December			Five months ended 31 May	
	2001	**2002**	**2003**	**2003**	**2004**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Audited	*Audited*	*Audited*	*Unaudited*	*Audited*
Fees	—	—	—	—	—
Salaries, allowances and benefits in kind	148	210	368	154	153
Performance-related bonuses	—	—	—	—	—
Pension scheme contributions	—	2	4	2	2
	148	212	372	156	155

The number of directors whose remuneration fell within the following bands is as follows:

	Year ended 31 December			Five months ended 31 May	
	2001	**2002**	**2003**	**2003**	**2004**
	Audited	*Audited*	*Audited*	*Unaudited*	*Audited*
Nil to HK$1,000,000	3	4	5	4	4

The numbers of directors and non-directors included in the five highest paid individuals in the Group during the Relevant Periods are as follows:

	Year ended 31 December			Five months ended 31 May	
	2001	**2002**	**2003**	**2003**	**2004**
	Audited	*Audited*	*Audited*	*Unaudited*	*Audited*
Directors	1	1	2	2	2
Non-directors	4	4	3	3	3
	5	5	5	5	5

The information relating to emoluments of the directors has been disclosed above. Details of the emoluments of the non-director, highest paid individuals during the Relevant Periods are as follows:

	Year ended 31 December			Five months ended 31 May	
	2001	**2002**	**2003**	**2003**	**2004**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Audited	*Audited*	*Audited*	*Unaudited*	*Audited*
Salaries, allowances and benefits in kind	498	498	378	160	166
Performance-related bonuses	—	—	—	—	—
Pension scheme contributions	10	10	8	3	3
	508	508	386	163	169

During the Relevant Periods, no emoluments were paid by the Group to the directors of the Company or any of the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office. No director waived or agreed to waive any emoluments during the Relevant Periods.

(d) Finance costs

	Year ended 31 December			Five months ended 31 May	
	2001	**2002**	**2003**	**2003**	**2004**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Audited	*Audited*	*Audited*	*Unaudited*	*Audited*
Interest expense on an amount due to a director	474	661	120	120	—
Interest expense on bank loans wholly repayable within one year	383	466	1,471	252	828
Interest expense on discounted trade receivables	—	—	360	—	—
	857	1,127	1,951	372	828

(e) Tax

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

	Year ended 31 December			Five months ended 31 May	
	2001	**2002**	**2003**	**2003**	**2004**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Audited	*Audited*	*Audited*	*Unaudited*	*Audited*
Current year provision:					
Hong Kong	—	—	—	—	—
Mainland China	1,422	2,446	3,301	895	2,316
Total tax charge for the year	1,422	2,446	3,301	895	2,316

According to the Income Tax Law of the PRC for Foreign Investment Enterprises and Foreign Enterprises and as approved by relevant tax authorities, Shenzhen Yulong, a wholly-owned subsidiary of the Company operating in the PRC, which is qualified as a high-technology enterprise and operates in Shenzhen, was exempted from 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 and applicable corporate income tax rate was 7.5% for the three years ended 31 December 2001, 2002 and 2003. Income tax rate of 15% was applied for the five months ended 31 May 2004.

A reconciliation of the expected tax expense with the actual tax expense is presented below:

	Year ended 31 December			Five months ended 31 May	
	2001	2002	2003	2003	2004
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Audited	*Audited*	*Audited*	*Unaudited*	*Audited*
Profit before tax	14,634	35,114	42,518	13,236	17,749
Tax at the applicable tax rate	1,098	2,634	3,189	993	2,662
Expenses not deductible for tax purposes	324	—	112	—	—
Tax exemptions/deductions	—	(188)	—	(98)	(346)
	1,422	2,446	3,301	895	2,316

(f) Dividends

No dividend has been paid or declared by the Company since the date of its incorporation.

During the Relevant Periods, dividends in the aggregate amount of RMB20,198,000 were declared and fully paid by Shenzhen Yulong to its then shareholders on 28 February 2002 and 27 June 2002, respectively.

The dividend rates and the number of shares ranking for dividends are not presented because such information is not considered meaningful for the purpose of this report.

(g) Earnings per share

The calculation of basic earnings per share for the Relevant Periods is based on the net profit from ordinary activities attributable to shareholders for each of the Relevant Periods and on the assumption that 300,000,000 shares were deemed to have been in issue throughout the Relevant Periods, comprising 22,000,000 shares in issue as at the date of the Prospectus and 278,000,000 shares to be issued pursuant to the capitalisation issue, as described more fully in the paragraph headed "Written resolutions of all the Shareholders of the Company date 21 November 2004" in the section headed "Further information about the Company" in Appendix VI to the Prospectus.

No diluted earnings per share amounts have been presented as the Company did not have any dilutive potential ordinary shares during the Relevant Periods.

(h) Related party transactions

During the Relevant Periods, the Group had the following material transactions with related parties:

	Year ended 31 December			Five months ended 31 May	
	2001	2002	2003	2003	2004
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Audited	*Audited*	*Audited*	*Unaudited*	*Audited*
Rental expense to a related company	—	—	110	46	46
Interest expense on an amount due to a director *(note 3(d))*	474	661	120	120	—

During the year of 2001, Shenzhen Yulong used the office building facilities of Shenzhen Space Star Company Limited ("Space Star"), a related company of the Company, for a period of 12 months free of charge. The market value of rental expenses for leasing the office building facilities was RMB824,000 for the year of 2001. Shenzhen Yulong no longer used the office building since 1 January 2002.

During the years of 2001 and 2002, Shenzhen Yulong used the warehouse facilities of Space Star for a period of 24 months free of charge. The market value of total rental expenses for leasing the warehouse facilities was RMB220,000 for the years of 2001 and 2002.

During the years of 2003 and 2004, Shenzhen Yulong used the warehouse facilities of Space Star with an annual charge of RMB110,000. The rental charge was made according to the market value.

Interest expenses on an amount due to a director was calculated at 6.9% per annum, which was the interest rate for mortgage loans of China Merchants Bank.

4. COMBINED BALANCE SHEETS

Set out below is a summary of the combined balance sheets of the Group as at the end of each of the Relevant Periods prepared on the basis set out in Section 1 above:

		Group			
		31 December			31 May
		2001	2002	2003	2004
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
NON-CURRENT ASSETS					
Fixed assets	(a)	9,193	24,004	23,593	24,145
Investment property	(b)	—	2,274	2,274	2,274
Interest in an associate	(c)	782	467	424	—
Product development costs	(d)	676	1,656	6,328	8,350
		10,651	28,401	32,619	34,769
CURRENT ASSETS					
Inventories	(e)	36,451	19,693	20,883	33,393
Trade receivables	(f)	9,362	36,257	108,016	99,484
Prepayments, deposits and other receivables	(g)	15,858	9,547	30,810	38,256
Tax prepaid		780	—	—	—
Due from related companies	(i)	15,037	717	—	—
Due from a director	(j)	5,173	—	—	1,046
Pledged time deposit	(h)	—	—	8,270	—
Cash and cash equivalents	(h)	12,895	9,457	18,713	49,670
		95,556	75,671	186,692	221,849
CURRENT LIABILITIES					
Trade payables	(k)	10,103	7,580	20,811	25,728
Notes payable	(l)	—	4,492	23,090	22,368
Tax payable		—	682	4,099	6,382
Other payables and accruals	(m)	60,815	34,513	32,975	49,460
Short term bank and other loans	(n)	11,000	6,000	31,600	36,000
Due to related companies	(i)	4,192	—	3,579	46
Due to directors	(j)	2,713	20,536	1,956	—
		88,823	73,803	118,110	139,984
NET CURRENT ASSETS		6,733	1,868	68,582	81,865
TOTAL ASSETS LESS CURRENT LIABILITIES		17,384	30,269	101,201	116,634
Represented by:					
Combined shareholders' equity	Section 5	17,384	30,269	101,201	116,634

		Company	
		31 December	**31 May**
		2003	**2004**
	Notes	*RMB'000*	*RMB'000*
NON-CURRENT ASSETS			
Interests in subsidiaries	(o)	68,748	70,612
		68,748	70,612
CURRENT ASSETS			
Prepayments, deposits and other receivables		1,536	2,008
Cash and cash equivalents	(h)	9,294	8,357
		10,830	10,365
CURRENT LIABILITIES			
Due to a director	(j)	—	1,378
NET CURRENT ASSETS		10,830	8,987
TOTAL ASSETS LESS CURRENT LIABILITIES		79,578	79,599
CAPITAL AND RESERVES	Section 5		
Issued capital		42	42
Share premium		31,673	31,673
Contributed surplus		47,866	47,866
(Accumulated loss)/retained profits		(3)	18
		79,578	79,599

Notes: The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 11 June 2002 under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised), of the Cayman Islands for the purpose of acting as a holding company of the subsidiaries set out in Section 1 and remained dormant till 31 July 2003 when it acquired the entire issued share capital of YII and DTI.

Notes:

(a) Fixed assets

	Buildings *RMB'000*	Furniture, fixtures and office equipment *RMB'000*	Motor vehicles *RMB'000*	Total *RMB'000*
Cost:				
At 1 January 2001	5,514	10,795	3,016	19,325
Additions	6	1,334	231	1,571
Disposals	(785)	(44)	—	(829)
At 31 December 2001	4,735	12,085	3,247	20,067
Additions	17,333	1,448	—	18,781
Disposals	(2,488)	(107)	—	(2,595)
At 31 December 2002	19,580	13,426	3,247	36,253
Additions	—	2,212	7	2,219
Disposals	(9)	(316)	—	(325)
At 31 December 2003	19,571	15,322	3,254	38,147
Additions	—	1,804	—	1,804
Disposals	—	(909)	—	(909)
At 31 May 2004	19,571	16,217	3,254	39,042
Accumulated depreciation and impairment:				
At 1 January 2001	1,565	4,675	1,807	8,047
Provided during the year	710	1,860	415	2,985
Written back on disposals	(134)	(24)	—	(158)
At 31 December 2001	2,141	6,511	2,222	10,874
Provided during the year	1,025	1,764	366	3,155
Written back on disposals	(1,746)	(34)	—	(1,780)
At 31 December 2002	1,420	8,241	2,588	12,249
Provided during the year	916	1,508	132	2,556
Written back on disposals	—	(251)	—	(251)
At 31 December 2003	2,336	9,498	2,720	14,554
Provided during the five months ended 31 May 2004	405	694	55	1,154
Written back on disposals	—	(811)	—	(811)
At 31 May 2004	2,741	9,381	2,775	14,897
Net book value:				
At 31 December 2001	2,594	5,574	1,025	9,193
At 31 December 2002	18,160	5,185	659	24,004
At 31 December 2003	17,235	5,824	534	23,593
At 31 May 2004	16,830	6,836	479	24,145

The office building of the Group is located at 8/F B. High Tech Plaza, Tian An Cyberpark, Chegongmiao, Shenzhen, the PRC, with a net book value of RMB13 million as at 31 May 2004. The dormitory of the Group is located at Taoyuan Village, Longzhu Avenue, Nansan District, Shenzhen, the PRC, with a net book value of RMB4 million as at 31 May 2004, with transfer restrictions.

As at 31 May 2004, the Group's buildings with a net book value of approximately RMB13 million were pledged to secure a short term bank loan granted to the Group by Commercial Bank of Shenzhen. For details of the short term bank loan, please refer to note 4(n).

(b) Investment property

	RMB'000
Cost:	
At 1 January 2001 and 2002	—
Additions during the year 2002	2,274
At 31 December 2002	2,274
Additions during the year 2003	—
At 31 December 2003	2,274
Additions during the five months ended 31 May 2004	—
At 31 May 2004	2,274

The Group's investment property represents an office apartment located at Room A801, High Tech Plaza, Tian An Cyberpark, Chegongmiao, Shenzhen, the PRC, and held under medium leases, which has been leased to a third party for a lease term to May 2005. The directors consider that the carrying amount of the above investment property did not differ materially from its fair value as at 31 December 2002, 2003 and 31 May 2004 and therefore the investment property was stated at its carrying amount.

As at 31 May 2004, the Group's investment property with a carrying amount of approximately RMB2.3 million was pledged to secure a short term bank loan granted to the Group by Commercial Bank of Shenzhen. For details of the short term bank loan, please refer to note 4(n).

(c) Interest in an associate

	31 December			**31 May**
	2001	**2002**	**2003**	**2004**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Share of net assets of an associate	782	467	424	—

Particulars of the associate, which was established and operates in the PRC, were as follows:

Company	**Percentage of equity interest held**	**Principal activities**
Shenzhen Yi Wei Digital Technology Co., Ltd. ("Shenzhen Yi Wei")	30%	Development and design of website and development of software for network gaming

Shenzhen Yi Wei is a Sino-foreign equity joint venture with an operating period of 20 years commencing 18 January 2001. The registered capital of Shenzhen Yi Wei was fully paid up in 2001. 70% and 30% of the issued share of Shenzhen Yi Wei was held by Space Star, a related company of the Group, and YII respectively. Shenzhen Yi Wei became dormant since June 2002. In February 2004, 30% of the issued shares of Shenzhen Yi Wei were disposed of by YII to a third party at a price of RMB1.5 million. The net book value of Shenzhen Yi Wei as at the disposal date was RMB424,000. Hence a gain on disposal of RMB1,076,000 was generated from this transaction.

(d) Product development costs

	RMB'000
Cost:	
At 1 January 2001	—
Addition during the year 2001	676
At 31 December 2001	676
Addition during the year 2002	1,008
At 31 December 2002	1,684
Addition during the year 2003	5,072
At 31 December 2003	6,756
Addition during the five months ended 31 May 2004	2,585
At 31 May 2004	9,341
Accumulated amortisation:	
At 1 January 2001 and 2002	—
Provided during the year 2002	28
At 31 December 2002	28
Provided during the year 2003	400
At 31 December 2003	428
Provided during the five months ended 31 May 2004	563
At 31 May 2004	991
Net book value:	
At 31 December 2001	676
At 31 December 2002	1,656
At 31 December 2003	6,328
At 31 May 2004	8,350

(e) Inventories

	31 December			**31 May**
	2001	**2002**	**2003**	**2004**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	6,037	6,691	10,484	13,509
Work in progress	1,501	2,086	2,652	2,341
Finished goods	28,913	10,916	7,747	17,543
	36,451	19,693	20,883	33,393

No inventory was stated at net realisable value as at 31 December 2001, 2002, 2003 and 31 May 2004.

(f) Trade receivables

The Group's trading terms with its customers are mainly on credit. The credit period is generally for a period of three months and a longer credit term of six months may be extended to customers with long term business relationships and good repayment history. The balances include retention money which is generally receivable upon completion of the one to two year warranty period granted to customers, or after six months upon final verification of products by customers.

An aged analysis of the trade receivables as at the end of the Relevant Periods, based on invoice date and net of provisions, is as follows:

	31 December			31 May
	2001	**2002**	**2003**	**2004**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 3 months	2,886	14,368	45,586	27,544
4 to 6 months	3,468	10,186	24,888	40,646
7 to 12 months	2,362	10,445	36,425	30,274
More than 1 year	646	1,258	1,117	1,020
	9,362	36,257	108,016	99,484

(g) Prepayments, deposits and other receivables

		31 December			31 May
		2001	**2002**	**2003**	**2004**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Prepayment to suppliers		10,067	5,007	17,902	18,666
Advances to staff and representative office	(i)	3,160	1,688	6,605	8,561
Sample products borrowed by sales staff	(ii)	1,625	1,908	2,390	3,342
Others		1,006	944	3,913	7,687
		15,858	9,547	30,810	38,256

Notes:

(i) Advances to staff mainly represent advances granted to staff of the sales department for business trips and operation; advances to representative office for future development mainly represent advances granted to sales contact points for office maintenance expenses and purchases of low value consumables.

(ii) Sample products borrowed by sales staff mainly represent the cost of sample products borrowed by salesmen for promotion and exhibition. These sample products would be returned after sales promotion and exhibition.

(h) Cash and bank balances

As at 31 December 2001, 2002 and 2003 and 31 May 2004 the Group's cash and bank balances equivalents denominated in Renminbi ("RMB") amounted to approximately RMB12,895,000, RMB9,457,000, RMB26,983,000 and RMB49,670,000 respectively. RMB is not freely convertible into foreign currencies in the PRC. Under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks authorised to conduct foreign exchange business.

As at 31 December 2003, the Group's cash and bank balances of RMB26,983,000 included cash and bank balances of RMB18,713,000 and a time deposit of US$1 million (equivalent to RMB8,270,000) which was pledged to secure a short term bank loan granted to the Group by Industrial Bank Co., Ltd,. For details of the short term bank loan, please refer to note 4(n). The pledged time deposit was released in May 2004. Apart from the pledge time deposit, all of the cash and bank balances were not restricted as to use.

(i) Due from/to related companies

The balances due from/to related companies were unsecured and interest-free. The amounts due to related companies as at 31 May 2004 were fully settled in June 2004.

(j) Amounts due from a director/due to directors

Particulars of the amounts due from a director/due to directors disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance, Chapter 32 of the Laws of Hong Kong, are as follows:

Group

Amount due from a director

	At 31 December 2001	Maximum amount outstanding during the year 2001	At 1 January 2001
	RMB'000	*RMB'000*	*RMB'000*
Mr. Deying Guo	5,173	6,091	3,214

	At 31 December 2002	Maximum amount outstanding during the year 2002	At 1 January 2002
	RMB'000	*RMB'000*	*RMB'000*
Mr. Deying Guo	—	5,173	5,173

	At 31 May 2004	Maximum amount outstanding during the five months ended 31 May 2004	At 1 January 2004
	RMB'000	*RMB'000*	*RMB'000*
Mr. Deying Guo	1,046	3,993	—

The amount due from a director was unsecured, interest-free and was fully settled in June 2004.

Amounts due to directors

	31 December			31 May
	2001	2002	2003	2004
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Mr. Deying Guo	—	19,406	824	—
Ms. Xiao Yang	2,552	498	500	—
Ms. Dehui Ma	161	632	632	—
Total	2,713	20,536	1,956	—

The amount due to Mr. Deying Guo of RMB11,000,000 as at 31 December 2002 bore annual interest of 6.9%, which was being the interest rate for mortgage loans of China Merchants Bank, and was repaid in March 2003. Such borrowing was for the mortgage of the Group's office building, which is located at Shenzhen, the PRC. Apart from the above amount, all of the amounts due to directors, which were operating in nature, were unsecured, interest-free and were fully settled in June 2004.

Company

	31 May 2004
	RMB'000
Mr. Deying Guo	1,378

The amount due to the director was unsecured, interest-free and fully settled in June 2004.

(k) Trade payables

An aged analysis of the Group's trade payables as at the end of each of the Relevant Periods, based on invoice date, is analysed as follows:

	31 December			31 May
	2001	2002	2003	2004
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 3 months	3,866	4,077	14,003	4,775
4 to 6 months	2,346	1,084	1,262	10,825
7 to 12 months	2,472	550	3,002	6,841
More than 1 year	1,419	1,869	2,544	3,287
	10,103	7,580	20,811	25,728

(l) Notes payable

Notes payable represent bank draft against acceptance made to certain suppliers. The aging of the Group's notes payables as at the end of each of the Relevant Periods, based on invoice date, are all within three months.

(m) Other payables and accruals

A breakdown of other payables and accruals as at the end of each of the Relevant Periods is as follows:

	31 December 2001	2002	2003	31 May 2004
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Advance from customers	54,749	21,891	2,438	8,857
VAT payable	(1,661)	4,663	19,630	28,231
Accrued subcontracting fee	—	—	1,284	1,903
Accrued salary	1,781	1,160	1,626	1,820
Due to Dickman Enterprises Company Limited *(note)*	3,179	3,179	3,179	3,179
Others	2,767	3,620	4,818	5,470
	60,815	34,513	32,975	49,460

Note:

Dickman Enterprises Company Limited was a 48% equity shareholder of YII before 11 June 2001, the date of acquisition of the remaining 48% issued share capital of Shenzhen Yulong.

(n) Short term bank and other loans

	Notes	31 December 2001	2002	2003	31 May 2004
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Government loan, wholly repayable within one year:					
Unsecured	(i)	1,000	—	—	—

		31 December 2001	2002	2003	31 May 2004
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Bank loans, wholly repayable within one year:					
Secured	(ii)	10,000	6,000	17,600	10,000
Guaranteed	(iii)	—	—	14,000	—
Unsecured	(iv)	—	—	—	26,000
		10,000	6,000	31,600	36,000

Notes:

(i) The loan was granted by the Shenzhen Finance Bureau for encouragement of high technology development. Such loan was interest-free and was fully repaid in September 2002.

(ii) The bank loans as at 31 December 2001 and 2002 were secured by trade receivables of Shenzhen Yulong of RMB40,200,000, both carried an average annual interest rate of 5.84% and were repaid in 2002 and 2003, respectively.

Secured bank loans as at 31 December 2003 represented loans from:

(1) Commercial Bank of Shenzhen amounting to RMB10 million which was secured by the office buildings and investment property of Shenzhen Yulong with a net book value of approximately RMB13 million and RMB2.3 million, respectively, as at 31 December 2003, carried an average annual interest rate of 5.58% and was repaid in 2004. For the office buildings and investment property, please refer to note 4(a) and 4(b), respectively.

(2) Industrial Bank Co., Ltd. amounting to RMB7.6 million which was secured by a time deposit of the Company in Industrial Bank Co., Ltd. of US$1 million, carried an average annual interest rate of 5.54% and was repaid in 2004. For details of the pledged time deposit, please refer to note 4(h).

Secured bank loan as at 31 May 2004 represented a loan from:

(1) Commercial bank of Shenzhen amounting to RMB10 million which was secured by the office buildings and investment property of Shenzhen Yulong with a net book value of approximately RMB13 million and RMB2.3 million, respectively, as at 31 May 2004, carried an annual interest rate of 5.84% and was repayable within one year.

(iii) Guaranteed bank loans as at 31 December 2003 represented loans from:

(1) Commercial Bank of Shenzhen amounting to RMB8 million which was guaranteed by Mr. Deying Guo, carried an average annual interest rate of 5.84% and was repayable within one year.

(2) Industrial Bank Co., Ltd. amounting to RMB6 million which was guaranteed by Mr. Deying Guo, carried an average annual interest rate of 5.84% and was repayable within one year.

The above guarantees from Mr. Deying Guo have been released subsequent to 31 December 2003 and these guaranteed loans have been reclassified to unsecured loans.

(iv) Unsecured loans as at 31 May 2004 represented loans from:

(1) Commercial Bank of Shenzhen amounting to RMB20 million which carried an average annual interest rate of 5.65% and was repayable within one year. The due date for this loan is from 13 June 2004 to 10 September 2004.

(2) Industrial Bank Co., Ltd amounting to RMB6 million which carried an annual interest rate of 5.84% was repayable within one year. The due date for this loan is from 9 July 2004 to 31 July 2004.

(o) Interests in subsidiaries

	31 December 2003 *RMB'000*	**31 May 2004** *RMB'000*
Unlisted shares, at cost	47,866	47,866
Due from subsidiaries	20,882	22,746
	68,748	70,612

The amounts due from/to subsidiaries included in the Company's current assets and current liabilities are unsecured, interest-free and have no fixed terms of repayment.

(p) Contingent liabilities

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

		31 December			31 May
		2001	2002	2003	2004
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables discounted with recourse	(i)	—	—	1,350	1,350

(i) The trade receivables discounted with recourse to Communication Bank of China belonged to Shenzhen Yulong, a subsidiary of the Company.

(q) Commitments

The Group leases certain of its warehouse premises and office building premises under operating lease arrangements for a lease term of 51 months and 12 months, respectively. 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:

	31 December			31 May
	2001	2002	2003	2004
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one year	—	—	135	167
In the second to fifth years, inclusive	—	—	439	202
Over five years	—	—	219	—
	—	—	793	369

5. COMBINED STATEMENTS OF CHANGES IN EQUITY

The following is a summary of the combined statements of changes in shareholders' equity of the Group for the Relevant Periods, prepared on the basis set out in Section 1 above:

	Group						
	Issued share capital Ordinary	Issued share capital Preference	Share premium account	Contributed surplus	Statutory reserves	Retained profits	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2000	—	—	—	—	1,225	2,604	3,829
Arising from further acquisition of equity interest in a subsidiary	—	—	—	—	1,131	(1,131)	—
Profit for the year 2001 attributable to shareholders	—	—	—	—	—	13,555	13,555
At 31 December 2001 and 1 January 2002	—	—	—	—	2,356	15,028	17,384
Contributed surplus	—	—	—	415	—	—	415
Profit for the year 2002 attributable to shareholders	—	—	—	—	—	32,668	32,668
Dividends	—	—	—	—	—	(20,198)	(20,198)
At 31 December 2002 and 1 January 2003	—	—	—	415	2,356	27,498	30,269
Issue of preference shares *(note 1)*	—	42	31,673	—	—	—	31,715
Conversion of preference shares to ordinary shares *(note 2)*	42	(42)	—	—	—	—	—
Profit for the year 2003 attributable to shareholders	—	—	—	—	—	39,217	39,217
At 31 December 2003 and 1 January 2004	42	—	31,673	415	2,356	66,715	101,201
Profit for the five months ended 31 May 2004 attributable to shareholders	—	—	—	—	—	15,433	15,433
At 31 May 2004	42	—	31,673	415	2,356	82,148	116,634
As 31 December 2002 and 1 January 2003	—	—	—	415	2,356	27,498	30,269
Profit for the five months ended 31 May 2003 attributable to shareholders Unaudited	—	—	—	—	—	12,341	12,341
At 31 May 2003 Unaudited	—	—	—	415	2,356	39,839	42,610

Company

	Issued share capital Ordinary	Issued share capital Preference	Share premium account	Contribution surplus	Statutory reserves	Retained profits/ (accumulated losses)	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Issue of preference shares *(Note 1)*	—	42	31,673	—	—	—	31,715
Conversion of preference shares to ordinary shares *(note 2)*	42	(42)	—	—	—	—	—
Contributed surplus	—	—	—	47,866	—	—	47,866
Loss for the period attributable to shareholders	—	—	—	—	—	(3)	(3)
At 31 December 2003 and 1 January 2004	42	—	31,673	47,866	—	(3)	79,578
Contributed surplus	—	—	—	—	—	—	—
Profit for the five months ended 31 May 2004 attributable to shareholders	—	—	—	—	—	21	21
At 31 May 2004	42	—	31,673	47,866	—	18	79,599

Notes:

1. On 23 August 2003, the Group issued 4 million preference shares to JAFCO Asia Technology Fund for a cash consideration of US$4 million (equivalent to RMB33 million), The net proceeds from the issuance of preference shares are approximately RMB31,715,000.

2. On 22 December 2003, 4 million preference share were converted to 4 million ordinary shares.

6. COMBINED CASH FLOW STATEMENTS

The combined cash flow statements of the Group for the Relevant Periods prepared on the basis set out in Section 1 above are as follows:

	Year ended 31 December			Five months ended 31 May	
	2001	**2002**	**2003**	**2003**	**2004**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Audited	*Audited*	*Audited*	*Unaudited*	*Audited*
CASH FLOWS FORM OPERATING ACTIVITIES					
Profit before tax	14,634	35,114	42,518	13,236	17,749
Adjustments for:					
Gain on disposal of an associate	—	—	—	—	(1,076)
Interest income	(60)	(77)	(117)	(41)	(50)
Interest expense	857	1,127	1,951	372	828
Depreciation	2,985	3,155	2,556	1,198	1,154
Amortisation of product development costs	—	28	400	307	563
Loss on disposal of fixed assets	473	791	74	9	98
Provision for doubtful debts	788	1,727	—	—	—
Provision for other receivables	—	299	—	—	—
Write-back of doubtful debts	—	—	(315)	—	(7)
Share of losses of an associate	718	315	43	23	—
Write off of obsolete inventories	804	—	—	—	—
Operating profit before working capital changes	21,199	42,479	47,110	15,104	19,259
(Increase)/decrease in inventories	5,447	16,758	(1,190)	11,591	(12,510)
(Increase)/decrease in trade receivables	68	(28,620)	(71,445)	(43,229)	8,539
(Increase)/decrease in prepayments, deposits and other receivables	(2,129)	3,908	(21,075)	(2,404)	(5,946)
(Increase)/decrease in amounts due from related companies	1,263	14,320	717	65	—
(Increase)/decrease in an amount due from a director	(1,959)	(11,665)	—	—	(1,046)
Increase/(decrease) in trade payables	(1,878)	(2,523)	13,231	(151)	4,917
Increase/(decrease) in notes payable	—	4,492	18,598	3,749	(722)
Increase/(decrease) in other payables and accruals	(29,153)	(26,971)	(1,497)	7,292	16,485
Increase/(decrease) in amounts due to related companies	3,895	(4,192)	3,579	—	(3,533)
Increase/(decrease) in amounts due to directors	1,362	17,823	(1,742)	(1,021)	(1,956)
Cash generated from operations	(1,885)	25,809	(13,714)	(9,004)	23,487
Tax paid	(1,005)	(984)	—	—	(34)
Net cash inflow/(outflow) from operating activities	(2,890)	24,825	(13,714)	(9,004)	23,453

	Year ended 31 December			Five months ended 31 May	
	2001	2002	2003	2003	2004
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Audited	*Audited*	*Audited*	*Unaudited*	*Audited*
CASH FLOWS FROM INVESTING ACTIVITIES					
Additions of fixed assets	(1,569)	(1,445)	(19,169)	(228)	(1,803)
Additions of product development costs	(676)	(1,008)	(5,072)	(1,577)	(2,585)
Acquisition of an associate	(1,500)	—	—	—	—
Proceeds from disposal of fixed assets	197	23	—	—	—
Interest received	60	77	117	41	50
Increase/(decrease) of pledged time deposit	—	—	(8,270)	—	8,270
Net cash inflow/(outflow) from investing activities	(3,488)	(2,353)	(32,394)	(1,764)	3,932
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issuance of share capital	—	415	31,715	—	—
New bank loans	11,000	13,000	69,581	11,800	32,000
Repayment of bank loans	(1,700)	(18,000)	(43,981)	(3,000)	(27,600)
Interest paid	(857)	(1,127)	(1,951)	(372)	(828)
Dividends paid	—	(20,198)	—	—	—
Net cash inflow/(outflow) from financing activities	8,443	(25,910)	55,364	8.428	3,572
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	2,065	(3,438)	9,256	(2,340)	30,957
Cash and cash equivalents at beginning of year/period	10,830	12,895	9,457	9,457	18,713
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD	12,895	9,457	18,713	7,117	49,670
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS					
Cash and cash equipments	12,895	9,457	18,713	7,117	49,670

7. SEGMENT INFORMATION

The Group's operating businesses are organised 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 other business segments in the PRC market. Summary of details of the business segments are as follows:

(a) **the Wireless system solutions segment** is for the use of network operators to extend and to enhance the transmission quality of their telecommunication network and to support telecommunication services together with management functions and user interface that could provide value-added services to subscribers;

(b) **the Wireless terminals segment** consists of one-way wireless information receivers currently offered in the form of PDA, fixed wireless terminals mainly for commercial use in office or retail stores and smartphones which integrates a mobile phone and a PDA with wireless applications like e-mail and Internet browsing.

During the Relevant Periods, the Group's revenue, expenses, results, assets and liabilities and capital expenditure were principally generated in the PRC. Accordingly, an analysis by geographical segment is not presented in this report.

	Year ended 31 December			Five months ended 31 May	
	2001	**2002**	**2003**	**2003**	**2004**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Audited	*Audited*	*Audited*	*Unaudited*	*Audited*
Segment revenue:					
Wireless system solutions	84,199	94,950	48,799	31,871	15,360
Wireless terminals	568	6,379	112,709	15,157	68,829
Combined revenue	84,767	101,329	161,508	47,028	84,189
Segment net profit:					
Wireless system solutions	25,765	37,742	23,988	13,145	8,658
Wireless terminals	(154)	1,445	26,564	2,694	13,744
	25,611	39,187	50,552	15,839	22,402
Unallocated corporate expenses	(9,402)	(2,631)	(6,040)	(2,208)	(3,825)
Profit from operating activities	16,209	36,556	44,512	13,631	18,577
Finance costs, net	(857)	(1,127)	(1,951)	(372)	(828)
Share of losses of associates	(718)	(315)	(43)	(23)	—
Profit before tax	14,634	35,114	42,518	13,236	17,749
Tax	(1,422)	(2,446)	(3,301)	(895)	(2,316)
Profit before minority interest	13,212	32,668	39,217	12,341	15,433
Minority interest	343	—	—	—	—
Net profit from ordinary activities attributable to shareholders	13,555	32,668	39,217	12,341	15,433

	31 December			31 May
	2001	2002	2003	2004
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Segment assets:				
Wireless system solutions	50,019	53,928	49,498	49,700
Wireless terminals	1,834	11,835	104,634	118,150
Unallocated corporate assets	54,354	38,309	65,179	88,768
Total assets	106,207	104,072	219,311	256,618
Segment liabilities:				
Wireless system solutions	64,815	27,196	24,274	21,511
Wireless terminals	38	6,083	41,705	64,376
Unallocated corporate liabilities	23,970	40,524	52,131	54,097
Total liabilities	88,823	73,803	118,110	139,984
Capital expenditure:				
Wireless system solutions	923	578	265	157
Wireless terminals	1,046	1,295	6,901	3,682
Others	278	20,190	125	550
	2,247	22,063	7,291	4,389
Depreciation:				
Wireless system solutions	1,825	447	368	105
Wireless terminals	51	95	332	276
Others	1,109	2,613	1,856	773
	2,985	3,155	2,556	1,154

8. DIRECTORS' REMUNERATION

Save as disclosed herein, no remuneration has been paid or is payable to any of the directors of the Company in respect of any of the Relevant Periods referred to in this report, by the Company or any of the companies now comprising the Group. Under the arrangements currently in force, for the year ending 31 December 2004, the aggregate remuneration payable by the Group to the executive directors (excluding any discretionary bonus payment) will be approximately RMB700,000 and the aggregate remuneration, payable by the Group to the independent non-executive directors will be approximately RMB20,000. Further details concerning the terms of which are set out in the paragraph headed "Directors' remuneration" under the section headed "Further information about directors, management and staff" in Appendix VI to the Prospectus.

9. SUBSEQUENT EVENTS

No significant events took place subsequent to 31 May 2004.

10. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 May 2004.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

For illustrative purpose only, the pro forma financial information prepared in accordance with Rule 4.29 of the Listing Rules is set out here to provide the investors with further information to assess the financial performance of the Group and to illustrate the financial position of the Group after completion of the Share Offer.

The pro forma financial information is derived according to a number adjustments. Although reasonable care has been exercised in preparing the said information, prospective investors who read the information should bear in mind that thee figures are inherently subject to adjustments and may not give a complete picture of the actual financial performance of the Group during the Track Record Period and the year ending 31 December 2004.

A. UNAUDITED ADJUSTED NET TANGIBLE ASSETS

The following statement of the Group's unaudited adjusted net tangible assets is based on the Group's audited combined net assets as at 31 May 2004 as shown in the accountants' report, the text of which is set forth in Appendix I to this prospectus, adjusted as follows:—

	Audited combined net tangible assets of the Group as at 31 May 2004 *(note 1)* *RMB$'000*	Estimated net proceeds from the New Issue (assuming that the Over-allotment Option is not exercised) *RMB$'000*	Unaudited adjusted net tangible assets *RMB$'000*	Unaudited adjusted net tangible assets value per Share *(note 2)*
Based on the Offer Price of HK$0.79 per Share	108,284	70,800	179,084	RMB44.8 cents
Based on the Offer Price of HK$0.87 per Share	108,284	79,100	187,384	RMB46.9 cents

Note:—

1. Audited combined net tangible assets of the Group was calculated by deducting the product development cost of approximately RMB8,350,000 from the Group's net assets of approximately RMB116,634,000 as at 31 May 2004.

2. The unaudited adjusted net tangible asset value per Share is arrived at after the adjustments referred to in this section and on the basis of 400,000,000 Shares in issue and to be issued as mentioned herein but takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option and any options that may be granted under the Share Option Scheme or which may be allotted and issued or purchased by the Company pursuant to the general mandates for the allotment and issue or purchase of Shares described under "Written resolutions of all the shareholders of the Company passed on 21 November 2004" in Appendix VI to this prospectus.

3. The Group did not incorporate any revaluation surplus or deficit in its financial statements. It is the Group's accounting policy to state its fixed assets at cost less accumulated depreciation and any impairment loss in accordance with the Statement of Standard Accounting Practice No. 17, rather than at revalued amounts. The impairment reviews performed by the Company as at 31 May 2004 did not indicate the need to book any impairment loss for its fixed assets. There was a revaluation surplus of the

Group's land and building of approximately RMB4.4 million (approximately HK$4.2 million) as at 31 May 2004. Had the revaluation surplus been incorporated in the Group's financial statements there would be an increase in the annual depreciation charge of the buildings of approximately RMB0.2 million (approximately HK$0.19 million).

B. UNAUDITED PRO FORMA FULLY DILUTED FORECAST EARNINGS PER SHARE

Forecast consolidated profit after taxation but before extraordinary items for the year ending 31 December 2004 *(Note 1)*	not less than RMB46 million
Pro forma forecast earnings per Share — fully diluted *(Note 2)*	RMB11.5 cents

Notes:—

1. The forecast consolidated profit after taxation but before extraordinary items for the year ending 31 December 2004 is extracted from the section headed "Financial information — Profit forecast" in the prospectus. The bases and assumptions on which the above profit forecast for the year ending 31 December 2004 has been prepared are summarised in Appendix III to the prospectus.

   The forecast of the consolidated profit after taxation but before extraordinary items of the Group for the year ending 31 December 2004 prepared by the Directors is based on the audited results for the five months ended 31 May 2004, unaudited management accounts for the five months ended 31 October 2004 and a forecast of the results of the Group for the remaining two months ending 31 December 2004. The Directors are not aware of any extraordinary items which have arisen or are likely to arise during the year ending 31 December 2004. The forecast has been prepared on the basis of the accounting policies consistent in all material aspects with those currently adopted by the Group as summarised in the accountants' report, the text of which is set forth in Appendix I to the prospectus.

2. The calculation of the unaudited pro forma forecast earnings per Share on a full diluted basis is based on the forecast consolidated profit after taxation but before extraordinary items of the Group for the year ending 31 December 2004 and a total of 400,000,000 Shares in issue/and on the basis of a total of 400,000,000 Shares in issue and expected to be issued immediately following completion of the Share Offer and the Capitalisation Issue but does not take into account any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any options that may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandates for the allotment and issue or repurchase of the Shares referred to under "Written resolutions of all the shareholders of the Company passed on 21 November 2004" in Appendix VI to this prospectus.

COMFORT LETTER ON PRO FORMA FINANCIAL INFORMATION RELATING TO THE PRO FORMA FORECAST EARNINGS PER SHARE AND THE ADJUSTED NET TANGIBLE ASSETS

ERNST & YOUNG
安永會計師事務所

15th Floor
Hutchison House
10 Harcourt Road
Central
Hong Kong

30 November 2004

The Directors
China Wireless Technologies Limited

Dear Sirs,

We report on the unaudited pro forma statement of adjusted net tangible net assets and unaudited pro forma forecast earnings per share (the "Pro Forma Financial Information") set out under the paragraph headed "Unaudited adjusted net tangible assets" and "Profit forecast" in the section headed "Financial information" in the prospectus of the Company dated 30 November 2004 (the "Prospectus") in connection with the placing and public offer of 132,000,000 shares of the Company to be listed on the Main Board of the Stock Exchange of Hong Kong (the "Share Offer"), which has been prepared by the Company solely for illustrative purposes to provide information about how the estimated net proceeds of the Share Offer might have affected the combined net assets of the Company and its subsidiaries (the "Group") as at 31 December 2003. The basis of preparation of the Pro Forma Financial Information is set out in Section A of Appendix II of the Prospectus.

Responsibilities

It is the responsibility solely of the directors of the Company to prepare the Pro Forma Financial Information in accordance with Paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules").

It is our responsibility to form an opinion, as required by the Listing Rules, on the Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 "Reporting on pro forma financial information pursuant to the Listing Rules" issued by the Auditing Practices Board in the United Kingdom, where applicable. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro Forma Financial Information with the directors of the Company.

Our work did not constitute an audit or review made in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants, and accordingly, we do not express any such audit or review assurance on the Pro Forma Financial Information.

The Pro Forma Financial Information has been prepared in accordance with the basis set out in Section A of Appendix II of the Prospectus for illustrative purposes only and, because of its nature, it may not be indicative of:—

- the earnings per share of the Company and its subsidiaries (the "Group") for any future periods; or
- the financial position of the Group at any future dates.

Opinion

In our opinion:—

a. the Pro Forma Financial Information has been properly compiled on the basis stated;

b. such basis is consistent with the accounting policies of the Company, and

c. the adjustments are appropriate for the purposes of the Pro Forma Financial Information as disclosed pursuant to Paragraph 29(1) of Chapter 4 of the Listing Rules.

Yours faithfully
Ernst & Young
Certified Public Accountants
Hong Kong

The forecast of the consolidated profit after taxation but before extraordinary items of the Group for the year ending 31 December 2004 is set forth under the section headed "Financial information — Profit forecast" in this prospectus.

(A) BASES AND ASSUMPTIONS

The Directors have prepared the forecast of the consolidated profit after taxation but before extraordinary items of the Group for the year ending 31 December 2004 on the basis of the audited results of the Group for the five months ended 31 May 2004, the unaudited management accounts of the Group for the five months ended 31 October 2004 and a forecast of the results of the Group for the remaining two months ending 31 December 2004.

The Directors are not aware of any extraordinary item which has arisen, nor do they expect that any is likely to arise, in respect of the year ending 31 December 2004. The forecast has been prepared on the basis of accounting policies consistent in all material respects with those currently adopted by the Group as summarised in the accountants' report, the text of which is set out in Appendix I to this prospectus and on the following principal assumptions:

(a) there will be no material changes in the existing political, legal, fiscal or economic conditions in the PRC, Hong Kong or any of the countries and territories in which the Group carries on its business;

(b) there will be no material changes in the bases or rates of taxation or duties in the PRC, Hong Kong, or any of the countries and territories in which the Group operates or in which the Group companies are incorporated or registered;

(c) there will be no material changes in foreign currency exchanges rates, interest rates and inflation rates in the PRC and Hong Kong from those currently prevailing; and

(d) there will be no material changes in the legislation or regulations in the PRC, Hong Kong or any of the countries and territories in which the Group operates or in which the Group companies are incorporated or registered, which will affect the Group's business.

(B) LETTERS

Set forth below is the text of the letters received by the Directors from Ernst & Young, and from DBS Asia in connection with the profit forecast of the Group for the year ending 31 December 2004.

(i) Letter from Ernst & Young

ERNST & YOUNG
安永會計師事務所

15th Floor
Hutchison House
10 Harcourt Road
Central
Hong Kong

30 November 2004

The Directors
China Wireless Technologies Limited
DBS Asia Capital Limited

Dear Sirs,

We have reviewed the calculations of and accounting policies adopted in arriving at the forecast of the consolidated profit after taxation but before extraordinary items of China Wireless Technologies Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ending 31 December 2004 (the "Profit Forecast") as set forth in the section headed "Financial information — Profit forecast" in the prospectus of the Company dated 30 November 2004 (the "Prospectus").

We conducted our work in accordance with the Auditing Guideline 3.341 on "Accountants' report on profit forecasts" issued by the Hong Kong Institute of Certified Public Accountants.

The Profit Forecast, for which the directors of the Company are solely responsible, has been prepared by them based on the audited results of the Group for the five months ended 31 May 2004, the unaudited results of the Group for the five months ended 31 October 2004 and a forecast of the results of the Group for the remaining two months ending 31 December 2004 on the basis that the current Group structure had been in existence throughout the whole financial year ending 31 December 2004.

In our opinion, the Profit Forecast, so far as the calculation and accounting policies are concerned, has been properly compiled in accordance with the bases and assumptions made by the directors of the Company as set forth in part (A) of Appendix III to the Prospectus, and is presented on a basis consistent in all material respects with the accounting policies presently adopted by the Group as set out in our accountants' report dated 30 November 2004, the text of which is set forth in Appendix I of the Prospectus.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

(ii) Letter from DBS Asia

DBS

30 November 2004

The Directors
China Wireless Technologies Limited

Dear Sirs,

We refer to the forecast of the consolidated profit after taxation but before extraordinary items of China Wireless Technologies Limited (the "Company") and its subsidiaries (collectively, the "Group") for the financial year ending 31 December 2004 (the "Forecast") as set forth in the prospectus dated 30 November 2004 (the "Prospectus") issued by the Company.

The Forecast is based on the audited results of the Group for the five months ended 31 May 2004, the unaudited results of the Group for the five months ended 31 October 2004 and a forecast of the results of the Group for the remaining two months ending 31 December 2004 on the basis that the current Group structure had been in existence throughout the whole financial year ending 31 December 2004.

We have discussed with you the bases and assumptions, as set forth in part (A) of Appendix III to the Prospectus, upon which the Forecast has been made. We have also considered the letter dated 30 November 2004 addressed to yourselves and ourselves from Ernst & Young regarding the accounting policies and calculations upon which the Forecast has been based.

On the basis of the foregoing, the bases and assumptions adopted by you and the accounting policies and calculations reviewed by Ernst & Young, we are of the opinion that the Forecast, for which you as directors of the Company are solely responsible, has been made after due and careful enquiry and consideration.

Yours faithfully,
For and on behalf of
DBS Asia Capital Limited
Kelvin S. K. Lau
Managing Director

The following is the text of the letter together with the summary of valuations and valuation certificates from DTZ Debenham Tie Leung Limited, an independent property valuer, in connection with their opinion of values of the property interests of the Group as at 30 September, 2004.

DTZ Debenham Tie Leung 戴德梁行
International Property Advisers
National Grade A Real Estate Valuation Company in China
National Land Valuation Company in China

30 November, 2004

China Wireless Technologies Limited
8th Floor High Tech Plaza
Tian An Cyberpark
Che Gongmiao
Shenzhen
Guangdong Province
The People's Republic of China

Dear Sirs,

In accordance with the instruction for us to carry out open market valuation of the property interests held by the Company or its subsidiaries (together "the Group") situated in the People's Republic of China ("the PRC"), we confirm that we have carried out inspection, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of values of such property interests as at 30 September, 2004 ("the date of valuation").

Our valuation of each of the property interests represents our opinion of its open market value which we would define as intended to mean "an opinion of the best price at which the sale of an interest in a property would have been completed unconditionally for cash consideration on the date of valuation, assuming:—

(a) a willing seller;

(b) that, prior to the date of valuation, there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of the price and terms and for the completion of the sale;

(c) that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation;

(d) that no account is taken of any additional bid by a prospective purchaser with a special interest; and

(e) that both parties to the transaction had acted knowledgeably, prudently and without compulsion".

Our valuation has been made on the assumption that the owner sells the property interests on the open market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to affect the value of the property interest.

In the course of our valuation of the property interests in the PRC, we have relied on the advice given by the Group and its PRC legal adviser, Beijing JunZeJun Law Offices, regarding the title to the property interests and the interests of the Group in the property. In valuing property no. 1 in Group I, we have relied on the advice of Beijing JunZeJun Law Offices that transferable land use rights in respect of the property interest for respective specific terms at nominal annual land use fee have been granted and that any premium payable has already been fully paid. We have relied on such advice that grantee or the user of the property interest has free and uninterrupted rights to use or to assign the property interest for the whole of the respective unexpired terms as granted.

In valuing property no. 1 in Group I, which is held by the Group in the PRC, we have valued it by comparison approach by making reference to the comparable sale evidences in the relevant locality.

In valuing property no. 2 in Group I, we have taken into account the legal opinion of Beijing JunZeJun Law Offices. The said legal opinion stipulates, inter alia, that the property is in the nature of Public Community Housing which cannot be freely transferred. We have therefore not assigned value to such property interest.

The property interests in Group II, which are leased by the Group in the PRC, have no commercial value due to prohibition against assignment or lack of substantial profit rent.

We have relied to a very considerable extent on information given by the Group and the opinion of the Company's PRC legal adviser. We have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, completion date, identification of property interests, particulars of occupancy, lease terms, rental details, floor areas and all other relevant matters.

Dimensions, measurements and areas included in the valuation certificates are based on information contained in the documents provided to us and are therefore only approximations. We have had no reason to doubt the truth and accuracy of the information provided to us which is material to the valuation. We were also advised by the Group that no material facts have been omitted from the information supplied.

The Group has provided us with some documents in relation to the title to the property interests. However, we have not searched the original documents to verify ownership or to ascertain any amendments which may not appear on the copies handed to us.

We have inspected the exterior and, where possible, the interior of each of the properties. However, no structural survey had been made and no tests had been carried out on any of the services but in the course of our inspection, we did not note any serious defects. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defect.

We have not been able to carry out detailed on-site measurements to verify the site and floor areas of the properties and we have assumed that the areas shown on the copies of documents handed to us are correct.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the property interests nor for any expenses or taxation, which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interests are free from encumbrances, restrictions and outgoing of an onerous nature which could affect its value.

We have prepared our valuation in accordance with the Guidance Notes on the Valuation of Property Assets published by the Hong Kong Institute of Surveyors, the relevant provisions of the Companies Ordinance and Chapter 5 of the Rules Governing The Listing of Securities on the Stock Exchange of Hong Kong Limited and its Practice Note 12 published by the Stock Exchange of Hong Kong Limited.

The summary of valuations and valuation certificates are attached.

Yours faithfully,
for and on behalf of
DTZ Debenham Tie Leung Limited
Andrew K.F. Chan
Registered Professional Surveyor (GP)
China Real Estate Appraiser
MSc., M.H.K.I.S., M.R.I.C.S
Director

Note: Mr. Andrew K. F. Chan is a registered professional surveyor with over 17 years of experience in valuation of properties in Hong Kong and the PRC.

SUMMARY OF VALUATIONS

	Property	Capital value in existing state as at 30 September, 2004 *RMB*	Interest attributable to the Group *%*	Capital value in existing state attributable to the Group as at 30 September, 2004 *RMB*
Group I — Property interests held by the Group in the PRC				
1.	7 industrial units in High Tech Plaza, Tian An Cyberpark, Che Gongmiao, Futian District, Shenzhen, Guangdong Province	23,500,000	100	23,500,000
2.	12 residential units in Taoyuan Village, Longzhu Avenue, Nansan District, Shenzhen, Guangdong Province	No commercial value	100	No commercial value
			Sub-total:	23,500,000
Group II — Property interests leased by the Group in the PRC				
3.	Unit Nos. 801B & 801D, Level 8 East, Block 206, Tairan Industrial Zone, Futian District, Shenzhen, Guangdong Province			No commercial value
4.	Unit No. 402 Zhongshui Building, 31 Wenfeng Alley, Xidan, Xicheng District, Beijing			No commercial value
			Sub-total:	No commercial value
			Grand total:	23,500,000

VALUATION CERTIFICATE

Group I — Property interests held by the Group in the PRC

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September, 2004
1. 7 industrial units in High Tech Plaza, Tian An Cyberpark, Che Gongmiao Futian District, Shenzhen, Guangdong Province	High Tech Plaza, Tian An Cyberpark is an industrial composite development completed in 2002. The property comprises 1 unit of Block A and 6 units of Block B in High Tech Plaza, Tian An Cyberpark. The property has a total gross floor area of 3,802.01 sq.m. (40,925 sq.ft.). The land use rights of the property have been granted for a term of 50 years from 16 November, 1988 to 15 November, 2038 for industrial use.	6 units in Block B are currently occupied by the Group as research and training center, warehouse and ancillary office use whilst the remaining one unit in Block A is currently leased to a third party for a term of 3 years expiring on 20 May, 2005 at a monthly rent of RMB30,250.	RMB23,500,000

Notes:—

(1) The property comprises the following 7 industrial units:—

Block A — Unit Nos. 801

Block B — Unit Nos. 807, 808, 809, 810, 811 & 812

(2) According to 7 Real Estate Title Certificates all issued by Shenzhen Planning and Land Resources Bureau dated 8 March, 2004, the legal title of the 7 units with a total gross floor area of 3,802.01 sq.m. is vested in Yulong Computer Telecommunications Scientific (Shenzhen) Co., Ltd. (宇龍計算機通信科技(深圳)有限公司). The land use terms of the property have been granted for a term of 50 years from 16 November, 1988 to 15 November, 2038 for industrial use. The property was purchased at a total consideration of RMB16,524,116.

(3) According to Business Licence No. 309115, Yulong Computer Telecommunications Scientific (Shenzhen) Co., Ltd. was established with a registered capital of RMB30,000,000.

(4) According to the PRC legal opinion:—

(i) Yulong Computer Telecommunications Scientific (Shenzhen) Co., Ltd. has legally obtained the land use rights and the building ownership of the property and is the sole legal owner to the land use rights and buildings ownership right of the property. The land use rights of the property have been granted to Yulong Computer Telecommunications Scientific (Shenzhen) Co., Ltd. The buildings have a total gross floor area of 3,802.01 sq.m.;

(ii) Yulong Computer Telecommunications Scientific (Shenzhen) Co., Ltd. has duly settled all the land premium.

(iii) The property is subject to a mortgage in favour of Shenzhen Commercial Bank for a loan of RMB15,000,000.

(iv) Subject to the terms of the mortgage, Yulong Computer Telecommunications Scientific (Shenzhen) Co., Ltd. is entitled to freely transfer, lease, mortgage or dispose of the land use rights together with the building ownership of the property during the term of the land use rights of the property at no extra land premium payable to the government.

(5) We have based on the PRC legal opinion and prepared our valuation on the following assumptions:—

(i) Yulong Computer Telecommunications Scientific (Shenzhen) Co., Ltd. is in possession of a proper legal title to the property interest and is entitled to transfer the property interest in its existing state and condition for the residual term of its land use rights at no extra land premium or other onerous payment payable to the government;

(ii) all considerations for acquiring a proper legal title have been settled in full;

(iii) the design and construction of the development as set out in this valuation certificate is in compliance with the local planning regulations; and

(iv) the property interest can be disposed of freely to third parties.

(6) In accordance with the PRC legal opinion and the information provided by the Group, the status of title and grant of major approvals and licences are as follows:—

Real Estate Title Certificate	Yes
Business Licence	Yes

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September, 2004
2. 12 residential units in Taoyuan Village, Longzhu Avenue, Nansan District, Shenzhen, Guangdong Province	Taoyuan Village is a residential development completed in 1997. The property comprises 12 residential units in Taoyuan Village. The property has a total gross floor area of 885.60 sq.m. (9,533 sq.ft.). The land use rights of the property have been granted for a term of 50 years from 16 August, 1997 to 15 August, 2047 for residential use.	The property is currently occupied by the Group as staff quarters.	No commercial value

Notes:—

(1) The property comprises the following 12 residential units:—

Block No. 27 — Unit No. 703

Block No. 32 — Unit Nos. 107, 108, 207, 208, 307, 308, 607, 608, 707 & 708

Block No. 47 — Unit No. 204

(2) The property is in the nature of Public Community Housing (安居房) and according to the PRC legal opinion, it cannot be freely transferred. We have therefore assigned no commercial value to the property interest.

(3) According to 12 Real Estate Title Certificates, the legal title of the 12 units with a total gross floor area of 885.60 sq.m. is vested in Yulong Computer Telecommunications Scientific (Shenzhen) Co., Ltd. (宇龍計算機通信科技(深圳)有限公司). The land use terms have been granted for a term of 50 years from 16 August, 1997 to 15 August, 2047 for residential use. The property was purchased at a total consideration of RMB2,238,097.

(4) According to Business Licence No. 309115, Yulong Computer Telecommunications Scientific (Shenzhen) Co., Ltd. was established with a registered capital of RMB30,000,000.

(5) According to the PRC legal opinion:—

(i) Yulong Computer Telecommunications Scientific (Shenzhen) Co., Ltd. has legally obtained the land use rights and the building ownership of the property and is the sole legal owner to the land use rights and buildings ownership right of the property. The land use rights of the property have been granted to Yulong Computer Telecommunications Scientific (Shenzhen) Co., Ltd. The buildings have a total gross floor area of 885.6 sq.m.;

(ii) Yulong Computer Telecommunications Scientific (Shenzhen) Co., Ltd. has duly settled all the land premium.

(iii) The property is in the nature of Public Community Housing;

(iv) Yulong Computer Telecommunications Scientific (Shenzhen) Co., Ltd. cannot freely transfer the land use rights and the building ownership of the property.

(6) We have based on the PRC legal opinion and prepared our valuation on the following assumptions:—

(i) Yulong Computer Telecommunications Scientific (Shenzhen) Co., Ltd. is in possession of a proper legal title to the property interest;

(ii) all considerations have been settled in full; and

(iii) the design and construction of the development as set out in this valuation certificate is in compliance with the local planning regulations.

(7) In accordance with the PRC legal opinion and the information provided by the Group, the status of title and grant of major approvals and licences are as follows:—

Real Estate Title Certificate	Yes
Business Licence	Yes

VALUATION CERTIFICATE

Group II — Property interests leased by the Group in the PRC

Property	Description and tenure	Capital value in existing state as at 30 September, 2004
3. Unit Nos. 801B & 801D, Block 206, Level 8 East, Tairan Industrial Zone, Futian District, Shenzhen, Guangdong Province	The property comprises 2 office units in an industrial building completed in 1993. The property has a gross floor area of approximately 446 sq.m. (4,801 sq.ft.). The lessor, Shenzhen Space Star Network Company Limited, an enterprise owned by Ms. Yang and Ms. Ma, leases the property to Yulong Computer Telecommunications Scientific (Shenzhen) Co., Ltd, an indirect wholly-owned subsidiary of the Company, for a term of 5 years from 1 January, 2003 to 31 December, 2007 at a monthly rent of RMB9,161.40. According to the PRC legal opinion, the lessor is the sole legal owner to the property and the lease arrangement is valid and binding.	No commercial value
4. Unit No. 402 Zhongshui Building, 31 Wenfeng Alley, Xidan, Xicheng District, Beijing	The property comprises one office unit in an office building completed in the 1970's. The property has a gross floor area of 58.93 sq.m. (634 sq.ft.). The lessor, an independent third party, leases the property to Yulong Computer Telecommunications Scientific (Shenzhen) Co., Ltd, an indirect wholly-owned subsidiary of the Company, for a term of 1 year from 29 February 2004 to 28 February 2005 at a daily rent of RMB3.6 per sq.m. per day. According to the PRC legal opinion, the lessor is the sole legal owner to the property and the lease arrangement is valid and binding.	No commercial value

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 11 June, 2002 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the "Companies Law"). The Memorandum of Association (the "Memorandum") and the Articles of Association (the "Articles") comprise its constitution.

1. MEMORANDUM OF ASSOCIATION

(a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising any and all of the powers at any time or from time to time exercisable by a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.

(b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were adopted on 21 November 2004. The following is a summary of certain provisions of the Articles:

(a) Directors

(i) *Power to allot and issue shares and warrants*

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of the Company or the holder thereof, they are liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of any Designated Stock Exchange (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the

Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) *Power to dispose of the assets of the Company or any subsidiary*

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

(iii) *Compensation or payments for loss of office*

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) *Loans and provision of security for loans to Directors*

There are provisions in the Articles prohibiting the making of loans and providing of any guarantee or security to Directors and their associates.

(v) *Disclosure of interests in contracts with the Company or any of its subsidiaries.*

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his associates is materially interested, but this prohibition shall not apply to any of the following matters, namely:

(aa) any contract or arrangement for giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;

(bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

(cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

(dd) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company or any of its subsidiaries by virtue only of his/their interest in shares or debentures or other securities of the Company;

(ee) any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder or in which the Director and any of his associates are not in aggregate beneficially interested in 5 percent. or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest or that of any of his associates is derived); or

(ff) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his associates and employees of the Company and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(vi) *Remuneration*

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vii) *Retirement, appointment and removal*

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not greater than one third) will retire from office by rotation provided that no Director holding office as chairman and/or managing director shall be subject to retirement by rotation, or be taken into account in determining the number of Directors to retire. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by a special resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office or director shall be vacated:

(aa) if he resigns his office by notice in writing delivered to the Company at the registered office of the Company for the time being or tendered at a meeting of the Board;

(bb) becomes of unsound mind or dies;

(cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;

(dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;

(ee) if he is prohibited from being a director by law;

(ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(viii) *Borrowing powers*

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Note: These provisions, in common with the Articles in general, can be varied with the sanction of a special resolution of the Company.

(ix) *Proceedings of the Board*

The board may meet for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(x) *Register of Directors and Officers*

The Companies Law and the Articles provide that the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

(b) Alterations to constitutional documents

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

(c) Alteration of capital

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Law:

(i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;

(ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;

(iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;

(iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares; and

(v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may subject to the provisions of the Companies Law reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(d) Variation of rights of existing shares or classes of shares

Subject to the Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will mutatis mutandis apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking pari passu therewith.

(e) Special resolution — majority required

Pursuant to the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than twenty-one (21) clear days' notice, specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that, except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five (95) per cent. in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all Members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which less than twenty-one (21) clear days' notice has been given.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

(f) Voting rights (generally and on a poll) and right to demand a poll

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a show of hands, every member who is present in person or by proxy or being a corporation, is present by its duly authorised representative shall have one vote and on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. Notwithstanding anything contained in the Articles, where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded by (i) the chairman of the meeting or (ii) at least three members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy for the time being entitled to vote at the meeting or (iii) any member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting or (iv) a member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including the right to vote individually on a show of hands.

Where the Company has knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Articles), required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(g) Requirements for annual general meetings

An annual general meeting of the Company must be held in each year, other than the year of adoption of the Articles (within a period of not more than 15 months after the holding of the last preceding annual general meeting or a period of 18 months from the date of adoption of the Articles, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by the board.

(h) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions the Articles; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Articles), the Company may send to such persons a summary financial statement derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to a summary financial statement, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting and any extraordinary general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by at least twenty-one (21) clear days' notice in writing, and any other extraordinary general meeting shall be called by at least fourteen (14) clear days' notice (in each case exclusive of the day on which the notice is served or deemed to be served and of the day for which it is given). The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of the Company other than such as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditors for the time being of the Company.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

(i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and

(ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than ninety-five (95) per cent in nominal value of the issued shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

(aa) the declaration and sanctioning of dividends;

(bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;

(cc) the election of directors in place of those retiring;

(dd) the appointment of auditors and other officers;

(ee) the fixing of the remuneration of the directors and of the auditors;

(ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty (20) per cent in nominal value of its existing issued share capital; and

(gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.

(j) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Companies Law.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

(k) Power for the Company to purchase its own shares

The Company is empowered by the Companies Law and the Articles to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange (as defined in the Articles).

(l) Power for any subsidiary of the Company to own shares in the Company

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

(m) Dividends and other methods of distribution

Subject to the Companies Law, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The

Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(n) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(o) Call on shares and forfeiture of shares

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty (20) per cent. per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty (20) per cent. per annum as the board determines.

(p) Inspection of register of members

Pursuant to the Articles the register and branch register of members shall be open to inspection for at least two (2) hours on every business day by members without charge, or by any other person upon a maximum payment of HK$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK$1.00 or such lesser sum specified by the board, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

(q) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

(r) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman law, as summarised in paragraph 3(f) of this Appendix.

(s) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed pari passu amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) Untraceable members

Pursuant to the Articles, the Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since such advertisement and the Designated Stock Exchange (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(u) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid the company will be able to pay its debts as they fall due in the ordinary course business.

The Companies Law provides that, subject to confirmation by the court, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

The Articles includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

(c) Financial assistance to purchase shares of a company or its holding company

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in the Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of Shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

Subject to the provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner or purchase, a company cannot purchase any of its own shares unless the manner of purchase has first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

With the exception of section 34 of the Companies Law, there is no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 2(m) above for further details).

(f) Protection of minorities

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the court shall direct.

Any shareholder of a company may petition the court which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) Management

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company shall cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Council:

(1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the Company or its operations; and

(2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 25 June, 2002.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Members of the Company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

(n) Winding up

A company may be wound up by either an order of the court or by a special resolution of its members. The court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the court, just and equitable to do so.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum expires, or the event occurs on the occurrence of which the memorandum provides that the company is to be dissolved. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidator; and the Court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court. In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets.

Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval. A liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge the company's liability to them (pari passu if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting shall be called by Public Notice (as defined in the Companies Law) or otherwise as the Registrar of Companies may direct.

(o) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five (75) per cent. in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Courts. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Courts are unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(p) Compulsory acquisition

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than ninety (90) per cent. of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court of the Cayman Island within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(q) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

Conyers Dill & Pearman, Cayman, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents delivered to the Registrar of Companies and available for public inspection in Hong Kong" in Appendix VII to the prospectus. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

FURTHER INFORMATION ABOUT THE COMPANY

1. Incorporation

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 11 June 2002. The Company has established a place of business in Hong Kong at Room 1902, MassMutual Tower, 38 Gloucester Road, Wanchai, Hong Kong and was registered as an oversea company in Hong Kong under Part XI of the Companies Ordinance on 24 February 2003. Wong Brothers & Co. of Room 1902, MassMutual Tower, 38 Gloucester Road, Wanchai, Hong Kong have been appointed as the authorised representative of the Company for the acceptance of service of process and notices on behalf of the Company in Hong Kong. As the Company is incorporated in the Cayman Islands, its operation is subject to the Companies Law and to its constitutional documents which comprise a memorandum and articles of association of the Company. A summary of various provisions of its constitutional documents and relevant aspects of the Companies Law are set forth in Appendix V to this prospectus.

2. Changes in share capital of the Company

At the date of incorporation of the Company, its authorised share capital was HK$390,000 divided into 39,000,000 Shares of HK$0.01 each, one of which was allotted and issued at par to Codan Trust Company (Cayman) Limited, which was transferred to Mr. Guo on 25 June 2002.

On 31 July 2003, pursuant to the corporate reorganisation as mentioned in the paragraphs headed "Corporate reorganisation" below, Mr. Guo and Ms. Yang transferred 5,000 and 45,000 shares respectively in Yulong Infotech (which, together, constitute the entire issued share capital of Yulong Infotech) 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 and Ms. Yang transferred 1 and 9 shares respectively in 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. On the same day, Mr. Guo transferred one 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.

On 22 August 2003, the authorised share capital of the Company, whether issued or unissued, was re-designated and reclassified as to (a) HK$40,000 divided into 4,000,000 Preference Shares; and (b) HK$350,000 divided into 35,000,000 Shares (including HK$180,000 divided into 18,000,000 Shares which have been allotted and issued as at 31 July 2003). On the same day, 4,000,000 Preference Shares were allotted and issued to JATF for cash at the subscription price of US$1.00 each. Immediately following such allotment and issue, the Company became owned as to approximately 81.82% by Data Dreamland and 18.18% by JATF.

On 22 December 2003, the 4,000,000 Preference Shares held by JATF were converted into 4,000,000 Ordinary Shares by redesignating and reclassifying the Preference Shares as Ordinary Shares. On redesignation, the authorised share capital of the Company became HK$390,000 divided into 39,000,000 Ordinary Shares of HK$0.01 each and the converted

Ordinary Shares rank pari passu in all respects with the Ordinary Shares then in issue and form part of the class of the Ordinary Shares (and cease to form part of the class of Preference Shares for all purposes).

On 30 March 2004, for the purpose of providing additional incentives to the key management who, in the opinion of the trustee of the China Wireless Employee Benefit Trust, has made exceptional contribution to the development of the Group, Data Dreamland transferred 1,320,000 Shares, representing approximately 6% of the then issued share capital of the Company, at a nominal consideration of HK$1.00, to Wintech Consultants for the setting up of the China Wireless Employee Benefit Trust. Wintech Consultants is the trustee of the China Wireless Employee Benefit Trust. As Data Dreamland was wholly and beneficially owned by Mr. Guo and his associates at the time of transfer and Wintech Consultants is wholly and beneficially owned by Mr. Guo, a nominal consideration was paid for the transfer. According to the trust deed dated 30 March 2004 as amended by the supplemental deed dated 21 November 2004 (the employee trust deed, as amended, shall be referred to as "Employee Trust Deed"), the trust fund of the China Wireless Employee Benefit Trust consists of (i) trust property as specified under the Employee Trust Deed; (ii) all money, investments or other property paid or transferred by any person to or so as to be put under the control of the trustee to be held upon the China Wireless Employee Benefit Trust and, in either case, accepted by the trustee as additions; (iii) all accumulations of income added to the trust fund; and (iv) the money, investments and property from time to time representing the above. The Employee Trust Deed does not specify a maximum limit of the trust fund under the China Wireless Employee Benefit Trust. As at the Latest Practicable Date, the trust fund of the China Wireless Employee Benefit Trust consists solely of 1,320,000 Shares. The Directors confirmed that the trustee has no present intention to acquire any additional Shares for the benefit of China Wireless Employee Benefit Trust (except for the Capitalisation Issue pursuant to the Share Offer). The trustee holds the entire trust fund upon trust for the beneficiaries who are the employees of the Group as at the date of the Employee Trust Deed and from time to time and which does not exclude connected persons (as defined in the Listing Rules) of the Company (except Mr. Guo, Ms. Yang and Ms. Ma). The duration of the China Wireless Employee Benefit Trust is 80 years from the date of the Employee Trust Deed or as the trustee shall specify (whichever is the earlier). The China Wireless Employee Benefit Trust is a discretionary trust. The trustee shall hold the capital and income of the trust fund upon trust for the benefit of such beneficiaries, at such ages or times, in such shares upon trust, on such terms and conditions and in such manner generally as the trustee shall in its discretion think fit. The trustee shall have powers and discretions to appoint or apply capital monies to grant options over the Shares (at the expense of trust fund), upon such terms as the trustee may think fit, to the beneficiaries. The trustee may enter into any agreement or contract, on such terms as the trustee may think fit, with the Company and the beneficiaries to enable any beneficiary to acquire and take up the Shares or options over the Shares. The Directors believe that the China Wireless Employee Benefit Trust is a more flexible mechanism in providing incentive to employees of the Group in view of the discretions the trustee of the China Wireless Employee Benefit Trust enjoys in granting incentives to the employees of the Group. The Directors confirmed that as at the Latest Practicable Date, none of the beneficiaries of the China Wireless Employee Benefit Trust has been granted any forms of incentives out of the trust fund by the trustee. The Directors also confirmed that the trustee has no present intention to grant any incentives to any of the beneficiaries prior to the Listing Date.

On 22 November 2004, Mr. Guo and Ms. Yang set up a discretionary trust, namely the Barrie Bay Trust. On 23 November 2004, the entire issued share capital of Data Dreamland is held by Barrie Bay, which is acting as the trustee of the Barrie Bay Unit Trust, 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 entire issued share capital of Barrie Bay is held by HSBC Trustee. The discretionary objects of the Barrie Bay Trust are the children of Mr. Guo and Ms. Yang who are under 18 years old.

Pursuant to resolutions in writing of all shareholders of the Company passed on 21 November 2004, the authorised share capital of the Company was increased from HK$390,000 to HK$10,000,000 by the creation of a further 961,000,000 Shares.

Assuming that the Share Offer becomes unconditional, the Capitalisation Issue is completed and the Offer Shares are issued but taking no account of any Shares which may be issued upon the exercise of the Over-allotment Option and the options which may be granted under the Share Option Scheme, the authorised share capital of the Company will be HK$10,000,000 divided into 1,000,000,000 Shares and the issued share capital of the Company will be HK$4,000,000 divided into 400,000,000 Shares fully paid or credited as fully paid, with 600,000,000 Shares remaining unissued. On the basis that the Over-allotment Option is exercised in full, an additional 19,800,000 Shares will be issued and allotted fully paid or credited as fully paid and 580,200,000 Shares will remain unissued.

Save as disclosed herein and as mentioned in the following paragraphs respectively headed "Written resolutions of all the shareholders of the Company passed on 21 November 2004" and "Corporate reorganisation", there has been no alteration in the share capital of the Company since the date of its incorporation.

3. Written resolutions of all the shareholders of the Company passed on 21 November 2004

On 21 November 2004, resolutions of all the shareholders of the Company were passed pursuant to which, inter alia:—

(a) the Company approved and adopted the new articles of association (a summary of which is set out in Appendix V to this prospectus) in substitution for and to the exclusion of the then existing articles of association with immediate effect; and any one of the Directors or secretary of the Company was authorised to prepare and execute all documents and to do all such other things as he considers to be necessary on behalf of the Company in relation to the adoption of the new articles of association including but not limited to, any filing or registration procedures in the Cayman Islands and/or Hong Kong;

(b) the authorised share capital of the Company was increased from HK$390,000 to HK$10,000,000 by the creation of an additional 961,000,000 Shares to rank pari passu with the existing Shares in all respects;

(c) conditional on (i) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus; (ii) the entering into of the agreement on the Offer Price between the Company, the Vendor and DBS Asia on the Price Determination Date; and (iii) the obligations of the Underwriters under each of the Underwriting Agreements becoming unconditional (including, if relevant, as a result of the waiver of any condition(s) by DBS Asia (acting for itself and on behalf of the other Underwriters)) and not being terminated in accordance with the terms of the respective Underwriting Agreements or otherwise, in each case on or before 9 December 2004 (or such later date as DBS Asia, acting for itself and on behalf of all other Underwriters, may agree):—

(i) the Share Offer was approved and the Directors were authorised to allot and issue, and to approve the transfer of the Sale Shares by the Vendor, of the Offer Shares (as the case may be) and to allot and issue such number of Shares as may be required upon the exercise of the Over-allotment Option on and subject to the terms and conditions as stated in this prospectus and the Application Forms relating thereto;

(ii) subject to further agreement between the Company, the Vendor and DBS Asia (for itself and on behalf of the Placing Underwriters), the Over-allotment Option was granted to DBS Asia (for itself and on behalf of the Placing Underwriters) as mentioned in this prospectus and that the Directors were authorised to effect the allotment and issue of an aggregate of up to 19,800,000 additional new Shares pursuant to the exercise of the Over-allotment Option, representing 15% of the number of the Offer Shares initially being offered under the Share Offer at the Offer Price to cover over-allocations in the Placing;

(iii) the rules of the Share Option Scheme, the principal terms of which are set forth in the paragraphs headed "Share Option Scheme", were approved and adopted, and the Directors were authorised to implement the same and to grant options thereunder and to allot and issue Shares pursuant to the exercise of any options granted under the Share Option Scheme and to take all such steps as may be necessary, desirable or expedient to carry into effect the Share Option Scheme;

(iv) conditional on the share premium account of the Company being credited as a result of the issue of New Share under the Share Offer, the Directors were authorised to capitalise HK$2,780,000 standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par 278,000,000 Shares for allotment and issue to the Shareholders whose names appear on the register of members of the Company on 21 November 2004 (or as they may direct) in the following manner:—

Name of Shareholder	No. of Shares to be issued and allotted
Data Dreamland	210,774,545
JATF	50,545,455
Wintech Consultants	16,680,000

(v) a general unconditional mandate was given to the Directors authorising them to allot, issue and deal with, (otherwise than by way of rights issues, by virtue of scrip dividend schemes or similar arrangements providing for the allotment and issue of Shares in lieu of the whole or part of a dividend in accordance with the articles of association of the Company or pursuant to the exercise of any subscription or conversion rights attaching to any warrants or any securities which are convertible into Shares issued by the Company or in issue prior to the date of the passing of the relevant resolution or pursuant to the exercise of options granted under the Share Option Scheme or under the Share Offer or the Over-allotment Option or the Capitalisation Issue), on behalf of the Company, Shares with an aggregate nominal value not exceeding the sum of 20% of the aggregate nominal amount of the share capital of the Company in issue as at the Listing Date, such mandate to remain in effect until whichever is the earliest of:—

(aa) the conclusion of the next annual general meeting of the Company;

(bb) the expiration of the period within which the next annual general meeting of the Company is required by any applicable law or its articles of association to be held; or

(cc) the passing of an ordinary resolution of the Shareholders in general meeting revoking, varying or renewing such mandate;

(vi) a general unconditional mandate was given to the Directors authorising them to exercise all the powers of and on behalf of the Company to purchase on the Stock Exchange or on any other stock exchange on which the securities of the Company may be listed and which is recognised by the SFC and the Stock Exchange, for this purpose, Shares with an aggregate nominal value not exceeding 10% of the aggregate nominal amount of the share capital of the Company in issue as at the Listing Date, such mandate to remain in effect until whichever is the earliest of:—

(aa) the conclusion of the next annual general meeting of the Company;

(bb) the expiration of the period within which the next annual general meeting of the Company is required by any applicable law or its articles of association to be held; or

(cc) the passing of an ordinary resolution of the Shareholders in general meeting revoking, varying or renewing such mandate; and

(vii) the extension of the general unconditional mandate mentioned in paragraph (v) above to include the aggregate nominal amount of the share capital of the Company repurchased by the Company pursuant to the mandate to repurchase Shares referred to in paragraph (vi) above provided that such extended amount shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue and to be issued as mentioned herein was approved.

4. Corporate reorganisation

In preparing the listing of the Shares on the Stock Exchange, the companies comprising the Group underwent a reorganisation to rationalise the corporate structure of the Group and the Company became the ultimate holding company of the Group. The corporate reorganisation involves the following:—

(a) On 25 March 2002, DTI was incorporated in the BVI with an authorised share capital of US$50,000 divided into 50,000 shares of US$1.00 each, of which 1 and 9 shares respectively were allotted and issued fully paid for cash at par to Ms. Ma and Ms. Yang.

(b) On 14 May 2002, DTI acquired 52% equity interest in Yulong Shenzhen from Space Star at a cash consideration of RMB6,210,169 based on the then audited net asset value of Yulong Shenzhen. Immediately after such acquisition, Yulong Shenzhen became owned as to 48% by Yulong Infotech and as to 52% by DTI.

(c) On 11 June 2002, the Company was incorporated in the Cayman Islands with an authorised share capital of HK$390,000 divided into 39,000,000 Shares of HK$0.01 each, one of which was allotted and issued at par to Codan Trust Company (Cayman) Limited, which was transferred to Mr. Guo on 25 June 2002.

(d) On 3 February 2003, Data Dreamland was incorporated in the BVI with an authorised share capital of US$50,000 divided into 50,000 shares of US$1.00 each, of which 900, 48 and 52 shares respectively were allotted and issued at par to Ms. Yang, Mr. Guo and Ms. Ma.

(e) On 31 July 2003, the Company entered into an agreement with Data Dreamland, Ms. Yang, Ms. Ma and Mr. Guo whereby Mr. Guo and Ms. Yang transferred 5,000 and 45,000 shares respectively in Yulong Infotech (which, together, constitute the entire issued share capital of Yulong Infotech) to the Company in consideration for which the Company allotted and issued 8,639,999 Shares credited as fully paid to Data Dreamland. Ms. Ma and Ms. Yang transferred 1 and 9 shares respectively in 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. On the same day, Mr. Guo transferred one 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.

(f) On 22 August 2003, the authorised share capital of the Company, whether issued or unissued, was re-designated and reclassified as to (a) HK$40,000 divided into 4,000,000 Preference Shares; and (b) HK$350,000 divided into 35,000,000 Shares (including HK$180,000 divided into 18,000,000 Shares which have been allotted and issued as at 31 July 2003). On the same day, 4,000,000 Preference Shares were allotted and issued to JATF for cash at the subscription price of US$1.00 each. Immediately following such allotment and issue, the Company became owned as to approximately 81.82% by Data Dreamland and 18.18% by JATF.

(g) On 22 December 2003, the 4,000,000 Preference Shares held by JATF were converted into 4,000,000 Ordinary Shares by redesignating and reclassifying the Preference Shares as Ordinary Shares. On redesignation, the authorised share capital of the Company became HK$390,000 divided into 39,000,000 Ordinary Shares of HK$0.01 each and the converted Ordinary Shares rank pari passu in all respects with the Ordinary Shares then in issue and form part of the class of the Ordinary Shares (and cease to form part of the class of Preference Shares for all purposes).

(h) On 13 February 2004, Yulong Infotech disposed of its interests in 深圳億維數碼科技有限公司 (Shenzhen Yi Wei Digital Technologies Co., Ltd.), a company incorporated in the PRC with limited liability ("Shenzhen Yi Wei"), representing 30% equity interest in Shenzhen Yi Wei, to an Independent Third Party at a consideration of RMB1,500,000, which is equivalent to 30% of the then registered capital of Shenzhen Yi Wei.

(i) On 30 March 2004, for the purpose of providing additional incentives to the key management who, in the opinion of the trustee of the China Wireless Employee Benefit Trust, has made exceptional contribution to the development of the Group, Data Dreamland transferred 1,320,000 Shares, representing approximately 6% of the then issued share capital of the Company, at a nominal consideration of HK$1.00, to Wintech Consultants for the setting up of the China Wireless Employee Benefit Trust. Wintech Consultants is the trustee of the China Wireless Employee Benefit Trust. As Data Dreamland was wholly and beneficially owned by Mr. Guo and his associates at the time of transfer and Wintech Consultants is wholly and beneficially owned by Mr. Guo, a nominal consideration was paid for the transfer. According to the trust deed dated 30 March 2004 as amended by the supplemental deed dated 21 November 2004 (the employee trust deed, as amended, shall be referred to as the "Employee Trust Deed"), the trust fund of the China Wireless Employee Benefit Trust consists of (i) trust property as specified under the Employee Trust Deed; (ii) all money, investments or other property paid or transferred by any person to or so as to be put under the control of the trustee to be held upon the China Wireless Employee Benefit Trust and, in either case, accepted by the trustee as additions; (iii) all accumulations of income added to the trust fund; and (iv) the money, investments and property from time to time representing the above. The Employee Trust Deed does not specify a maximum limit of the trust fund under the China Wireless Employee Benefit Trust. As at the Latest Practicable Date, the trust fund of the China Wireless Employee Benefit Trust consists solely of 1,320,000 Shares. The Directors confirmed that the trustee has no present intention to acquire any additional Shares for the benefit of China Wireless Employee Benefit Trust (except for the Capitalisation Issue pursuant to the Share Offer). The trustee holds the entire trust fund upon trust for the beneficiaries who are the employees of the Group as at the date of the Employee Trust Deed and from time to time and which does not exclude connected persons (as defined in the Listing Rules) of the Company (except Mr. Guo, Ms. Yang and Ms. Ma). The duration of the China Wireless Employee Benefit Trust is 80 years from the date of the Employee Trust Deed or as the trustee shall specify (whichever is the earlier). The China Wireless Employee Benefit Trust is a discretionary trust. The trustee shall hold the capital and income of the trust fund upon trust for the benefit of such beneficiaries, at such ages or times, in such shares upon trust, on such terms and conditions and in such manner generally as the trustee shall in its discretion think fit. The trustee shall have powers and discretions to appoint or apply capital monies to grant options over the Shares (at the expense of trust fund), upon such terms as the trustee may think fit, to the beneficiaries. The trustee may enter into any agreement or contract, on such terms as the trustee may think fit, with the Company and the beneficiaries to enable any beneficiary to acquire and take up the Shares or options over the Shares. The Directors believe that the China Wireless Employee Benefit Trust is a more flexible mechanism in providing incentive to employees of the Group in view of the discretions the trustee of the China Wireless Employee Benefit Trust enjoys in granting incentives to the employees of the Group. The Directors confirmed that as at the Latest Practicable Date, none of the beneficiaries of the China Wireless Employee Benefit Trust has been granted any forms of incentives out of the trust fund by the trustee. The Directors also confirmed that the trustee has no present intention to grant any incentives to any of the beneficiaries prior to the Listing Date.

(j) On 22 November 2004, Mr. Guo and Ms. Yang set up a discretionary trust, namely the Barrie Bay Trust. On 23 November 2004, the entire issued share capital of Data Dreamland became wholly owned by Barrie Bay, which is acting as the trustee of the Barrie Bay Unit Trust, 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 entire issued share capital of Barrie Bay is held by HSBC Trustee. The discretionary objects of the Barrie Bay Trust are the children of Mr. Guo and Ms. Yang who are under 18 years old.

5. Changes in share capital of subsidiaries

The subsidiaries of the Company are referred to in the accountants' report, the text of which is set forth in Appendix I to this prospectus.

Changes in the share capital of the subsidiaries of the Company within the two years immediately preceding the date of this prospectus are, as follows:—

(a) On 6 August 2002, the registered capital of Yulong Shenzhen increased from RMB3,100,000 to RMB10,000,000 and was fully paid up in accordance with the laws and regulations of the PRC.

(b) On 18 September 2003, the registered capital of Yulong Shenzhen increased from RMB10,000,000 to RMB30,000,000 and was fully paid up in accordance with the laws and regulations of the PRC.

Save as disclosed above and except as referred to in the paragraph headed "Corporate reorganisation" above, there has been no alteration in the share capital of any subsidiary of the Company within the two years immediately preceding the date of this prospectus.

6. Repurchase by the Company of its own Shares

This section includes information required by the Stock Exchange to be included in this prospectus concerning the repurchase by the Company of its own securities.

(a) *Provisions of the Listing Rules*

The Listing Rules permit companies whose primary listing is on the Main Board of the Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, the most important of which are summarised below:—

(i) *Shareholders' approval*

All proposed repurchases of securities, which must be fully paid up in the case of shares, on the Stock Exchange by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of shareholders, either by way of a general mandate or by specific approval of a particular transaction.

Note: Pursuant to a written resolution passed by all the Shareholders on 21 November 2004, a general unconditional mandate (the "Repurchase Mandate") was granted to the Directors authorising the repurchase by the Company on the Stock Exchange, or on any other stock exchange on which the securities of the Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, of 40,000,000 Shares with an aggregate nominal value not exceeding 10% of the aggregate nominal amount of the share capital of the Company in issue as at the Listing Date at any time until the conclusion of the next annual general meeting of the Company, the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable laws of the Cayman Islands to be held or when such mandate is revoked, varied or renewed by an ordinary resolution of the Shareholders in a general meeting, whichever is the earliest.

(ii) *Source of funds*

Any repurchase by a company may only be funded out of funds legally available for such purposes in accordance with its memorandum and articles of association, the Listing Rules and the applicable laws of the Cayman Islands. A company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

(iii) *Shares to be repurchased*

The Listing Rules provide that the shares which are proposed to be repurchased by a company must be fully paid up.

(b) *Reasons for repurchases*

The Directors believe that it is in the best interests of the Company and its shareholders for the Directors to have a general authority from shareholders to enable the Company to repurchase the Shares in the market. Repurchases of the Shares will only be made when the Directors believe that such repurchases will benefit the Company and its shareholders as a whole. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share.

(c) *Funding of repurchases*

Repurchase pursuant to the Repurchase Mandate would be financed out of funds of the Company legally available for such purpose in accordance with its memorandum and articles of association, the Listing Rules and the applicable laws of the Cayman Islands.

The Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position of the Company as compared with the position disclosed in this prospectus. However, the Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or its gearing levels.

(d) *Director's undertaking*

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws of the Cayman Islands and the memorandum and articles of association of the Company.

(e) *Disclosure of interests*

None of the Directors and, to the best of their knowledge, having made all reasonable enquiries, any of their respective associates, as defined in the Listing Rules, has any present intention, if the Repurchase Mandate is exercised, to sell any Shares to the Company or its subsidiaries.

No connected person, as defined in the Listing Rules, has notified the Company that he or she has a present intention to sell Shares to the Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

(f) *Takeovers Code consequences*

If, as a result of a securities repurchase pursuant to the Repurchase Mandate, a shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purpose of the Hong Kong Code on Takeovers and Mergers (the "Code").

Accordingly, a shareholder, or a group of shareholders acting in concert, depending on the level of increase of shareholders' interest but subject to the latitude provided by the 2% creeper provision under Rule 26 of the Code, could obtain or consolidate control of the company and become obliged to make a mandatory offer in accordance with Rule 26 of the Code as a result of any such increase. The Directors are not aware of any consequences which may arise under the Code if the Repurchase Mandate is exercised.

FURTHER INFORMATION ABOUT THE BUSINESS

7. Summary of material contracts

The following contracts (not being contracts in the ordinary course of business) have been entered into by the Company or any of its subsidiaries within the two years preceding the date of this prospectus and are or may be material. A copy of every such material contract has been delivered to the Companies Registrar for registration:—

(a) an agreement dated 31 July 2003 between the Company, Data Dreamland, Ms. Yang, Ms. Ma and Mr. Guo whereby the Company acquired from Ms. Yang and Mr. Guo, and from Ms. Yang and Ms. Ma the entire issued share capital of Yulong Infotech and DTI respectively in consideration for which the Company allotted and issued 17,999,999 Shares credited as fully paid to Data Dreamland as directed by Ms. Yang, Mr. Guo and Ms. Ma;

(b) a subscription agreement dated 15 August 2003 between the Company, JATF, Data Dreamland, Ms. Yang, Mr. Guo and Ms. Ma whereby JATF agreed to subscribe for 4,000,000 Preference Shares at an aggregate subscription price of US$4,000,000;

(c) a shareholders agreement dated 22 August 2003 between the Company, JATF, Data Dreamland, Ms. Yang, Mr. Guo and Ms. Ma which governed certain aspects of the affairs of the Company;

(d) a deed of indemnity dated 22 August 2003 given by the Company to Mr. Zhong Xiaolin ("Mr. Zhong") pursuant to which the Company agreed to indemnify Mr. Zhong and/or his alternate, to the fullest extent permitted by laws, from and against all liabilities, damages, actions, suits, proceedings, claims, costs, charges and expenses suffered or incurred by or brought or made against him and/or his alternate as a result of any act, matter or thing done or omitted to be done by him or his alternate in good faith in the course of his or his alternate acting as a director (as the case may be) of the Company;

(e) a deed of indemnity dated 21 November 2004 entered into between the Company, Mr. Guo, Ms. Yang, Ms. Ma and Mr. Zhong, being a Director during the period from 22 August 2003 to 18 March 2004, in substitution of the deed of indemnity dated 22 August 2003 given by the Company in favour of Mr. Zhong as referred to in item (d) above, and as referred to in the paragraphs headed "Undertaking to an ex-Director" in the section headed "Substantial Shareholders" in this prospectus;

(f) an agreement dated 13 February 2004 between Yulong Infotech and Kendic Technology Limited whereby Kendic Technology Limited acquired 30% equity interest in Shenzhen Yi Wei at a cash consideration of RMB1,500,000, which is equivalent to 30% of the then registered capital of Shenzhen Yi Wei;

(g) the Public Offer Underwriting Agreement;

(h) a deed of indemnity dated 29 November 2004 given by Data Dreamland, Mr. Guo, Ms. Yang and Ms. Ma in favour of the Group containing the indemnities as referred to in the paragraph headed "Estate duty, tax and other indemnities" in the section headed "Other information " in this appendix; and

(i) a deed of non-competition dated 21 November 2004 executed by Data Dreamland, Mr. Guo, Ms. Yang and Ms. Ma in favour of the Company referred to in the paragraph headed "Undertaking by controlling Shareholder and certain Directors" in the section headed "Substantial Shareholders" in this prospectus.

8. Particulars of the Group's subsidiary in the PRC

The Group has a subsidiary in the PRC, the particulars of which are as follows:—

Yulong Shenzhen

Date of establishment	:	29 April 1993
Nature of enterprise	:	Wholly foreign-owned enterprise
Total investment	:	RMB30,950,000
Registered capital	:	RMB30,000,000 (according to the PRC Lawyers, the registered capital had been paid up in accordance with the laws and regulations of the PRC)
Percentage of equity	:	100% interests held by the Group
Term of operation	:	15 years from 29 April 1993 to 29 April 2008
Principal scope of business	:	Wireless solutions and equipment provider for the wireless telecommunication market in the PRC

9. Intellectual Property Rights

As at the Latest Practicable Date, the Group was the registered proprietor and beneficial owner of the following trademarks:—

Name of proprietor	Trademark	Place of registration	Class	Registration number	Duration of validity
Yulong Shenzhen		PRC	9 *(Note 1)*	1012021	from 21 May 1997 to 20 May 2007
Yulong Shenzhen		PRC	9 *(Note 2)*	1224953	from 21 November 1998 to 20 November 2008
Yulong Shenzhen		PRC	42 *(Note 3)*	1195939	from 28 July 1998 to 27 July 2008
Yulong Shenzhen		PRC	38 *(Note 4)*	1211939	from 28 September 1998 to 27 September 2008
Yulong Shenzhen		PRC	9 *(Note 5)*	3269800	from 14 October 2003 to 13 October 2013

Notes:—

1. The relevant subject products are 錄制好的計算機程序 (computer software (recorded)), 發射機 (projection apparatus) and 板卡 (circuit breaker).

2. The relevant subject products are 計算機 (computers), 數據處理設備 (data processing apparatus), 接口(計算機用) (connector (for computers)), 計算機周邊設備 (computer peripheral devices), 計算機軟件(錄制好的) (computer software (recorded)), 監視器(計算機硬件) (monitors (computer hardware)), 監控器(計算機程序) (monitors (computer programs)), 磁性識別卡 (magnetic cards (encoded)), 查詢台(數據加工設備) (enquiry platform (data processing apparatus)), 文字處理機 (word processors), 顯示器(電子) (electronic monitoring apparatus), 防無線電干擾設備 (anti-interference devices (electricity)), 分線盒 (switchboxes (electricity)), 內部通訊裝置 (intercommunication apparatus), 中繼線箱 (distribution boxes), 無線電天線塔 (masts for wireless aerials), 成套無線電話 (portable telephones), 電話受話器 (telephone receivers), 電話機 (telephone), projection apparatus (electronic signal), 收話器 (receivers (telephone)), 電話送話器 (telephone transmitters), 電子信號發射機 (projection apparatus (electronic signal)), 無線(系統) (electric wires), 聲音尋踪儀 (sound locating instruments), 導航遙測設備 (automatic steering apparatus for vehicles), 驅動斬波器 (activation chopper), 光通訊設備 (optical apparatus), 電話設備 (telephone apparatus), and 載波設備 (carrier equipment).

3. The relevant subject product is 計算機軟件設計 (computer software design).

4. The relevant subject products are communications by 計算機終端聯絡 (computer terminals), 信息發送設備出租 (rental of message sending apparatus), 電信信息 (information about telecommunication), 電話通訊 (communications by telephone), 電話業務 (telephone services), 傳呼服務(無線電或電話) (paging services (wireless or telephone)), and 電子郵遞 (electronic mail).

5. The relevant subject products are 便携計算機 (laptop computers), 照相機 (cameras), 文字處理機 (word processors), 計算機軟件(已錄制) (computer software (recorded)), 信息處理機 (data processing apparatus), 電子字典 (electronic dictionaries), 成套無線電話機 (portable telephones), 尋呼機 (pagers), 可視電話 (video telephones), 音響 (Hi-Fi).

As at the Latest Practicable Date, the Group had applied for the registration of the following trademarks, the registration of which has not yet been granted:—

Applicant	Trademark	Place of application	Class	Application date	Application number
Yulong Shenzhen		PRC	38 *(Note 6)*	7 January 2003	3428086
Yulong Shenzhen	Coolpad 酷派	PRC	9 *(Note 7)*	29 July 2003	3651568
Yulong Shenzhen	搜酷 Coo!	PRC	35 *(Note 8)*	29 July 2003	3651569
Yulong Shenzhen	搜酷 Coo!	PRC	42 *(Note 9)*	29 July 2003	3651565
Yulong Shenzhen	领驰	PRC	9 *(Note 10)*	17 September 2003	3721175
Yulong Shenzhen	Linuos	PRC	9 *(Note 11)*	28 October 2003	3772042
Yulong Shenzhen	CoTime 酷派时空	PRC	35 *(Note 12)*	27 November 2003	3818572
Yulong Shenzhen	CoTime 酷派时空	PRC	42 *(Note 13)*	27 November 2003	3818558
Yulong Shenzhen	酷感社区	PRC	38 *(Note 14)*	23 December 2003	3856807
Yulong Shenzhen	Cool-Zone	PRC	38 *(Note 15)*	23 December 2003	3856808
The Company	中国无线 CHINA WIRELESS	Hong Kong	16 *(Note 16)*	12 November 2004	300318168

Note:—

6. The relevant subject products are 無線電廣播 (radio broadcasting), 有線電視播放 (cable television broadcasting), 移動電話通訊 (wireless telephone communication), 計算機終端通訊 (computer terminal communication), 計算機輔助信息和圖像傳送 (computer supplemental information and figure transmission), 電子郵件 (electronic mails), 傳真發送 (facsimile), 電訊信息 (telecommunication information), 電信信息 (telegraph information), 尋呼(無線電、電話或其他通訊工具) (paging (radio, telephone, and other communication devices)).

7. The relevant subject products are 便携計算機 (laptop computers), 照相機 (cameras), 文字處理機 (word processors), 計算機軟件 (computer software), 信息處理機 (data processing apparatus), 電子字典 (electronic dictionaries), 成套無線電話機 (portable telephones), 尋呼機 (pagers), 可視電話 (video telephones), 音響 (Hi-Fi).

8. The relevant subject products are 數據通訊網絡上的在線廣告 (on-line advertising on a computer network), 廣告策劃 (advertising management), 經濟預測 (economic forecasting), 商業信息 (business information), 進出口代理 (import-export agencies), 人事管理諮詢 (personnel management consultancy), 將信息編入計算機數據庫 (compilation of information into computer databases), 計算機數據庫信息系統化 (systemisation of information into computer databases), 在計算機檔案中進行數據檢索(替他人) (data search in computer files for others), 計算機錄入服務 (computer input services).

9. The relevant subject services are 知識產權諮詢 (intellectual property consultancy), 技術研究 (technical research), 質量體系認證 (quality control), 校準(測量) (proving (surveying)), 氣象預報 (weather forecasting), 工業品外觀設計 (industrial design), 室內裝飾設計 (design of interior decor), 服裝設計 (dress designing), 主持計算機站(網站) (maintaining websites for others), 為計算機用戶間交換數據提供即時連接服務 (provide instant connection service for exchange of data between computer users).

10. The relevant subject products are 計算機軟件 (computer software), 計算機程序 (computer programmes), 車輛用導航儀器(隨車計算機) (automatic steering apparatus for vehicles), 錄音載體 (sound recording carriers), 照相機(攝影) (cameras), 手提電話 (portable telephones), 音頻視頻收音機 (radiotelegraphy sets).

11. The relevant subject products are 計算機軟件 (computer software), 計算機程序 (computer programmes), 車輛用導航儀器(隨車計算機) (automatic steering apparatus for vehicles), 錄音載體 (sound recording carriers), 照相機(攝影) (cameras), 手提電話 (portable telephones), 音頻視頻收音機 (radiotelegraphy sets).

12. The relevant subject services are 提供商業信息 (business information), 商業信息檢索 (business inquiries), 廣告(advertising), 數據處理(data processing), 與數據庫和因特網有關的商業信息服務 (business information service related to the database and the Internet), 計算機數據庫管理 (management of computer databases), 通過在線計算機數據庫或依靠因特網主頁提供信息服務 (provision of information services through online computer databases or the Internet), 通過在線計算機數據庫或依靠因特網主頁提供推銷服務 (provision of sales services through online computer databases or the Internet), 提供電子平台以供使用者通過計算機或無線通訊系統進行商業活動 (providing an electronic platform for users to conduct businesses using computers or wireless communications systems), 電話應接和訊息處理服務，商業促銷管理，商業激勵計劃管理 (telephone call waiting and information processing services, management of business sales, management of business encouragement plans).

13. The relevant subject services are 計算機服務 (computer services), 計算機網絡服務 (computer network services), 提供網絡站點服務 (provision of website services), 通過計算機存儲商業或非商業數據 (storage of business and non-business data in computers), 通過計算機提供電子數據 (provision of electronic data through computers), 網站設計服務 (website design services), 為編輯互聯網網頁而設計作品 (designing for website designs), 與電訊網絡和系統有關的研究和發展服務 (research and development relating to telecommunication networks and systems), 與互聯網有關的研究和發展服務 (research and development services relating to the Internet), 與通訊有關的研究和發展服務 (research and development services relating to communications).

14. The relevant subject services are 電視播放 (television broadcasting), 電話通訊 (communications by telephone), 移動電話通訊 (communications by portable telephone), 計算機終端通訊 (communications by computer terminals), 計算機輔助信息與圖像傳輸 (computer aided transmission of messages and images), 電子信件 (electronic mail), 電信信息 (information about telecommunication), 尋呼(無線電、電話或其他通訊工具) (paging services (radio, telephone or other means of electronic communication)), 信息傳輸設備出租 (rental of telecommunication equipment), 信息傳送 (transmission of information).

15. The relevant subject services are 電視播放 (television broadcasting), 電話通訊 (communications by telephone), 移動電話通訊 (communications by portable telephone), 計算機終端通訊 (communications by computer terminals), 計算機輔助信息與圖像傳輸 (computer aided transmission of messages and images), 電子信件 (electronic mail), 電信信息 (information about telecommunication),

尋呼(無線電、電話或其他通訊工具) (paging services (radio, telephone or other means of electronic communication)), 信息傳輸設備出租 (rental of telecommunication equipment), 信息傳送 (transmission of information).

16. The relevant subject products are magazines; periodicals; newsletters; circulars; books, leaflets and publications; posters; calendars; stationery; writing papers; notepads; memo pads; diaries; bookbinding materials; ringbinders; playing cards; postcards; timetable; writing and drawing instruments and refills therefor; inks; markers; pens; pencils; pencil cases; folders; erasers; labels; envelopes; organisers; adhesives for stationery or household purposes; adhesive tapes an bands for stationery or household purposes; manifolds (stationery); gums for stationery and household purposes; paint brushes; materials for packaging of paper and cardboard; plastic materials for packaging (not included in other classes); wrapping or packing materials of paper; packaging containers of paper; paper and cardboard goods; boxes; bags made of paper and plastic; marketing and promotional materials; printed advertisements; advertisement of paper or cardboard; signboards of paper or cardboard; printed research; printed matters; instructional and teaching materials; yearbooks; souvenir booklets; written analysis and reports; catalogues; manuals and pamphlet; document files; graphic prints; pictures; photographs.

As at the Latest Practicable Date, the Group was the registered proprietor and beneficial owner of the following patents for design:—

Name of proprietor	Title of patent for design	Place of registration	Patent number	Terms of patent
Yulong Shenzhen	無線數據終端(酷派388) (Wireless Data Terminal (Coolpad 388))	PRC	ZL 02 3 38011.X	26 August 2002 to 25 August 2012
Yulong Shenzhen	手機(宇龍) (Handset (Yulong))	PRC	ZL 033525285	17 June 2003 to 16 June 2013

As at the Latest Practicable Date, the Group had applied for the registration of the following patents for design, the registration of which has not yet been granted:—

Applicant	Title of patent for design	Place of registration	Application date	Application number
Yulong Shenzhen	三鍵集中輸入法切換與瀏覽式信息處理裝置 (Three keys centralised input method of switching and browsing information processing installments)	PRC	20 December 2002	02158024.3
Yulong Shenzhen	手機(酷派828) (Handset (Coolpad 828))	PRC	31 March 2004	200430037345.1
Yulong Shenzhen	一種基於關鍵字搜索的移動互聯網智能信息搜索引擎 (A kind of mobile Internet intelligent information search engine based on key word search)	PRC	31 March 2004	200410026674.5

Applicant	Title of patent for design	Place of registration	Application date	Application number
Yulong Shenzhen	移動電源 (Mobile power source)	PRC	21 April 2004	200430038799.0
Yulong Shenzhen	一種帶標準 USB 輸出口的移動電源 (A kind of mobile power source with standard USB output)	PRC	21 April 2004	200420044943.6
Yulong Shenzhen	一種數據庫間的數據轉換或同步方法 (A kind of method of data conversion or synchronisation between databases)	PRC	31 May 2004	2004101551135
Yulong Shenzhen	充電座 (Battery charger)	PRC	15 September 2004	2004301510102
Yulong Shenzhen	PHS移動通信直放站 (PHS mobile communication broadcasting station)	PRC	15 September 2004	200420150491X
Yulong Shenzhen	一種手機充電座 (A kind of mobile phone battery charger)	PRC	15 September 2004	2004201504905

As at the Latest Practicable Date, the Group was the registered copyright holder of the following works:—

Name of proprietor	Title of work	Place of registration	Registration number	Period of validity
Yulong Shenzhen	"無線數據，無限夢想"方案 (Proposal of "Wireless data, unlimited dream")	PRC	19-2002-K-0004	From 18 June 2002 to 31 December 2052
Yulong Shenzhen	"uu生活悠悠工作優優"方案 (Proposal of "uu life is pleasurable; work is relaxing")	PRC	19-2003-A-0011	From 8 October 2002 to 31 December 2052
Yulong Shenzhen	短信在家，給短信安個家 (short messages at home; give short messages a home)	PRC	19-2003-F-0500	From 8 May 2003 to 31 December 2053

As at the Latest Practicable Date, the Group was the registered copyright holder of the following computer software:—

Name of proprietor	Title of software	Place of registration	Registration number	Period of validity
Yulong Shenzhen	宇龍 WAP 瀏覽器系統 V1.0 (Yulong WAP browser system V1.0)	PRC	2003SR3020	From 18 October 2002 to 31 December 2052
Yulong Shenzhen	宇龍商務助理系統 V1.0 (Yulong business assistant system V1.0)	PRC	2003SR3021	From 18 October 2002 to 31 December 2052
Yulong Shenzhen	宇龍移動QQ系統 V1.0 (Yulong mobile QQ system V1.0)	PRC	2003SR3022	From 18 October 2002 to 31 December 2052
Yulong Shenzhen	宇龍郵件管理系統 V1.0 (Yulong mail management system V1.0)	PRC	2003SR3023	From 18 October 2002 to 31 December 2052
Yulong Shenzhen	宇龍通話管理系統 V1.0 (Yulong call management system V1.0)	PRC	2003SR3024	From 18 October 2002 to 31 December 2052
Yulong Shenzhen	宇龍無線股票綜合信息系統 V1.0 (Yulong wireless stock integrated information system V1.0)	PRC	2003SR3025	From 18 October 2002 to 31 December 2052
Yulong Shenzhen	宇龍嵌入式操作系統 V1.0 (Yulong embedded operating system V1.0)	PRC	2003SR4721	From 18 October 2002 to 31 December 2052

Name of proprietor	Title of software	Place of registration	Registration number	Period of validity
Yulong Shenzhen	宇龍酷派手機日程安排應用軟件 V1.0 (Yulong Coolpad mobile-phone schedule arrangement application software V1.0)	PRC	2004SR03346	From 6 September 2003 to 31 December 2053
Yulong Shenzhen	宇龍酷派手機電子圖冊應用軟件 V1.0 (Yulong Coolpad mobile-phone electronic graphic application software V1.0)	PRC	2004SR03347	From 6 September 2003 to 31 December 2053
Yulong Shenzhen	宇龍酷派手機任務表應用軟件 V1.0 (Yulong Coolpad mobile-phone task list application software V1.0)	PRC	2004SR03348	From 6 September 2003 to 31 December 2053
Yulong Shenzhen	宇龍酷派手機酷派今日應用軟件 V1.0 (Yulong Coolpad mobile-phone Coolpad today application software V1.0)	PRC	2004SR03349	From 6 September 2003 to 31 December 2053
Yulong Shenzhen	宇龍酷派手機 WAP 上網應用軟件 V1.0 (Yulong Coolpad mobile-phone WAP online application software V1.0)	PRC	2004SR03350	From 6 September 2003 to 31 December 2053
Yulong Shenzhen	宇龍酷派手機電子郵件應用軟件 V1.0 (Yulong Coolpad mobile-phone electronic-mails application software V1.0)	PRC	2004SR03351	From 6 September 2003 to 31 December 2053
Yulong Shenzhen	宇龍酷派手機短信息應用軟件 V1.0 (Yulong Coolpad mobile-phone short messages application software V1.0)	PRC	2004SR03352	From 6 September 2003 to 31 December 2053

Name of proprietor	Title of software	Place of registration	Registration number	Period of validity
Yulong Shenzhen	宇龍酷派手機通聯系人應用軟件 V1.0 (Yulong Coolpad mobile-phone correspondent application software V1.0)	PRC	2004SR03353	From 6 September 2003 to 31 December 2053
Yulong Shenzhen	宇龍酷派手機通話記錄應用軟件 V1.0 (Yulong Coolpad mobile-phone call record application software V1.0)	PRC	2004SR03354	From 6 September 2003 to 31 December 2053
Yulong Shenzhen	宇龍酷派手機打電話應用軟件 V1.0 (Yulong Coolpad mobile-phone dialing application software V1.0)	PRC	2004SR03355	From 6 September 2003 to 31 December 2053
Yulong Shenzhen	宇龍酷派 Desktop 同步應用軟件 V1.0 (Yulong Coolpad Desktop synchronisation application software V1.0)	PRC	2004SR03356	From 6 September 2003 to 31 December 2053
Yulong Shenzhen	宇龍酷派手機鍵盤輸入法應用軟件 V1.0 (Yulong Coolpad mobile-phone keyboard input application software V1.0)	PRC	2004SR03357	From 6 September 2003 to 31 December 2053
Yulong Shenzhen	宇龍酷派手機移動證券應用軟件 V1.0 (Yulong Coolpad mobile-phone mobile securities application software V1.0)	PRC	2004SR03358	From 6 September 2003 to 31 December 2053
Yulong Shenzhen	宇龍酷派手機參考資料應用軟件 V1.0 (Yulong Coolpad mobile-phone reference materials application software V1.0)	PRC	2004SR03359	From 6 September 2003 to 31 December 2053

Name of proprietor	Title of software	Place of registration	Registration number	Period of validity
Yulong Shenzhen	宇龍酷派手機嵌入式同步應用軟件 V1.0 (Yulong Coolpad mobile-phone embedded synchronisation application software V1.0)	PRC	2004SR03360	From 6 September 2003 to 31 December 2053
Yulong Shenzhen	宇龍酷派手機鬧鐘應用軟件 V1.0 (Yulong Coolpad mobile-phone alarm application software V1.0)	PRC	2004SR03361	From 6 September 2003 to 31 December 2053
Yulong Shenzhen	宇龍酷派手機音樂寶庫應用軟件 V1.0 (Yulong Coolpad mobile-phone music database application software V1.0)	PRC	2004SR03362	From 6 September 2003 to 31 December 2053
Yulong Shenzhen	宇龍酷派手機圖畫備忘應用軟件 V1.0 (Yulong Coolpad mobile-phone pictures memorandum application software V1.0)	PRC	2004SR03363	From 6 September 2003 to 31 December 2053
Yulong Shenzhen	宇龍酷派手機備忘錄應用軟件 V1.0 (Yulong Coolpad mobile-phone memorandum application software V1.0)	PRC	2004SR03683	From 6 September 2003 to 31 December 2053
Yulong Shenzhen	宇龍酷派手機俄羅斯方塊應用軟件 V1.0 (Yulong Coolpad mobile-phone Russian blocks application software V1.0)	PRC	2004SR03684	From 6 September 2003 to 31 December 2053
Yulong Shenzhen	宇龍酷派手機推箱子應用軟件 V1.0 (Yulong Coolpad mobile-phone pushing boxes application software V1.0)	PRC	2004SR03685	From 6 September 2003 to 31 December 2053

Name of proprietor	Title of software	Place of registration	Registration number	Period of validity
Yulong Shenzhen	宇龍酷派手機掃雷應用軟件 V1.0 (Yulong Coolpad mobile-phone mine-sweeping application software V1.0)	PRC	2004SR03686	From 6 September 2003 to 31 December 2053
Yulong Shenzhen	宇龍酷派手機彩E應用軟件 V1.0 (Yulong Coolpad mobile-phone colour-E application software V1.0)	PRC	2004SR04024	From 6 September 2003 to 31 December 2053
Yulong Shenzhen	宇龍運營分析系統 V1.0 (Yulong operation analysis software V1.0)	PRC	2004SR04025	From 5 November 2003 to 31 December 2053
Yulong Shenzhen	宇龍酷派手機桌面應用軟件 V1.0 (Yulong Coolpad mobile-phone desktop application software V1.0)	PRC	2004SR04764	From 5 November 2003 to 31 December 2053
Yulong Shenzhen	宇龍無線數據終端程序下載工具 V2.4.40 (Yulong mobile data terminal download tools V2.4.40)	PRC	2004SR04765	From 1 February 2004 to 31 December 2054

As at the Latest Practicable Date, the Group has obtained the following software products registration certificates:—

Registration owner	Product name	Granted by	Certificate number	Date of registration
Yulong Shenzhen	YL6400B 無線尋呼發射系統 V6.0 (YL6400B wireless paging transmission system V6.0)	深圳市信息化辦公室 (Shenzhen Informatisation Office)	深DGQ-2001-0005	12 November 2002
Yulong Shenzhen	P4/P6 高級尋呼系統 V6.0 (P4/P6 High-level paging system V6.0)	深圳市信息化辦公室 (Shenzhen Informatisation Office)	深DGY-2001-0186	12 November 2002

Registration owner	Product name	Granted by	Certificate number	Date of registration
Yulong Shenzhen	尋呼營業管理系統 V6.02 (Paging business management system V6.02)	深圳市信息化辦公室 (Shenzhen Informatisation Office)	深DGY-2001-0187	12 November 2002
Yulong Shenzhen	PPS 高速尋呼系統 V3.01 (PPS High speed paging system V3.01)	深圳市信息化辦公室 (Shenzhen Informatisation Office)	深DGY-2001-0188	12 November 2002
Yulong Shenzhen	發射機遠程監控系統 V2.0 (Transmitter long-distance supervision system V2.0)	深圳市信息化辦公室 (Shenzhen Informatisation Office)	深DGY-2001-0189	12 November 2002
Yulong Shenzhen	短消息增值系統 V1.10 (Short messages value-added system V1.10)	深圳市信息化辦公室 (Shenzhen Informatisation Office)	深DGY-2001-0190	12 November 2002
Yulong Shenzhen	SMS 移動短消息系統 V1.20 (SMS Mobile short messages system V1.20)	深圳市信息化辦公室 (Shenzhen Informatisation Office)	深DGY-2001-0191	12 November 2002
Yulong Shenzhen	宇龍 CDP-300 證券信息終端 V1.0 (Yulong CDP-300 securities information terminal V1.0)	深圳市信息化辦公室 (Shenzhen Informatisation Office)	深DGY-2002-0206	12 November 2002
Yulong Shenzhen	宇龍呼叫中心系統 V1.0 (Yulong call centre system V1.0)	深圳市信息化辦公室 (Shenzhen Informatisation Office)	深DGY-2002-0207	12 November 2002
Yulong Shenzhen	宇龍 CDP-400 證券信息終端 V1.0 (Yulong CDP-400 securities information terminal V.10)	深圳市信息化辦公室 (Shenzhen Informatisation Office)	深DGY-2002-0208	12 November 2002
Yulong Shenzhen	宇龍信息平台系統 V2.1.0 (Yulong information platform system V.2.1.0)	深圳市信息化辦公室 (Shenzhen Informatisation Office)	深DGY-2002-0209	12 November 2002

Registration owner	Product name	Granted by	Certificate number	Date of registration
Yulong Shenzhen	宇龍理財寶信息終端嵌入式軟件 V2.0(Yulong finance management information terminal embedded software V2.0)	深圳市信息化辦公室 (Shenzhen Informatisation Office)	深DGY-2002-0476	12 November 2002
Yulong Shenzhen	宇龍 COOLPAD 智能終端嵌入式軟件 V1.0 (Yulong COOLPAD intelligent terminal embedded software V1.0)	深圳市信息化辦公室 (Shenzhen Information Office)	深DGY-2002-0487	12 November 2002
Yulong Shenzhen	宇龍 CoolPAD 手機嵌入式軟件 V1.10 (Yulong COOLPAD handset embedded software V1.10)	深圳市科技和信息局 (Shenzhen Technology and Information Bureau)	深DGY-2004-0407	21 June 2004
Yulong Shenzhen	宇龍 PHS 智能覆蓋系統軟件 V2.52 V2.52 (Yulong PHS intelligent coverage software V2.52)	深圳市科技和信息局 (Shenzhen Technology and Information Bureau)	深DGY-2004-0533	21 July 2004

As at the Latest Practicable Date, the Group held the following domain name:—

Domain name	Date of registration
yulong.com	2 May 2000
coolpad.cc	3 July 2002
coolpad.com.cn	28 September 2002
coolpad.cn	17 March 2003
chinawireless.cn	17 March 2003
chinawireless.com.cn	4 October 2004
chinawireless.net.cn	4 October 2004

FURTHER INFORMATION ABOUT DIRECTORS, MANAGEMENT AND STAFF

10. Disclosure of interests

(a) *Directors' interests and short positions in shares and debentures of the Company*

Immediately following completion of the Capitalisation Issue and the Share Offer (assuming that the Over-allotment Option is not exercised), the interests and short positions of the Directors in the Shares, underlying shares and debentures of the Company which, once the Shares are listed, will have to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under the SFO) or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, or will be required pursuant to section 352 of the SFO to be entered in the register of interests referred to therein, will be as follows:—

(i) *Long Position in Shares*

Name of Director	Number of Shares in which interested	Number of Shares in which interested under equity derivatives	Capacity	Total number of Shares	Approximate percentage of issued Shares if the Over-allotment Option is not exercised
Mr. Guo *(Notes 1 and 2)*	227,454,545	—	Founder of a discretionary trust Family interests	245,454,545	61.36
	18,000,000	—	Interest of controlled corporation		
Ms. Yang *(Note 1)*	227,454,545	—	Founder of a discretionary trust Family interests	227,454,545	56.86
Mr. Jiang *(Note 3)*	18,000,000		Beneficiary of a trust	18,000,000	4.50

(ii) *Short Position in Shares*

Name of Director	Number of Shares in short position	Number of Shares in short position under equity derivatives	Capacity	Total number of Shares	Approximate percentage of issued Shares if the Over-allotment Option is not exercised
Mr. Guo *(Note 1)*	19,800,000		Founder of a discretionary trust	46,037,054	11.51
		26,237,054	Founder of a discretionary trust		
Ms. Yang *(Note 1)*	19,800,000		Founder of a discretionary trust	46,037,054	11.51
		26,237,054	Founder of a discretionary trust		

Notes:—

1. The entire issued share capital of Data Dreamland is held by 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 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 and Ms. Yang on 22 November 2004, the beneficiary objects of which include the children of Mr. Guo and Ms. Yang who are under 18 years old. Each of Mr. Guo and Ms. Yang is a settlor of the Barrie Bay Trust and is taken to be interested in the 227,454,545 Shares held by Data Dreamland.

   Conditional upon the Stock Borrowing Agreement being entered into between Data Dreamland and DBS Asia, each of Mr. Guo and Ms. Yang will be taken to have a short position in 19,800,000 Shares under the Stock Borrowing Agreement, pursuant to which DBS Asia may borrow up to 19,800,000 Shares from Data Dreamland in accordance with the terms thereof.

   Each of Mr. Guo and Ms. Yang is also taken to have a short position in a certain number of Shares which are subject to the Option under the Option Agreement. Subject to Rule 10.07(1) of the Listing Rules, upon exercise of the Option by JATF, JATF can purchase a certain number of Shares (to be determined in accordance with the mechanism as set out in the Option Agreement and will vary depending on the Offer Price) from Data Dreamland at a nominal aggregate consideration of US$1.00. Based on the offer price of HK$0.79 per Share, being the lower end of the indicative Offer Price, the number of Shares subject to the Option will be 26,237,054.

2. Mr. Guo is taken to be interested in the 18,000,000 Shares held by Wintech Consultants as he is interested in the entire issued share capital of the Wintech Consultants.

3. Mr. Jiang, an executive Director, is taken to be interested in 18,000,000 Shares held by Wintech Consultants as he is one of the discretionary objects under the China Wireless Employee Benefit Trust.

(b) *Directors' interests and short positions in shares and debentures of associated corporations of the Company*

Immediately following completion of the Capitalisation Issue and the Share Offer (assuming that the Over-allotment Option is not exercised), the interests and short positions of the Directors in the shares, underlying shares and debentures of any associated corporations of the Company (within the meaning of the SFO) which, once the Shares are listed, will have to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under the SFO) or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, or will be required pursuant to section 352 of the SFO to be entered in the register of interests referred to therein, will be as follows:—

Data Dreamland

Long position in Shares

Name of Director	Number of Shares in which interested	Number of Shares in which interested under equity derivatives	Capacity	Total number of Shares	Approximate percentage of issued shares
Mr. Guo *(Note)*	1,000	—	Founder of a discretionary trust	1,000	100
Ms. Yang *(Note)*	1,000	—	Founder of a discretionary trust	1,000	100

Note: 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.

(c) *Other notifiable interests and short positions in Shares*

Save as disclosed below, immediately following completion of the Capitalisation Issue and the Share Offer (assuming the Over-allotment Option is not exercised), so far as the Directors are aware and taking no account of the Shares which may fall to be issued upon the exercise of any options which may be granted under the Share Option Scheme, there are no other person, not being a Director or chief executive of the Company, who has an interest or short position in the Shares and underlying shares and debentures of the Company which, once the Shares are listed, would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group.

(i) *Long Position in Shares*

Interests in Shares

Name	Number of Shares in which interested (other than under equity derivatives)	Number of Shares in which interested under equity derivatives	Capacity	Total number of Shares	Percentage of issued Shares if the Over-allotment Option is not exercised
Data Dreamland *(Note 1)*	227,454,545		Beneficial owner	227,454,545	56.86
Barrie Bay *(Note 2)*	227,454,545		Interest of controlled corporation	227,454,545	56.86
HSBC Trustee *(Note 2)*	227,454,545		Trustee	227,454,545	56.86
JATF *(Note 3)*	22,545,455	26,237,054	Beneficial owner	48,783,509	12.20
JAFCO Asia Technology Fund L.P. *(Note 4)*	22,545,455	26,237,054	Interests of controlled corporation	48,783,509	12.20
JAFCO Asia Technology Holdings Limited *(Note 4)*	22,545,455	26,237,054	Interests of controlled corporation	48,783,509	12.20
JAFCO Investment (Asia Pacific) Limited *(Note 4)*	22,545,455	26,237,054	Interests of controlled corporation	48,783,509	12.20
JAFCO Co., Ltd *(Note 4)*	22,545,455	26,237,054	Interests of controlled corporation	48,783,509	12.20

(ii) *Short Position in Shares*

Name	Number of Shares in short position (other than under equity derivatives)	Number of Shares in short position under equity derivatives	Capacity	Total number of Shares	Percentage of issued Shares if the Over-allotment Option is not exercised
Data Dreamland *(Note 1)*	19,800,000	26,237,054	Beneficial owner	46,037,053	11.51
Barrie Bay *(Note 2)*	19,800,000	26,237,054	Interest of controlled corporation	46,037,053	11.51
HSBC Trustee *(Note 2)*	19,800,000	26,237,054	Trustee	46,037,053	11.51

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 owned by Ms. Yang Hua. The Barrie Bay Trust is a discretionary trust set up by Mr. Guo and Ms. Yang on 22 November 2004 and the discretionary objects of which include the children of Mr. Guo and Ms. Yang who are under 18 years old.

   Conditional upon the Stock Borrowing Agreement being entered into between Data Dreamland and DBS Asia, Data Dreamland will have a short position in 19,800,000 Shares under the Stock Borrowing Agreement, pursuant to which DBS Asia may borrow up to 19,800,000 Shares from Data Dreamland in accordance with the terms thereof.

   Data Dreamland also has a short position in a certain number of Shares which are subject to the Option under the Option Agreement. Subject to Rule 10.07(1) of the Listing Rules, upon exercise of the Option by JATF, JATF can purchase a certain number of Shares (to be determined in accordance with the mechanism as set out in the Option Agreement and will vary depending on the Offer Price) from Data Dreamland at a nominal aggregate consideration of US$1.00. Based on the Offer Price of HK$0.79 per Share, being the lower end of the indicative Offer Price, the number of Shares subject to the Option will be 26,237,054.

2. The 227,454,545 Shares are held by Data Dreamland, the entire issued 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.

   Conditional upon the Stock Borrowing Agreement being entered into between Data Dreamland and DBS Asia, each of Barrie Bay and HSBC Trustee will be taken to have a short position in 19,800,000 Shares under the Stock Borrowing Agreement, pursuant to which DBS Asia may borrow up to 19,800,000 Shares from Data Dreamland in accordance with the terms thereof.

   Each of Barrie Bay and HSBC Trustee is also taken to have a short position in a certain number of Shares which are subject to the Option under the Option Agreement as mentioned in Note 1.

3. JATF is interested in a certain number of Shares which are subject to the Option under the Option Agreement. Subject to Rule 10.07(1) of the Listing Rules, upon exercise of the Option by JATF, JATF can purchase a certain number of Shares (to be determined in accordance with the mechanism as set out in the Option Agreement and will vary depending on the Offer Price) from Data Dreamland at a nominal aggregate consideration of US$1.00. Based on the Offer Price of HK$0.79 per Share, being the lower end of the indicative Offer Price, the number of Shares subject to the Option will be 26,237,054.

4. The 22,545,455 Shares are held by JATF, a company 100% beneficially owned by JAFCO Asia Technology Fund L.P..

JAFCO Asia Technology Fund L.P. is a limited partnership which is managed by its sole general partner, JAFCO Asia Technology Holdings Limited. JAFCO Co., Ltd. has a 44.38% interest in JAFCO Asia Technology Fund L.P..

JAFCO Asia Technology Holdings Limited is 100% beneficially owned by JAFCO Investment (Asia Pacific) Ltd..

JAFCO Investment (Asia Pacific) Ltd. is 100% beneficially owned by JAFCO Co., Ltd.

Each of JAFCO Asia Technology Fund L.P., JAFCO Asia Technology Holdings Limited, JAFCO Investment (Asia Pacific) Ltd. and JAFCO Co., Ltd. is taken to be interested in the 22,545,455 Shares held by JATF and the long position in a certain number of Shares subject to the Option as mentioned in Note 3 above.

(d) *Other notifiable interests and short positions in shares and debentures of associated corporations of the Company*

Save as disclosed below, immediately following completion of the Capitalisation Issue and the Share Offer (assuming that the Over-allotment Option is not exercised), so far as the Directors are aware and taking no account of the Shares which may fall to be issued upon the exercise of any options which may be granted under the Share Option Scheme, there are no other person, not being a Director or chief executive of the Company, who has an interest or short position in the shares, underlying shares and debentures of any associated corporations of the Company (within the meaning of the SFO) which, once the Shares are listed, would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group:—

Data Dreamland

Long position in shares

Name	Number of shares in which interested	Number of shares in which interested under equity derivatives	Capacity	Total number of shares	Approximate percentage of issued shares
Barrie Bay	1,000	—	Beneficial owner	1,000	100%
HSBC Trustee *(Note)*	1,000	—	Interest of controlled corporation	1,000	100%

Note: Such Shares are held by Barrie Bay. HSBC Trustee is taken to be interested in the entire issued share capital of Data Dreamland as it holds the entire issued share capital of Barrie Bay.

Barrie Bay

Long position in shares

Name	Number of Shares in which interested	Number of shares in which interested under equity derivatives	Capacity	Total number of shares	Approximate percentage of issued shares
HSBC Trustee	1	—	Beneficial owner	1	100%

(e) ***Particulars of Directors' service contracts***

Each of the executive Directors has entered into a service contract dated 15 August 2003 as amended by a supplemental deed dated 21 November 2004 with the Company for an initial fixed term of 3 years all commencing on 21 November 2004. Under the service contracts, after each completed year of service, the remuneration payable to each of them may, subject to the discretion of the Directors, be reviewed. Each of the executive Directors will also be entitled to all reasonable out-of-pocket expenses and medical expenses.

Each of the non-executive Directors has been appointed for an initial term of 3 years commencing on 21 November 2004. No remuneration is payable to the non-executive Directors.

Each of the independent non-executive Directors is appointed for an initial term of 1 year commencing on 21 November 2004. The annual fee payable to each of the independent non-executive Directors is as follows:

Director	Remuneration (per annum)
Mr. Xie Weixin	RMB1
Dr. Huang Dazhan	HK$120,000
Mr. Chan King Chung	HK$100,000

Save as disclosed above, none of the Directors has entered into any service agreements with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

(f) ***Directors' remuneration***

During the year ended 31 December 2003, the aggregate remuneration paid and benefit in kind granted to the Directors by the Group were approximately RMB367,992, of which RMB245,196 was paid to Mr. Guo and RMB122,796 was paid to Mr. Jiang.

Under the arrangements currently in force, the estimated amount of directors' fees and other emoluments payable to the Directors for the year ending 31 December 2004 will be approximately RMB720,000.

(g) *Disclaimers*

Save as disclosed herein:—

(a) none of the Directors or chief executive of the Company has any interests or short positions in the Shares, underlying shares or debentures of the Company or any of its associated corporations, within the meaning of the SFO, which will have to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he will be taken or deemed to have under section 344 or 345 of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules once the Shares are listed;

(b) none of the Directors and experts referred to under the heading "Consents of experts" in this appendix has any direct or indirect interest in the promotion of the Company, or in any assets which have within the two years immediately preceding the date of this prospectus been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group;

(c) none of the Directors and experts referred to under the heading "Consents of experts" in this appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of the Group taken as a whole;

(d) none of the Directors has any existing or proposed service contracts with any members of the Group, excluding contracts which are determinable by the employer within one year without payment of compensation other than statutory compensation;

(e) taking no account of any Shares which may be taken up under the Share Offer or any Shares which may fall to be issued upon the exercise of any option which may be granted under the Share Option Scheme, the Directors are not aware of any person, not being a Director or chief executive of the Company, who will, immediately following completion of the Share Offer and the Capitalisation Issue (assuming that the Over-allotment Option is not exercised), be interested in or has short positions in, directly or indirectly, Shares or underlying Shares then in issue representing 5% or more of such Shares in issue in the Company, or be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group;

(f) none of the experts referred to under the heading "Consents of experts" in this appendix has any shareholding in any member of the Group or the right, whether legally enforceable or not, to subscribe for or to nominate any person to subscribe for securities in any member of the Group; and

(g) none of the Directors, their associates or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) has any interest in the Group's five largest suppliers and five largest customers.

11. Agency fees or commissions received

None of the Directors, the promoters of the Company or the experts named in the subsection headed "Consents of experts" in this appendix had received any agency fee or commission from the Group within the two years immediately preceding the date of this prospectus.

12. Related party transactions

Save as disclosed in note 3(h) to the section headed "Combined Results" in the accountants' report set forth in Appendix I to, and the paragraphs headed "Connected and related party transactions" under the section headed "Business" in this prospectus, the Group has not engaged in any dealings with the Directors and their associates during the two years immediately preceding the date of this prospectus.

13. Share Option Scheme

(1) *Summary of terms*

The following is a summary of the principal terms of the Share Option Scheme conditionally approved and adopted by a written resolution passed by all shareholders of the Company on 21 November 2004:—

(a) *Purpose*

The purpose of the Share Option Scheme is to enable the Group to grant options to selected participants as incentives or rewards for their contribution to the Group.

(b) *Who may join*

The Directors may, at their absolute discretion, invite any person belonging to any of the following classes of participants, to take up options to subscribe for Shares at a price calculated in accordance with sub-paragraph (f) below:—

(i) any employee (whether full-time or part-time and including any executive director), consultants or advisers of or to the Company, any of its subsidiaries or any entity ("Invested Entity") in which the Group holds an equity interest;

(ii) any non-executive directors (including independent non-executive directors) of the Company, any of its subsidiaries or any Invested Entity;

(iii) any supplier of goods or services to any member of the Group or any Invested Entity;

(iv) any customer of the Group or any Invested Entity;

(v) any person or entity that provides research, development or other technological support to the Group or any Invested Entity; and

(vi) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity,

and for the purposes of the Share Option Scheme, the options may be granted to any company wholly owned by one or more persons belonging to any of the above classes of participants. For the avoidance of doubt, the grant of any options by the Company for the subscription of Shares or other securities of the Group to any person who fall within any of the above classes of participants shall not, by itself, unless the Directors otherwise determine, be construed as a grant of option under the Share Option Scheme.

The basis of eligibility of any of the above class of participants to the grant of any options shall be determined by the Directors from time to time on the basis of their contribution to the development and growth of the Group.

(c) *Maximum number of Shares*

(i) The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme of the Company must not exceed 30% of the issued share capital of the Company from time to time.

(ii) The total number of Shares which may be issued upon exercise of all outstanding options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme and any other share option scheme of the Company) to be granted under the Share Option Scheme and any other share option scheme of the Company must not in aggregate exceed 40,000,000 Shares, being 10% of the Shares in issue at the Listing Date (the "General Mandate Limit").

(iii) Subject to (i) above and without prejudice to (iv) below, the Company may seek approval of its shareholders in general meeting to refresh the General Mandate Limit. However, the total number of shares which may be issued upon exercise of all outstanding options to be granted under the Share Option Scheme under the limit as "refreshed" must not exceed 10% of the shares in issue as at the date of approval of the limit. Options previously granted under the Share Option Scheme or any other share option scheme of the Company (including those outstanding, cancelled, lapsed in accordance with the Share Option Scheme or other share option scheme or exercised options) will not be counted for the purpose of calculating the limited as "refreshed". The Company will send a circular to its shareholders containing the information required under Rule 17.02(2)(d) of the Listing Rules and the disclaimer required under Rule 17.02(4) of the Listing Rules.

(iv) Subject to (i) above and without prejudice to (iii) above, the Company may seek separate approval by its shareholders in general meeting for granting options beyond the General Mandate Limit provided the options in excess of the limit are granted only to participants specifically identified by the Company before such approval is sought. The Company will send a circular to the shareholders containing a generic description of the specified participants who may be granted such options, the number and terms of the options to be granted, the purpose of granting options to the specified participants with an explanation as to how the terms of the options serve such purpose, the information required under Rule 17.02(2)(d) of the Listing Rules and the disclaimer required under Rule 17.02(4) of the Listing Rules.

(d) *Maximum entitlement of each participant and connected persons*

(i) Unless approved by shareholders of the Company, the total number of Shares issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the Shares in issue.

(ii) Where any further grant of options to a participant would result in the Shares issued and to be issued to such participant (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the Shares in issue, such further grant must be separately approved by shareholders of the Company in general meeting with such participant and his associates abstaining from voting. The Company will send a circular to the shareholders and the circular must disclose the identity of the participant, the number and terms of the options to be granted (and options previously granted to such participant), the information required under Rule 17.02(2)(d) of the Listing Rules and the disclaimer required under Rule 17.02(4) of the Listing Rules. The number and terms (including the exercise price) of options to be granted to such participant must be fixed before shareholders' approval and the date of the board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the exercise price under note (1) to Rule 17.03(9) of the Listing Rules.

(iii) Notwithstanding the aforesaid, such grant of options to a Director, chief executive or substantial shareholder of the Company or any of their respective associates must be approved by the Company's independent non-executive Directors (excluding any independent non-executive Director who is the grantee).

(iv) If any grant to a Substantial Shareholder or an independent non-executive Director or any of their respective associates would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) under the Share Option Scheme to such person in the 12-month period up to and including the date of such grant:—

(a) representing in aggregate over 0.1% of the Shares in issue; and

(b) having an aggregate value, based on the closing price of the Shares at the date of a grant is made, in excess of HK$5 million, such further grant of options must be approved by shareholders of the Company. The Company must send a circular to the shareholders. All connected persons of the Company must abstain from voting in favour at such general meeting. Any vote taken at the meeting to approve the grant of such option must be taken on a poll.

(e) *Minimum period of holding an option and performance target*

The Directors will have the absolute discretion to fix the minimum period for which an option must be held before it can be exercised, and the performance targets that must be achieved and/or any other conditions that must be fulfilled before the options can be exercised upon the grant of an option to a participant.

(f) *Subscription price for Shares*

The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be such price as the Board in its absolute discretion shall determine, save that such price will not be less than the highest of (i) the nominal value of the Shares, (ii) the average of the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet for the five consecutive trading days immediately preceding the date of offer of grant of the option on which there were dealings in the Shares on the Stock Exchange (or during any period when the Company has been listed for less than five trading days, the Offer Price shall be taken as the closing price for any such day falling within the period before listing) and (iii) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of offer of grant of the option (which must be a trading day). A nominal consideration of HK$1.00 is payable on acceptance of the grant of an option.

(g) *Rights are personal to grantee*

An option may not be transferred or assigned and is personal to the grantee.

(h) *Time of exercise of option*

An option may be accepted by a participant within 28 days from the date of the offer of grant of the option.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by the Directors to each grantee, which period may commence on a day upon which the offer for the grant of the option is accepted but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination thereof.

(i) *Rights on ceasing employment or death*

If the grantee, who is an employee of the Group or any Invested Entity at the time of the grant of the Option, ceases to be cease to be an employee of the Group or Invested Entity for any reason other than death, ill-health or retirement, the grantee may exercise the option (to the extent not already exercised) within a period of 12 months following the date of such cessation, which date shall be the last actual working day with the Group or Invested Entity whether salary is paid in lieu of notice or not, or such longer period as the Directors may determine.

If the grantee, who is an employee of the Group or Invested Entity at the time of the grant of the Option, ceases to be an employee of the Group or Invested Entity by reason other than death, ill-health or retirement in accordance with his contract of employment or serious misconduct or certain other grounds specified in the Share Option Scheme, before exercise of option in full, the grantee, his or her lawful personal representative(s) may exercise the option in whole or in part (to the extent not already exercised) within a period of twelve months thereafter, failing which it will lapse.

(j) *Rights on a general offer, a compromise or arrangement*

If a general or partial offer, whether by way of take-over offer, share re-purchase offer, or scheme of arrangement or otherwise in like manner is made to all the holders of Shares, or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror, the Company shall use all reasonable endeavours to procure that such offer is extended to all the grantees (or his personal representative(s)) on the same terms, mutatis mutandis, and assuming that they will become, by the exercise in full of the options granted to them, shareholders of the Company. If such offer becomes or is declared unconditional or arrangement is formally proposed to shareholders of the Company, a grantee (or his personal representative(s)) shall be entitled to exercise his option (to the extent not already exercised) to its full extent or to the extent specified in the grantee's notice to the Company in accordance with the provisions of the share option scheme at any time before the close of such offer (or any revised offer) or the record date for entitlements under scheme of arrangement, as the case may be.

(k) *Rights on winding-up*

In the event of a resolution being proposed for the voluntary winding up of the Company during the option period, the grantee of an option (or his or her legal personal representative(s)) may by notice in writing to the Company at any time prior to the date on which such resolution is passed, exercise his option either to its full extent or to the extent specified in the provisions of the Share Option Scheme, such notice to be accompanied by the subscription price for the Shares in respect of which the notice is given, whereupon the grantee will be entitled in respect of the Shares falling to be allotted and issued upon exercise of his option, to participate in the distribution of the assets of the Company available in the liquidation pari passu with the holders of Shares in issue on the day prior to the date of such resolution;

(l) *Ranking of Shares*

The Shares to be allotted upon the exercise of an option will be subject to all the provisions of the articles of association of the Company for the time being in force and will rank pari passu with the other fully-paid Shares in issue on the date of exercise of the option and accordingly will entitle the holders to participate in all dividends or other distributions paid or made after the date of exercise of the option other than any dividend or other distribution declared or recommended or resolved to be paid or made by reference to a record date falling on or before the date of exercise of the option.

(m) *Period of the Share Option Scheme*

Unless terminated by the Company by resolution in general meeting, the Share Option Scheme shall be valid and effective for a period of 10 years commencing on the date on which the Share Option Scheme becomes unconditional.

(n) *Alteration of the Share Option Scheme*

The Share Option Scheme may be altered in any respect by resolution of the Directors Board except that any material alteration to its terms and conditions, any change to the terms of options granted (except for changes which automatically take effect under the existing terms of the Share Option Scheme) and the matters contained in Rule 17.03 of the Listing Rules shall not be altered to the advantage of the grantees or the prospective grantees without the prior sanction of a resolution of the Company in general meeting. The amended terms of the Share Option Scheme or the options must still comply with the relevant requirements under Chapter 17 of the Listing Rules. Any change to the authority of the directors or scheme administrators in relation to any alteration to the terms of the Share Option Scheme shall be approved by the shareholders of the Company in general meeting.

(o) *Effect of alterations to capital*

In the event of any alteration in the capital structure of the Company whilst any option remains exercisable or the Share Option Scheme remains in effect, and such event arises from a capitalization of profits or reserves, rights issue, consolidation, sub-division or reduction of the share capital of the Company, such corresponding alterations (if any) certify in writing by the auditors for the time being of or an independent financial adviser to the Company as fair and reasonable will be made to the number of Shares subject to the share option scheme or the option so far as unexercised and/or the subscription price of any unexercised options and/or the method of exercise of the unexercised option and/or the maximum number of shares referred to in the paragraph headed "Maximum number of Shares" provided that (i) any such adjustment shall be made on the basis that the aggregate subscription price payable by a grantee on the full exercise of any option shall remain as nearly as possible the same (but shall not be greater than) as it was before such event; (ii) no such adjustment shall be made the effect of which would be enable a Share to be issued at less than its nominal value; (iii) no such adjustment shall be made the effect of which would be to increase or decrease the proportion of the issued share capital of the Company for which any grantee would have been entitled to subscribe had he exercised all the options held by him immediately prior to such adjustment; and (iv) the issue of securities of the Company as consideration in a transaction shall not be regarded as a circumstance requiring any such adjustment. In addition, in respect of any such adjustments, other than any made on a capitalisation issue, such auditors or independent financial adviser must confirm to the Directors in writing that the adjustments satisfy the requirements of the relevant provision of the Listing Rules.

(p) *Cancellation of options*

The Board may effect the cancellation of any options granted but not exercised in accordance with the terms of the Share Option Scheme on such terms as may be agreed with the relevant grantee, as the Board may in its absolute discretion see fit and in a manner that complies with all applicable legal requirements for cancellation. Where the Company cancels any options granted and offers to grant or grants new options to the same grantee, the offer or grant of such new options may only be made under the Share Option Scheme and only if there is available unissued options (excluding the cancelled options) within each of the limits as referred of in paragraph (c) above.

(q) *Conditions of the Share Option Scheme*

The Share Option Scheme is conditional on (i) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Shares to be issued pursuant to the exercise of such options; and (ii) upon the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms of the Underwriting Agreements.

(r) *Termination of the Share Option Scheme*

The Company by resolution in general meeting may at any time terminate the operation of the Share Option Scheme and in such event no further options will be offered but options granted prior to such termination shall continue to be valid and exercisable in accordance with the provisions of the Share Option Scheme.

(2) *Present status of the Share Option Scheme*

As at the date of this prospectus, no option has been granted or agreed to be granted under the Share Option Scheme.

Application has been made to the Listing Committee of the Stock Exchange for the listing of and permission to deal in 400,000,000 Shares in issue as at the Listing Date and any of the 40,000,000 Shares which may fall to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme.

14. Particulars of the Vendor

Name	Description	Registered office	Number of Sale Shares
JATF	Investment holding company	Ugland House, George Town, Grand Cayman, Cayman Islands, British West Indies	32,000,000

OTHER INFORMATION

15. Estate duty, tax and other indemnities

Data Dreamland, Mr. Guo, Ms. Yang and Ms. Ma entered into a deed of indemnity with and in favour of the Group (being one of the material contracts referred to in the paragraph headed “Summary of material contracts” in this appendix) to provide indemnities in respect of, among other matters, tax liabilities and any liability for estate duty under the Estate Duty Ordinance or the equivalent thereof under the laws of any jurisdiction outside Hong Kong which might be incurred by any member of the Group by reason of any transfer of property (within the meaning of Section 35 of the Estate Duty Ordinance) to any member of the Group on or before the Listing Date save (i) where provision has been made for such taxation in the audited accounts of any member of the Group for the Track Record Period; or (ii) any taxation arisen for which any member of the Group is liable as a result of any event occurring or income, profit earned or any transaction entered into in the ordinary course of business after the Listing Date; or (iii) in respect of over-provision or excessive reserve for any taxation in the audited accounts of any members of the Group for the Track Record Period provided that the amount of any such provision or reserve applied to reduce the liability of Data Dreamland, Mr. Guo, Mr. Yang and Ms. Ma in respect of taxation shall not be available in respect of any such liability arising thereafter; or (iv) in respect of taxation or liability which would not have arisen but for any act or omission of, or transactions voluntarily effected or carried out by, any member of the Group without the prior written consent or agreement of each of Data Dreamland, Mr. Guo, Ms. Yang and Ms. Ma other than acts or omissions carried out or effected in the ordinary course of business, carried out, made or entered into pursuant to a legally binding commitment created on or before the Listing Date; or (v) where the taxation claim arises or is incurred as a result of a retrospective change in law or the interpretation practice coming into effect after the Listing Date or to the extent such claim arises or is increased by an increase in rates of taxation after the Listing Date with retrospective effect.

The Directors have been advised that no material liability for estate duty is likely to fall on the Company or any of its subsidiaries in Cayman Islands or the BVI.

16. Litigation

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened by or against any member of the Group.

17. Sponsor

DBS Asia has made an application on behalf of the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, all the Shares in issue, the Shares to be issued as mentioned in this prospectus and any Shares which may fall to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme.

18. Preliminary expenses

The preliminary expenses of the Company are estimated to be approximately HK$50,000 and are payable by the Company.

19. Promoter

The Company has no promoter. Within the two years immediately preceding the date of this prospectus, no cash, securities or other benefits has been paid, allotted or given or proposed to be paid, allotted or given to any promoters in connection with the Share Offer or the related transaction described in this prospectus.

20. Qualifications of experts

The following are the qualifications of the experts which have given their opinion or advice which is contained in, or referred to in, this prospectus:—

Expert	Qualification
DBS Asia	a deemed licensed corporation under the SFO permitted to engage in type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) of the regulated activities under the SFO
Ernst & Young	Certified public accountants
DTZ Debenham Tie Leung Limited	Professional surveyors and valuers
Conyers Dill & Pearman, Cayman	Cayman Islands attorneys-at-law
Beijing JunZeJun Law Offices	PRC legal advisers to the Company

21. Consents of experts

Each of DBS Asia, Ernst & Young, DTZ Debenham Tie Leung Limited, Conyers Dill & Pearman, Cayman and Beijing JunZeJun Law Offices has given and has not withdrawn its written consent to the issue of this prospectus with the inclusion of its report and/or letter and/or valuation certificate and/or opinion (as the case may be) and the references to its name included herein in the form and context in which they are respectively included.

22. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

23. Miscellaneous

(a) Save as disclosed in this prospectus:—

(i) within the two years immediately preceding the date of this prospectus, no share or loan capital of the Company or any of its subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;

(ii) within the two years immediately preceding the date of this prospectus, no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;

(iii) no founder, management or deferred shares of the Company or any of its subsidiaries have been issued or agreed to be issued;

(iv) the Directors confirm that since 31 May 2004, there has been no material adverse change in the financial or trading position or prospects of the Group; and

(vi) none of DBS Asia, Ernst & Young, DTZ Debenham Tie Leung Limited, Conyers Dill & Pearman, Cayman and Beijing JunZeJun Law Offices:—

— is interested beneficially or non-beneficially in any shares in any member of the Group; or

— has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any shares in any member of the Group;

(b) no company within the Group is presently listed on any stock exchange or traded on any trading system;

(c) there has not been any interruption in the business of the Group which may have or have had a significant effect on the financial position of the Group in the 12 months immediately preceding the date of this prospectus; and

(d) all necessary arrangements have been made to enable the Shares to be admitted into CCASS for clearing and settlement.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to a copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were copies of the **WHITE** and **YELLOW** Application Forms, the written consents referred to in the paragraph headed "Consents of experts" in Appendix VI to this prospectus, a statement containing the name, address and certain description of the Vendor and copies of the material contracts referred to in the paragraphs headed "Summary of material contracts" in Appendix VI to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Mallesons Stephen Jaques at 37th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong during normal business hours up to and including 14 December 2004:—

(a) the memorandum and articles of association of the Company;

(b) the accountants' report on the Group prepared by Ernst & Young, the text of which is set forth in Appendix I to this prospectus together with the statement of adjustments;

(c) the audited financial statements which have been prepared for each of the companies comprising the Group for each of the three years ended 31 December 2003;

(d) the pro forma statement of the adjusted net tangible assets and the relevant letter prepared by Ernst & Young, the text of which is set forth in the Appendix II to this prospectus;

(e) the letters from Ernst & Young and DBS Asia in relation to the profit forecast, the text of which is set forth in Appendix III to this prospectus;

(f) the letter, summary of valuations and valuation certificates prepared by DTZ Debenham Tie Leung Limited, the text of which is set forth in Appendix IV to this prospectus;

(g) the rules of the Share Option Scheme;

(h) the letter of advice prepared by Conyers Dill & Pearman, Cayman summarising certain aspects of the Cayman Islands company law;

(i) the legal opinion issued by Beijing JunZeJun Law Offices in connection with the Share Offer;

(j) the Companies Law;

(k) the materials contracts referred to in the paragraphs headed "Summary of material contracts" in Appendix VI to this prospectus;

(l) the written consents referred to in the paragraph headed "Consents of experts" in Appendix VI to this prospectus;

(m) the statement of the name, address and description of the Vendor; and

(n) the service agreements referred to in the paragraphs headed "Particulars of Directors' service contracts" in Appendix VI to this prospectus.