



**China Wireless Technologies Limited**  
(Incorporated in the Cayman Islands with limited liability)

# 2005

Interim Report  
**2005**



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# CORPORATE INFORMATION

## **Registered office**

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

## **Head office and principal place of business in the PRC**

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

## **Principal place of business in Hong Kong**

Room 1902, MassMutual Tower  
38 Gloucester Road  
Wanchai  
Hong Kong

## **Stock Code**

2369

## **Website address**

[www.chinawireless.cn](http://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  
Mr. JIANG Chao

## **Auditors and reporting accountants**

Ernst & Young  
*Certified Public Accountants*

## **Legal advisers to the Company**

### **As to Hong Kong law**

Mallesons Stephen Jaques

### **As to Cayman Islands law**

Conyers Dill & Pearman

## **Principal share registrar and transfer office**

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

## **Hong Kong branch share registrar and transfer office**

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

## **Principal banker**

CITIC Ka Wah Bank Limited

## **Investor Relations Consultant**

Strategic Financial Relations (China) Limited



# HIGHLIGHTS

- Achieved a turnover of HK\$172 million, representing an increase of 69% over the same period of the previous year
- Attained a profit attributable to shareholders of HK\$33 million, representing an increase of 94% over the corresponding period in 2004
- Net profit margin reached 19.0%, representing an increase of 2.5% over the corresponding period in 2004
- Earnings per share reached HK\$0.08, representing an increase of 33% over the same period of the previous year
- The Directors resolved to pay an interim dividend of HK\$0.01 per share for the six months ended 30 June 2005



## FINANCIAL REVIEW

### Turnover

For the six months ended 30 June 2005, the Group accomplished a turnover of HK\$172,396,000, representing a growth of 68.9% over that of the same period of 2004. The increase was the result of a shift of business focus of the Group to smartphone products in response to market demand, which led to a large increase in smartphone sales from HK\$63,875,000 in 2004 to HK\$160,384,000 in 2005. During the period under review, over 45,000 units of smartphone have been sold, which number is comparable to the 2004 full year sales figures.

In terms of revenue mix, during the period under review, turnover from smartphones accounted for 93% of the Group's turnover, as compared with 63% for the corresponding period in 2004. Contribution from sales of wireless coverage system decreased from 11% for the six months ended 30 June 2004 to 4% over the corresponding period in 2005, and turnover from integrated telecom business platform increased by about HK\$1 million compared with that of the corresponding period of 2004, but representing a slight decrease of 1% in the revenue mix in 2005 in view of the strong growth in overall turnover of the Group. The Group ceased the sales of other terminal products for the six months ended 30 June 2005, which sales have accounted for 14% of the turnover for the same period in 2004, for the following reasons : (1) the fixed wireless terminal market in the PRC is vanishing; and (2) a shift of the Group's business focuses to the smartphone market.



## MANAGEMENT DISCUSSION & ANALYSIS

	The six months ended 30 June 2005		2004	
	HK\$000	% of turnover	HK\$000	% of turnover
<b>Wireless System solutions</b>				
PHS Intelligent Coverage System	7,488	4%	11,894	11%
Paging system	—	—	54	0%
Integrated Telecom Business Platform	4,524	3%	3,645	4%
<b>Subtotal</b>	<b>12,012</b>	<b>7%</b>	<b>15,593</b>	<b>15%</b>
<b>Wireless terminals</b>				
Smartphones	160,384	93%	63,875	63%
Fixed wireless terminals	—	—	22,500	22%
One-way wireless terminals	—	—	78	0%
<b>Subtotal</b>	<b>160,384</b>	<b>93%</b>	<b>86,453</b>	<b>85%</b>
<b>Total</b>	<b>172,396</b>		<b>102,046</b>	

### Gross Profit

The Group's gross profit increased by 72.9% from HK\$37,091,000 for the six months ended 30 June 2004 to HK\$64,147,000 for the corresponding period in 2005. The gross profit margin for the period under review also increased to 37.2%, as compared to 36.3% in the corresponding period in 2004. The increase was mainly attributable to a greater proportion of revenue from smartphones, which offers a higher gross profit margin compared to the fixed wireless terminals products.

## **Selling and distribution costs**

Selling and marketing expenses increased by 81% from HK\$9,165,000 for the six months ended 30 June 2004 to HK\$16,564,000 of the corresponding period in 2005. Such increase principally reflected the stepping up of promotional and advertising activities for the Group's smartphones products and the "Coolpad" brand name, the higher staff costs as the marketing staff force was enlarged, and the extended distribution network.

## **Administrative expenses**

Administrative expenses increased by 15% from HK\$9,061,000 for the six months ended 30 June 2004 to HK\$10,518,000 for the same period in 2005. The increase was mainly attributable to higher research and development expenses as the Group enlarged the research and development staff force specialising in smartphones, PHS and 3G.

## **Tax**

For the six months ended 30 June 2005, the Group's profit tax charge amounted to HK\$5,843,000, as compared to HK\$2,592,000 in the same period in 2004. According to the Income Tax Law of the PRC for Foreign Investment Enterprise and Foreign Enterprises and as approved by relevant tax authorities, an income tax rate of 15% was applied to the Group for the six months ended 30 June 2005, which is the same to that of the corresponding period of 2004.

## **Profit for the period**

For the six months ended 30 June 2005, the Group recorded a net profit of HK\$32,626,000, representing an increase of 94% over the same period of 2004. The net profit margin raised from 16.5% in the first half of 2004 to 19.0% in the first half of 2005. The major reasons for such increase during the period under review include: (1) Due to the larger economy of scale, the cost of sales decreased and the gross profit margin of the Group increased; (2) the

# MANAGEMENT DISCUSSION & ANALYSIS

Group increased effort to raise administrative efficiency and control administrative cost. As a result, the proportion of administrative expenses in turnover decreased by 3% in the first half of 2005.

## **Liquidity and financial resources**

For the six months ended June 30, 2005, the Group's operating capital was mainly generated from cash from its daily operation and bank borrowings.

As at 30 June 2005, the Group had cash and bank balances of HK\$47,595,000, as compared to HK\$80,352,000 as at 31 December 2004.

As at 30 June, 2005, the Group's total assets amounted to HK\$420,386,000 (2004: HK\$381,298,000) whereas the Group's current liabilities was HK\$179,559,000 (2004: HK\$165,097,000).

As at 30 June 2005, the Group had a gearing ratio of 43% (based on debt over total assets) (2004: 44%) and a current ratio of 2 (based on current assets over current liabilities) (2004: 2).

## **Contingent liabilities**

As at June 30, 2005, the Group did not have any significant contingent liabilities.

## **Pledge of assets**

As at 30 June 2005, approximately HK\$24,828,000 (2004: HK\$29,890,000) of the Group's bank deposits were pledged to secure general bank borrowings.

## **BUSINESS REVIEW**

As a leading wireless data total solutions developer and provider in the PRC, the Group offers innovative and customized products and solutions from back-end system to wireless intelligent terminal products to satisfy demands of various industries and different clients.

During the period under review, as the only domestic smartphone supplier to provide China Unicom with dual-mode smartphones, the Group delivered 30,000 units of “Coolpad 858” dual-mode smartphone to China Unicom.

The Group is currently undergoing developing of new smartphone series with the Windows operating system and which are targeted to be launched to the market in October this year to satisfy customers’ demands. In addition, the Group is actively exploring the corporate market. During the period under review, the Group entered into a distribution agreement with China Electronic Appliance Corporation (“CEAC”), under the China Electronics Group (“CEC”), one of the key electronic information products distributors in the PRC, pursuant to which the Group will supply 20,000 units of “Coolpad 858C” single-mode smartphones to CEAC.

During the report period, the Group achieved outstanding performances in serving the public security, aviation, securities, industrial and commercial sectors. Early this year, the Group delivered 6,000 units of “Coolpad858C” smartphones to the Beijing Administration of Industry and Commerce (“BAIC”). The smartphone was connected with BAIC’s information system to form a real-time mobile information platform and provide real-time access to information relating to of counterfeit/illegal merchandise and offer mobile office and other functionalities, greatly enhancing the BAIC’s administrative efficiency. In addition, the Group has received a grant of RMB2 million from the Ministry of Information Industry (“MII”) for its contribution in promoting the advancement of the information system of the PRC, supporting the Group’s further research and development of proprietary operating systems.

### **OUTLOOK**

The smartphone market in the PRC started to take shape in 2000. Its total sales volume grew substantially between then and 2004, with a compound annual growth rate of 240%. According to the forecast by the China Center of Information Industry Development (“CCID”), sales of smartphones in the PRC

## MANAGEMENT DISCUSSION & ANALYSIS

between 2005 and 2008 will grow rapidly at a compound annual growth rate of 45%. The demand for smartphones with proprietary operating systems capable of supporting personalised and integrated solutions that meet specific customer requirements in different industries is expected to increase further.

As the PRC government is expected to announce its policies on 3G in the foreseeable future, the Group also sees the promising imminent prospects for its 3G wireless data total solutions. The Group has invested considerable resources into strengthening its 3G wireless data solutions and 3G network coverage, and developing its 3G multi-media data platform. Its objective is to equip itself with the capacity be able to launch integrated 3G solutions tailored for 3G terminal products, network systems and back-end systems to capture the market demand in time when the PRC commences 3G network development.

In 2005, the Group will further consolidate its harmonious business relationship with telecom operators in the PRC, strengthen its marketing network, expand the PRC market and broaden its industry client base. Following the first and highly successful contract with China Unicom for the supply of the “Coolpad 858” dual-mode smartphones, the Group has entered into a second contract with China Unicom for the supply of “Coolpad 858” dual-mode smartphones and delivery is scheduled in the second half of the year.

During the period under review, the Group has successfully launched smartphones series with proprietary operating system, namely the Linuos operating system. In the second half of 2005, in addition to supplying such new smartphone series with Linuos operating system, the Group will market 2 new models of Windows-based smartphones to diversify its customers base, targeting customers with demand for mobile office to provide real-time and handy wireless data total solutions. In line with the progress of development of the 3G network in the PRC, the Group will also launch 3G smartphone and 3G integrated wireless data solutions at the appropriate time.

Looking ahead, the Group will seek to maintain a healthy financial position, boost its existing market, aggressively develop innovative products and new markets, and launch wireless data solutions to cater for the different needs of different industries and clients.

## USE OF PROCEEDS

The net proceeds from the listing of the Company on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), as disclosed in the Company’s prospectus (“Prospectus”) dated 30 November 2004, after deducting estimated underwriting commission and issue expenses were approximately HK\$70 million (equivalent to approximately RMB74 million) and were used largely as set out in the Prospectus. Details of the use of proceeds as at 30 June 2005 are as follows:

	HK\$
Balance as at 1 January 2005	70 million
Proceeds used during the period, including:	
For strengthening research and development capabilities	15 million
For the manufacturing and marketing of smartphones	25 million
For promotion of overall corporation image	9 million
For enhancing the Group’s network for sales and provision of customer support services	5 million
Balance as at 30 June 2005	16 million

The Company will continue to apply the remaining proceeds as stated in the Prospectus.

## FOREIGN EXCHANGE EXPOSURE

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



## **EMPLOYEES AND REMUNERATION POLICY**

During the report period under review, staff cost amounted to HK\$11,995,000. The remuneration of the Group's employees is commensurate with their responsibilities and market levels, with discretionary bonuses and share options given on a merit basis.

## **SIGNIFICANT INVESTMENTS**

There were no significant investments held by the Group as at 30 June 2005.

## **MATERIAL ACQUISITION AND DISPOSALS DURING THE YEAR**

There were no material acquisitions and disposals of the Company, its subsidiaries and associated companies as at 30 June 2005.

## **PRE-EMPTIVE RIGHTS**

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

## **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY**

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

## **SHARE OPTION SCHEME**

The Company has adopted a share option scheme ("Share Option Scheme") by a written resolution of all shareholders of the Company on 21 November 2004. Details of options granted under the Scheme were disclosed in Note 16 to the Condensed Financial Statements.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES

Saved as disclosed under the paragraph "Directors' and chief executive's interests and short positions in shares and underlying shares and debentures", at no time during the period under review were rights to acquire benefits by means of the acquisition of shares in the Company granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

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

As at 30 June 2005, the interests and short positions of the directors, the chief executive or their associates in the share capital of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

### Long positions in shares of the Company

Name of director	Note	Number of shares in which interested					Percentage of Company's issued share capital	
		Directly beneficially owned	Through spouse or minor children	Through controlled corporation	Beneficiary of a trust	Founder of a discretionary trust	Total	share capital
		owned	children	corporation	of a trust	trust	Total	capital
Mr. Guo								
Deying	1 & 2	—	207,792,812	18,000,000	—	207,792,812	225,792,812	56.45%
Ms. Yang Xiao	1	—	207,792,812	—	—	207,792,812	207,792,812	51.95%
Mr. Jiang Chao	3	—	—	—	18,000,000	—	18,000,000	4.5%

# MANAGEMENT DISCUSSION & ANALYSIS

## Long positions in shares of associated corporation

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

Notes:

- The entire issued share capital of Data Dreamland Holding Limited (“Data Dreamland”) is held by Barrie Bay Limited (“Barrie Bay”), which is acting as the trustee of the Barrie Bay Unit Trust. The Barrie Bay Unit Trust is a unit trust, of which 9,999 units are held by HSBC International Trustee Limited (“HSBC Trustee”) acting as the trustee of the Barrie Bay Trust and the remaining 1 unit is held by Ms. Yang Hua. The Barrie Bay Trust is a discretionary trust set up by Mr. Guo Deying (“Mr. Guo”) an executive Director and his spouse, Ms. Yang Xiao (“Ms. Yang”), a non-executive Director, the beneficiary objects of which include the minor children of Mr. Guo and Ms. Yang. As at 30 June 2005, each of Mr. Guo and Ms. Yang is taken to be interested in the 207,792,812 shares held by Data Dreamland as each of them is a settlor of the Barrie Bay Trust and by virtue of the interests of their children under the Barrie Bay Trust. The long position of each of Mr. Guo and Ms. Yang under the column “Through spouse or minor children” and the column “Founder of discretionary trust” under the table headed “Long position in shares of the Company” above refers to the same 207,792,812 shares.

# MANAGEMENT DISCUSSION & ANALYSIS

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

2. Mr. Guo is taken to be interested in the 18,000,000 shares held by Wintech Consultants Limited as he is interested in the entire issued share capital of Wintech Consultants Limited.
3. Mr. Jiang Chao, an executive director, is taken to be interested in the 18,000,000 shares held by Wintech Consultants Limited as he is one of the discretionary objects under the China Wireless Employee Benefit Trust, a discretionary trust established for the benefit of the employees of the Group.

Save as disclosed above, none of the directors and chief executive had an interest or short position in the shares, underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

# MANAGEMENT DISCUSSION & ANALYSIS

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

As at 30 June 2005, the following interests and short positions of 5% or more in the issued share capital and share options of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

### Long positions in shares of the Company

Name	Notes	Number of shares in which interested under equity		Nature of interest	Percentage of Company's issued share capital	
		Number of shares in which interested	Number of shares in which interested under equity		Total number of shares	issued share capital
Data Dreamland Holding Limited	1	207,792,812	—	Beneficial owner	207,792,812	51.95%
Barrie Bay Limited	2	207,792,812	—	Interest of controlled corporation	207,792,812	51.95%
HSBC International Trustee Limited	2	207,792,812	—	Trustee	207,792,812	51.95%
JAFCO Asia Technology Fund	3	42,207,188	—	Beneficial owner	42,207,188	10.55%
JAFCO Asia Technology Fund L.P.	3	42,207,188	—	Interest of controlled corporation	42,207,188	10.55%
JAFCO Asia Technology Holdings Limited	3	42,207,188	—	Interest of controlled corporation	42,207,188	10.55%
JAFCO Investment (Asia Pacific) Limited	3	42,207,188	—	Interest of controlled corporation	42,207,188	10.55%

# MANAGEMENT DISCUSSION & ANALYSIS



Name	Notes	Number of shares in which interested			Nature of interest	Total number of shares	Percentage of Company's issued share capital
		Number of shares in which interested	interested	under equity derivatives			
JAFCO Co., Ltd.	3	42,207,188	—	Interest of controlled corporation	42,207,188	10.55%	
Nomura Holdings, Inc.	3	42,207,188	—	Interest of controlled corporation	42,207,188	10.55%	

*Notes:*

- The entire issued share capital of Data Dreamland is held by Barrie Bay. Barrie Bay is acting as the trustee of the Barrie Bay Unit Trust. The Barrie Bay Unit Trust is 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 2005 and the discretionary objects of which include the children of Mr. Guo and Ms. Yang who are under 18 years old.
- The 207,792,812 shares are held by Data Dreamland, the entire share capital of which is held by Barrie Bay, which is acting as the trustee of the Barrie Bay Unit Trust and the entire issued share capital of which is held by HSBC Trustee.
- The 42,207,188 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.

# MANAGEMENT DISCUSSION & ANALYSIS

JAFCO Co., Ltd. is 37.1% beneficially owned by Nomura Holdings, Inc.

Each of JAFCO Asia Technology Fund L.P., JAFCO Asia Technology Holdings Limited, JAFCO Investment (Asia Pacific) Ltd., JAFCO Co., Ltd. and Nomura Holdings, Inc. is taken to be interested in the 42,207,188 shares held by JATF.

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

## **CODE OF CORPORATE GOVERNANCE PRACTICE**

Throughout the period under review, save for the following derivations, the Company has complied with the code provisions of the Code of Corporate Governance Practices ("Corporate Governance Code") as set out in Appendix 14 of the Listing Rules:

### **1. Code Provision A.2.1**

This Code Provision stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. As at 30 June 2005, Mr. Guo Deying is the Chairman and the Chief Executive Officer of the Company. The Company is reviewing such arrangement and will ensure appropriate arrangement will be made in according with the requirements of the Listing Rules.



## 2. Code Provision A.5.4

This Code Provision stipulates that the Board should establish written guidelines on no less exacting terms than the Model Code (as defined below) for the dealings in the securities of the Company by certain employees of the Group who, because of their office or employment, is likely to be in possession of unpublished price sensitive information in relation to the Company or its securities. The Company has adopted such written guidelines on 22 August 2005.

## 3. Code Provision B.1.1

This Code Provision stipulates that the Company should establish a remuneration committee with specific terms of reference and a majority of such committee should be independent non-executive Directors. The Company has established a remuneration committee ("Remuneration Committee") comprising 5 Directors, namely Mr. Jiang Chao, executive Directors, Mrs. Yang Xiao, non-executive Directors and Mr. Chan King Chung, Dr. Huang Dazhan and Mr. Xie Weixin, independent non-executive Directors with specific written terms of reference on 22 August 2005. Mr. Chan King Chung is the Chairman of the Remuneration Committee.

## 4. Code Provision B.1.3

This Code Provision stipulates that the terms of reference of the Remuneration Committee should include certain specific duties. As disclosed above, the Company has established the Remuneration Committee with specific written terms of reference in compliance with this Code Provision on 22 August 2005.



## 5. Code Provision B.1.4

This Code Provision stipulates that the Remuneration Committee should make available its terms of reference explaining its role and the authority delegated to it by the Board. As disclosed above, following the establishment of the Remuneration Committee of the Company and the adoption of its written terms of reference on 22 August 2005, the Company will make arrangement to make available the terms of reference of its Remuneration Committee in accordance with this Code Provision.

## 6. Code Provision C.3.3

This Code Provision stipulates that the terms of reference of the Audit Committee (as disclosed below) should include certain specific duties. The Company has adopted a written terms of reference on 22 August 2005 in compliance with this Code Provision.

## 7. Code Provision C.3.4

This Code Provision stipulates that the Audit Committee should make available its terms of reference explaining its role and the authority delegated to it by the Board. As disclosed above, following adoption of the written terms of reference of the Audit Committee on 22 August 2005, the Company will make arrangement to make available the terms of reference of its Remuneration Committee in accordance with this Code Provision.



## **MODEL CODE FOR SECURITIES TRANSACTIONS**

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

## **AUDIT COMMITTEE**

The audit committee (the “Audit Committee”) of the Company, comprising three independent non-executive Directors, namely, Dr. Huang Dazhan, Mr. Xie Weixin and Mr. Chan King Chung, has reviewed the accounting principles and practices adopted by the Company and has discussed the auditing, internal control and financial reporting matters. The Group’s unaudited financial statements for the six months ended 30 June 2005 has been reviewed by the members of the Audit Committee, who are of the opinion that such statements comply with applicable accounting standards, the Listing Rules and legal requirements and that adequate disclosures have been made therein.

## **MATERIAL LEGAL PROCEEDINGS**

As at 30 June 2005, the Company was not involved in any material litigation or arbitration and no material litigation or claims was pending or threatened or made against the Company as far as the board of directors was aware of.



## CONSOLIDATED PROFIT AND LOSS ACCOUNT

The Board of Directors of China Wireless Technologies Limited (the “Company”) is pleased to present the unaudited interim results of the company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2005, together with the unaudited comparative figures for the same period of 2004. The condensed consolidated interim financial statements have not been audited, but have been reviewed by the Company’s audit committee.

	Notes	The six months ended 30 June	
		2005 HK\$'000 Unaudited	2004 HK\$'000 Unaudited
TURNOVER	4	<b>172,396</b>	102,046
Cost of sales		<b>108,249</b>	64,955
Gross profit		<b>64,147</b>	37,091
Other revenue	4	<b>4,079</b>	1,928
Selling and distribution costs		<b>16,564</b>	9,165
Administrative expenses		<b>10,518</b>	9,061
Other operating expenses		<b>860</b>	260
Profit from operating activities	6	<b>40,284</b>	20,533
Finance costs	7	<b>1,815</b>	1,085
Share of losses of an associate		—	—
PROFIT BEFORE TAX		<b>38,469</b>	19,448
TAX	8	<b>5,843</b>	2,592
PROFIT FOR THE PERIOD		<b>32,626</b>	16,856
EARNINGS PER SHARE	10		
— Basic, (HK\$)		<b>0.08</b>	0.06
DIVIDEND			
Proposed dividend	9	<b>4,000</b>	—

## CONSOLIDATED BALANCE SHEET

	<b>30 June 2005 HK\$'000 (Unaudited)</b>	31 December 2004 HK\$'000 (Audited)
<b>NON-CURRENT ASSETS</b>		
Fixed assets	<b>32,916</b>	32,256
Investment property	—	—
Interest in an associate	—	—
Product development costs	<b>16,201</b>	7,229
	<b>49,117</b>	39,485
<b>CURRENT ASSETS</b>		
Inventories	<b>33,521</b>	28,559
Trade receivables	<b>142,851</b>	105,016
Prepayments, deposits and other receivables	<b>122,396</b>	96,644
Tax prepaid	—	—
Due from related companies	—	258
Due from directors	<b>78</b>	1,094
Pledged time deposit	<b>24,828</b>	29,890
Cash and bank balances	<b>47,595</b>	80,352
	<b>371,269</b>	341,813

Notes

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# CONSOLIDATED BALANCE SHEET

		<b>30 June 2005 HK\$'000 (Unaudited)</b>	31 December 2004 HK\$'000 (Audited)
	Notes		
<b>CURRENT LIABILITIES</b>			
Bank and other loans		<b>44,177</b>	56,396
Trade payables	13	<b>27,591</b>	16,122
Notes payables		<b>9,020</b>	13,192
Accrued liabilities and other payables		<b>81,564</b>	67,937
Tax payable		<b>17,192</b>	11,350
Due to related companies		<b>—</b>	—
Due to the directors		<b>15</b>	100
		<b>179,559</b>	165,097
<b>NET CURRENT ASSETS</b>			
		<b>191,710</b>	176,716
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			
		<b>240,827</b>	216,201
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liabilities		<b>1,191</b>	1,191
		<b>239,636</b>	215,010
<b>REPRESENTED BY:</b>			
Paid-in capital	14	<b>4,000</b>	4,000
Reserves	15	<b>231,636</b>	203,010
Proposed dividend	9,15	<b>4,000</b>	8,000
Shareholders' equity		<b>239,636</b>	215,010

# CONSOLIDATED SUMMARY STATEMENT OF CHANGES IN EQUITY

	<b>The six months ended 30 June</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Unaudited)
TOTAL EQUITY		
Balance at 1 January	<b>215,010</b>	95,123
Surplus on revaluation of land and buildings	—	—
Deferred tax on revaluation surplus	—	—
Net profit from ordinary activities attributable to shareholders	<b>32,626</b>	16,856
Issue of shares, including share premium	—	—
Share issue expenses	—	—
Dividend paid	<b>(8,000)</b>	—
Balance at 30 June	<b>239,636</b>	111,979

## CONSOLIDATED CASH FLOW STATEMENT

	<b>The six months ended 30 June</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Unaudited)
Net cash inflow/(outflow) from operating activities	<b>(4,703)</b>	22,844
Net cash outflow from investing activities	<b>(6,020)</b>	(19,250)
Net cash outflow from financing activities	<b>(22,034)</b>	(2,213)
Net increase/(decrease) in cash and bank balances	<b>(32,757)</b>	1,381
Cash and bank balances at beginning of period	<b>80,352</b>	17,589
Effects of foreign exchange rate changes, net		
Cash and bank balances at end of the period	<b>47,595</b>	18,970
Analysis of balances of cash and bank balances		
Cash and bank balances	<b>47,595</b>	18,970

## BALANCE SHEET

		<b>30 June 2005 HK\$'000 (Unaudited)</b>	31 December 2004 HK\$'000 (Audited)
<b>NON-CURRENT ASSETS</b>			
Interest in subsidiaries	11	<b>126,103</b>	71,694
		<b>126,103</b>	71,694
<b>CURRENT ASSETS</b>			
Prepayments, deposits and other receivables		<b>7,773</b>	—
Due from directors		—	—
Pledged time deposit		—	29,890
Cash and cash equivalents		<b>3,526</b>	44,432
		<b>11,299</b>	74,322
<b>CURRENT LIABILITIES</b>			
Accrued liabilities and other payables		<b>906</b>	361
Due to the directors		<b>1,699</b>	1,694
		<b>2,605</b>	2,055
<b>NET CURRENT ASSETS</b>		<b>8,694</b>	72,267
		<b>134,797</b>	143,961
<b>CAPITAL AND RESERVES</b>			
Share capital	14	<b>4,000</b>	4,000
Reserves	15	<b>126,797</b>	131,961
Proposed dividend	9,15	<b>4,000</b>	8,000
		<b>134,797</b>	143,961

# NOTES TO CONDENSED FINANCIAL STATEMENTS

## 1. CORPORATE INFORMATION AND GROUP REORGANISATION

The registered office of the Company is located at Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681 GT, George Town, Grand Cayman, British West Indies.

The principal activity of the Company is investment holding. Details of the principal activities of the Company's subsidiaries are set out in note 11 to the financial statements. There were no significant changes in the nature of the subsidiaries' principal activities during the year.

The holding company of the Company is Data Dreamland Holding Limited ("Data Dreamland"), which was incorporated in the British Virgin Islands ("BVI") on 3 February 2003. All shares in Data Dreamland are held by Barrie Bay Limited under the family trust set up by Mr. Guo Deying, the executive director of the Company, and Ms. Yangxiao, the non-executive director of the Company.

## 2. BASIS OF PREPARATION

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

The interim financial statements contain condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that is significant to facilitate an understanding of the changes in financial position and performance of the Group since the 2004 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for the full financial statements prepared in accordance with Hong Kong Financial Reporting Standards.

The interim financial statements are unaudited, but have been reviewed by the Audit Committee of Company.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated financial statements are prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting”. The accounting policies and basis of presentation adopted in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2004, except in relation to the following new and revised Hong Kong Financial Reporting Standard (“HKFRS”) that affect the Group and are adopted for the first time for the current period’s financial statements:

#### **Hong Kong Financial Reporting Standard (“HKFRS”) 2 — Share based Payment**

In prior periods, no recognition and measurement of share-based transactions in which employees of the Group (including the Directors) were granted share options over shares in the Company was required until such options were exercised by employees, at which time the share capital and share premium were credited with the proceeds received.

Upon the adoption of HKFRS 2, when employees (including Directors) render services as consideration for equity instruments (“equity-settled transactions”), the cost of the equity-settled transactions with the employees is measured by reference to the fair value at the date at which the instruments are granted. The fair value is determined by an external valuer using a binomial model. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company, if applicable.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **Hong Kong Financial Reporting Standard (“HKFRS”) 2 — Share based Payment (Continued)**

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the “vesting date”). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group’s best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

### 4. SEGMENT INFORMATION

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



## 4. SEGMENT INFORMATION (Continued)

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

- (a) the wireless system solutions segment enables network operators to extend and enhance the transmission quality of their telecommunication networks and support their telecommunication services with management functions and user interface that can provide value-added services to subscribers;



# NOTES TO CONDENSED FINANCIAL STATEMENTS

## 4. SEGMENT INFORMATION (Continued)

- (b) the wireless terminals segment consists of the provision 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 smart phones which integrate the functionalities of mobile phones and PDAs with other wireless applications such as e-mail and Internet connection and browsing.

	<b>The six months ended</b>	
	<b>30 June</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
Segment revenue		
Wireless system solutions	<b>12,012</b>	15,593
Wireless terminals	<b>160,384</b>	86,453
Consolidated revenue	<b>172,396</b>	102,046
Segment net profit		
Wireless system solutions	<b>4,762</b>	10,494
Wireless terminals	<b>41,636</b>	15,659
	<b>46,398</b>	26,153
Unallocated corporate expenses	<b>(6,114)</b>	(5,620)
Profit from operating activities	<b>40,284</b>	20,533
Finance costs net	<b>(1,815)</b>	(1,085)
Share of profits/(Losses) of associates	—	—
Profit before tax	<b>38,469</b>	19,448
Tax	<b>(5,843)</b>	(2,592)
Profit after tax	<b>32,626</b>	16,856
Minority interests	—	—
Net profit attributable to shareholders	<b>32,626</b>	16,856

# NOTES TO CONDENSED FINANCIAL STATEMENTS

## 5. TURNOVER AND OTHER REVENUE

Turnover represents the net invoiced value of goods sold and services rendered during the period under review, after allowances for returns and trade discounts and net of sales tax and value-added tax. All significant intra-group transactions have been eliminated on consolidation.

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

	<b>The six months ended</b>	
	<b>30 June</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Unaudited)
<b>Turnover</b>		
Sale of wireless system solutions and wireless terminals	<b>172,396</b>	102,046
<b>Other revenue and gain</b>		
Gain on disposal of an associate	—	1,011
Rental income	<b>146</b>	146
Interest income	<b>538</b>	61
Government grants and subsidies	<b>3,235</b>	416
Maintenance income	<b>75</b>	53
Sundry income	<b>85</b>	241
	<b>4,079</b>	1,928
	<b>176,475</b>	103,974

# NOTES TO CONDENSED FINANCIAL STATEMENTS

## 6. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/ (crediting):

	<b>The six months ended</b>	
	<b>30 June</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Unaudited)
	<hr/>	
Cost of inventories sold and services provided	<b>108,249</b>	64,955
Depreciation	<b>1,258</b>	1,288
Research and development costs:		
Deferred expenditure amortised	<b>731</b>	615
Current year expenditure	<b>3,204</b>	2,806
Operating lease rental	<b>52</b>	52
Write-back of provision for trade receivables	<b>—</b>	(7)
Provision for other receivables	<b>—</b>	—
Loss on disposal of fixed assets	<b>—</b>	92
Auditors' remuneration	<b>600</b>	600
Staff costs (including directors' and senior executives' emoluments)		
Salaries and wages	<b>10,610</b>	9,006
Staff welfare expenses	<b>639</b>	528
Pension scheme contributions	<b>746</b>	607
Total staff costs	<b>11,995</b>	10,141
	<hr/>	
Rental income	<b>(146)</b>	(146)
Interest income	<b>(538)</b>	(61)
Gain on disposal of an associate	<b>—</b>	(1,011)

# NOTES TO CONDENSED FINANCIAL STATEMENTS

## 7. FINANCE COSTS

	<b>The six months ended 30 June</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Unaudited)
	<hr/>	
Interest expense on:		
Amount due to a director	—	—
Bank loans wholly repayable within one year	<b>1,815</b>	1,085
Discounted notes receivable	—	—
	<hr/>	
	<b>1,815</b>	1,085
	<hr/>	

## 8. TAX

No provision for Hong Kong profits tax has been made (Six months ended 30 June 2004: Nil) as the Group did not generate any assessable profits arising in Hong Kong during the period under review. 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.

	<b>The six months ended 30 June</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Unaudited)
	<hr/>	
Current year provision:		
Hong Kong	—	—
PRC	<b>5,843</b>	2,592
	<hr/>	
Total tax charge for the period	<b>5,843</b>	2,592
	<hr/>	

# NOTES TO CONDENSED FINANCIAL STATEMENTS

## 8. TAX (Continued)

According to the Income Tax Law of the PRC for Foreign Investment Enterprises and Foreign Enterprises and as approved by relevant tax authorities, Yulong Computer Telecommunications Scientific (Shenzhen) Co., Ltd. ("Shenzhen Yulong"), a wholly-owned subsidiary of the Company operating in 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. An income tax rate of 15% was applied for the six months ended 30 June 2005.

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

	<b>The six months ended</b>	
	<b>30 June</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Unaudited)
Profit before tax	<b>38,469</b>	19,448
Tax at the applicable tax rate (June 2005: 15%, June 2004: 15%)	<b>5,770</b>	2,917
Expenses not deductible for tax	<b>73</b>	—
Income not subject to tax	<b>—</b>	(325)
Tax charge at the Group's effective rate (June 2005: 15.2%, June 2004: 13.3%)	<b>5,843</b>	2,592

# NOTES TO CONDENSED FINANCIAL STATEMENTS

## 9. DIVIDEND

The Directors resolved to an interim dividend of HK\$0.01 per share in respect of the six months ended 30 June 2005 to shareholders whose names appear on the register of members of the Company by close of business on 15 September 2005. (Six months ended 30 June 2004: Nil). For this purpose the register of members of the Company will be closed from 12 to 15 September 2005 (both days inclusive) during which no transfer of shares will be effected.

## 10. EARNINGS PER SHARE

The calculation of basic earnings per share for the report period is based on the profit from ordinary activities attributable to shareholders of HK\$32,626,000 and the weighted average number of 400,000,000 ordinary shares in issue during the report period.

No diluted earnings per share amounts for the six months ended 30 June 2005 have been presented as the Company did not have any dilutive potential ordinary shares during the report period.

## 11. INTERESTS IN SUBSIDIARIES

	<b>30 June 2005 HK\$'000 (Unaudited)</b>	31 December 2004 HK\$'000 (Audited)
Unlisted shares, at cost	<b>44,991</b>	44,991
Due from subsidiaries	<b>81,112</b>	26,703
	<b>126,103</b>	71,694

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

# NOTES TO CONDENSED FINANCIAL STATEMENTS

## 12. 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 four to six months may be given to customers with long term business relationship and good repayment history.

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

	<b>30 June 2005 HK\$'000 (Unaudited)</b>	31 December 2004 HK\$'000 (Audited)
Within 3 months	<b>119,882</b>	100,264
4 to 6 months	<b>23,441</b>	4,192
7 to 12 months	<b>2,918</b>	3,815
1 to 2 years	<b>1,118</b>	1,253
More than 2 years	<b>—</b>	—
	<b>147,359</b>	109,524
Provision	<b>(4,508)</b>	(4,508)
	<b>142,851</b>	105,016

## 13. TRADE PAYABLES

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

	<b>30 June 2005 HK\$'000 (Unaudited)</b>	31 December 2004 HK\$'000 (Audited)
Within 3 months	<b>24,717</b>	5,898
4 to 6 months	<b>784</b>	3,494
7 to 12 months	<b>557</b>	4,968
More than 1 year	<b>1,533</b>	1,762
	<b>27,591</b>	16,122

# NOTES TO CONDENSED FINANCIAL STATEMENTS

## 14. SHARE CAPITAL

	<b>30 June 2005 HK\$'000 (Unaudited)</b>	31 December 2004 HK\$'000 (Audited)
Authorised: 1,000,000,000 ordinary shares of HK\$0.01 each	<b>10,000</b>	10,000
Issued and fully paid: 400,000,000 ordinary shares of HK\$0.01 each	<b>4,000</b>	4,000

## 15. RESERVES

	<b>Share premium account</b>	<b>Contributed surplus</b>	<b>Revaluation reserves</b>	<b>Statutory reserves</b>	<b>Retained profits</b>	<b>Proposed dividend</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2005	95,282	390	6,749	2,214	98,375	8,000	211,010
Share issue expenses							0
Net profit for six months					32,626		32,626
Proposed dividend					(4,000)	4,000	
Dividend paid						(8,000)	(8,000)
At 30 June 2005	95,282	390	6,749	2,214	127,001	4,000	235,636
At 1 January 2004	29,770	390	0	2,214	62,709	0	95,083
Net profit for six months					16,856		16,856
At 30 June 2004	29,770	390	0	2,214	79,565	0	111,939

## 16. SHARE OPTIONS

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

## 16. SHARE OPTIONS (Continued)

As at 30 June 2005, the number of shares which may fall to be issued under share options granted was 40,000,000, which represented 10% of the Company's shares in issue as at that date. None of the options granted was exercised nor cancelled during the six months period ended 30 June 2005. None of the options were granted to the directors or substantial shareholders of the Company.

During the period under review, the Company has granted options to subscribe for an aggregate of 40,000,000 shares pursuant to the terms of the Share Option Scheme, as follows:

- (a) on 2 June 2005, options for the subscription of 10,000,000 shares were granted to certain employees and consultants of the Group which are exercisable during the period commencing from the date of acceptance of the grant up to (but not including) the date falling on the second anniversary thereof at an exercise price of HK\$0.70 per share. A consideration of HK\$1.00 is payable by the grantee upon acceptance of the grant. The closing price per share as at 1 June 2005, being the date immediately before the date the options were granted, was HK\$0.68;
- (b) on 6 June 2005, options for the subscription of 20,000,000 shares were granted to certain employees and consultants of the Group which are exercisable during the period commencing from the date of acceptance of the grant up to (but not including) the date falling on the third anniversary thereof at an exercise price of HK\$0.70 per share. A consideration of HK\$1.00 is payable by the grantee upon acceptance of the grant. The closing price per share as at 3 June 2005, being the date immediately before the date the options were granted, was HK\$0.70.

## 16. SHARE OPTIONS (Continued)

- (c) on 20 June 2005, options for the subscription of 10,000,000 shares were granted to certain employees of the Group at an exercise price of HK\$0.87 per share, which are exercisable in the manner as detailed below:
- (i) as for options for 1,000,000 shares held by 2 grantees of options for 500,000 shares each, such options are exercisable by each of the grantees:
- (a) in respect of options for 128,000 shares, at any time during the period commencing from the date of acceptance of the grant up to (but not including) the date falling on the fourth anniversary thereof;
- (b) in respect of options for 124,000 shares, at any time during the period commencing from the first anniversary up to (but not including) the date falling on the fourth anniversary from the date of acceptance of the grant;
- (c) in respect of options for 124,000 shares, at any time during the period commencing from the second anniversary up to (but not including) the date falling on the fourth anniversary from the date of acceptance of the grant; and
- (d) in respect of options for 124,000 shares, at any time during the period commencing from the third anniversary up to (but not including) the date falling on the fourth anniversary from the date of acceptance of the grant;

## 16. SHARE OPTIONS (Continued)

- (ii) as for options for 5,000,000 shares held by 25 grantees of options for 200,000 shares each, such options are exercisable by each of the grantees:
  - (a) in respect of options for 52,000 shares, at any time during the period commencing from the date of acceptance of the grant up to (but not including) the date falling on the fourth anniversary thereof;
  - (b) in respect of options for 52,000 shares, at any time during the period commencing from the first anniversary up to (but not including) the date falling on the fourth anniversary from the date of acceptance of the grant;
  - (c) in respect of options for 48,000 shares, at any time during the period commencing from the second anniversary up to (but not including) the date falling on the fourth anniversary from the date of acceptance of the grant; and
  - (d) in respect of options for 48,000 shares, at any time during the period commencing from the third anniversary up to (but not including) the date falling on the fourth anniversary from the date of acceptance of the grant; and
- (iii) as for options for 4,000,000 shares, exercisable during the period commencing from the date of acceptance of the grant up to (but not including) the date falling on the third anniversary thereof.

# NOTES TO CONDENSED FINANCIAL STATEMENTS

## 16. SHARE OPTIONS (Continued)

A consideration of HK\$1.00 is payable by the grantee upon acceptance of the grant. The closing price per share as at 17 June 2005, being the date immediately before the date the options were granted, was HK\$0.89.

The share options granted by the Company are summarised in the following table:

Date of grant of share options	Category of grantee	Number of shares subject to the options granted	Exercised during the period	Cancelled during the period	Lapsed during the period	Outstanding at 30 June 2005	Exercise period of share options	Exercise price of share options (HK\$/share)
2 June 2005	Consultants of the Company	2,000,000	—	—	—	2,000,000	7 June 2005 to 6 June 2007	0.7
		<u>2,000,000</u>	—	—	—	<u>2,000,000</u>		
2 June 2005	Employees of the Company	8,000,000	—	—	—	8,000,000	7 June 2005 to 6 June 2007	0.7
6 June 2005	Employees of the Company	20,000,000	—	—	—	20,000,000	7 June 2005 to 6 June 2008	0.7
20 June 2005	Employees of the Company	1,000,000	—	—	—	1,000,000	Note 1	0.87
20 June 2005	Employees of the Company	4,000,000	—	—	—	4,000,000	28 June 2005 to 27 June 2008	0.87
20 June 2005	Employees of the Company	5,000,000	—	—	—	5,000,000	Note 2	0.87
		<u>38,000,000</u>				<u>38,000,000</u>		
		<u>40,000,000</u>				<u>40,000,000</u>		

Notes:

1. Such options are being held by 2 grantees of options for 500,000 shares each, which are exercisable by each of the grantees in the following manner:
  - (a) in respect of options for 128,000 shares, at any time during the period commencing from the date of acceptance of the grant up to (but not including) the date falling on the fourth anniversary thereof;
  - (b) in respect of options for 124,000 shares, at any time during the period commencing from the first anniversary up to (but not including) the date falling on the fourth anniversary from the date of acceptance of the grant;

## 16. SHARE OPTIONS (Continued)

Notes: (Continued)

- (c) in respect of options for 124,000 shares, at any time during the period commencing from the second anniversary up to (but not including) the date falling on the fourth anniversary from the date of acceptance of the grant; and
  - (d) in respect of options for 124,000 shares, at any time during the period commencing from the third anniversary up to (but not including) the date falling on the fourth anniversary from the date of acceptance of the grant.
2. Such options are being held by 25 grantees of options for 200,000 shares each, which are exercisable by each of the grantees in the following manner:
- (a) in respect of options for 52,000 shares, at any time during the period commencing from the date of acceptance of the grant up to (but not including) the date falling on the fourth anniversary thereof;
  - (b) in respect of options for 52,000 shares, at any time during the period commencing from the first anniversary up to (but not including) the date falling on the fourth anniversary from the date of acceptance of the grant;
  - (c) in respect of options for 48,000 shares, at any time during the period commencing from the second anniversary up to (but not including) the date falling on the fourth anniversary from the date of acceptance of the grant; and
  - (d) in respect of options for 48,000 shares, at any time during the period commencing from the third anniversary up to (but not including) the date falling on the fourth anniversary from the date of acceptance of the grant.

The Directors consider that it is not appropriate to state the value of the share options granted during the period on the ground that certain assumptions and variables which are crucial to derive the fair value of the share options using the Black-Scholes option price model cannot be reasonably determined. Accordingly, the Directors believe that any valuation of the share options based on a great number of speculative assumptions and variables would not be meaningful and may be misleading to the shareholders.

# NOTES TO CONDENSED FINANCIAL STATEMENTS

## 17. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its warehouse premises and office building premises under operating lease arrangements for lease terms 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:

	<b>30 June 2005 HK\$'000 (Unaudited)</b>	31 December 2004 HK\$'000 (Audited)
Within one year	150	115
In the second to fifth years, inclusive	257	128
Over five years	—	—
	<b>407</b>	243

## 18. RELATED PARTY TRANSACTIONS

During the year, the Group had the following significant transactions with related parties:

	Note	<b>30 June 2005 HK\$'000</b>	30 June 2004 HK\$'000
Rental expense to a related company	(a)	<b>103</b>	103
Interest expense on amount due to a director	(b)	—	—

Notes:

- (a) During the report period 2005, Shenzhen Yulong used the warehouse facilities of Space Star with half year charge of HK\$103,000. The rental charge was made according to the market value.
- (b) No interest expense on the amount due to a director was incurred in 2005.

# NOTES TO CONDENSED FINANCIAL STATEMENTS

## 19. DIRECTORS' REMUNERATION

The remuneration of the directors of the Company for the year disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance is analysed as follows:

	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Unaudited)
Fees:	<b>115</b>	—
Other emoluments of executive directors		
Salaries, allowances and benefits in kind	<b>228</b>	172
Pension scheme contributions	<b>2</b>	2
	<b>230</b>	174
	<b>345</b>	174

### (a) Independent non-executive directors

The fees paid to the Group's independent non-executive directors during the six months were as follows:

	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Unaudited)
Mr. Xie Weixin	—	—
Dr. Huang Dazhan	<b>60</b>	—
Mr. Chan King Chung	<b>50</b>	—
	<b>110</b>	—

There were no other emoluments payable to the independent non-executive directors during the six months.

## 19. DIRECTORS' REMUNERATION (Continued)

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

2005	Salaries, allowances and benefits		Performance related bonuses	Pension scheme contributions	Total emoluments
	Fees HK\$'000	in kind HK\$'000	HK\$'000	HK\$'000	HK\$'000
Executive directors:					
Mr. Guo Deying	—	171	—	—	171
Mr. Jiang Chao	5	57	—	2	64
Non-executive directors					
Ms. Ma Dehui	—	—	—	—	—
Ms. Yang Xiao	—	—	—	—	—
	<b>5</b>	<b>228</b>	<b>—</b>	<b>2</b>	<b>235</b>
2004					
Executive directors:					
Mr. Guo Deying	—	115	—	—	115
Mr. Jiang Chao	—	57	—	2	59
Non-executive directors					
Ms. Ma Dehui	—	—	—	—	—
Ms. Yang Xiao	—	—	—	—	—
	—	172	—	2	174

# NOTES TO CONDENSED FINANCIAL STATEMENTS

## 20. CONTINGENT LIABILITIES

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

	<b>30 June 2005 HK\$'000 (Unaudited)</b>	31 December 2004 HK\$'000 (Audited)
Trade receivables discounted with recourse	<b>705</b>	705

*Note:*

- (a) The trade receivables discounted with recourse to Communication Bank of China belonged to Shenzhen Yulong, a subsidiary of the Company.

## 21. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 22 August 2005.

