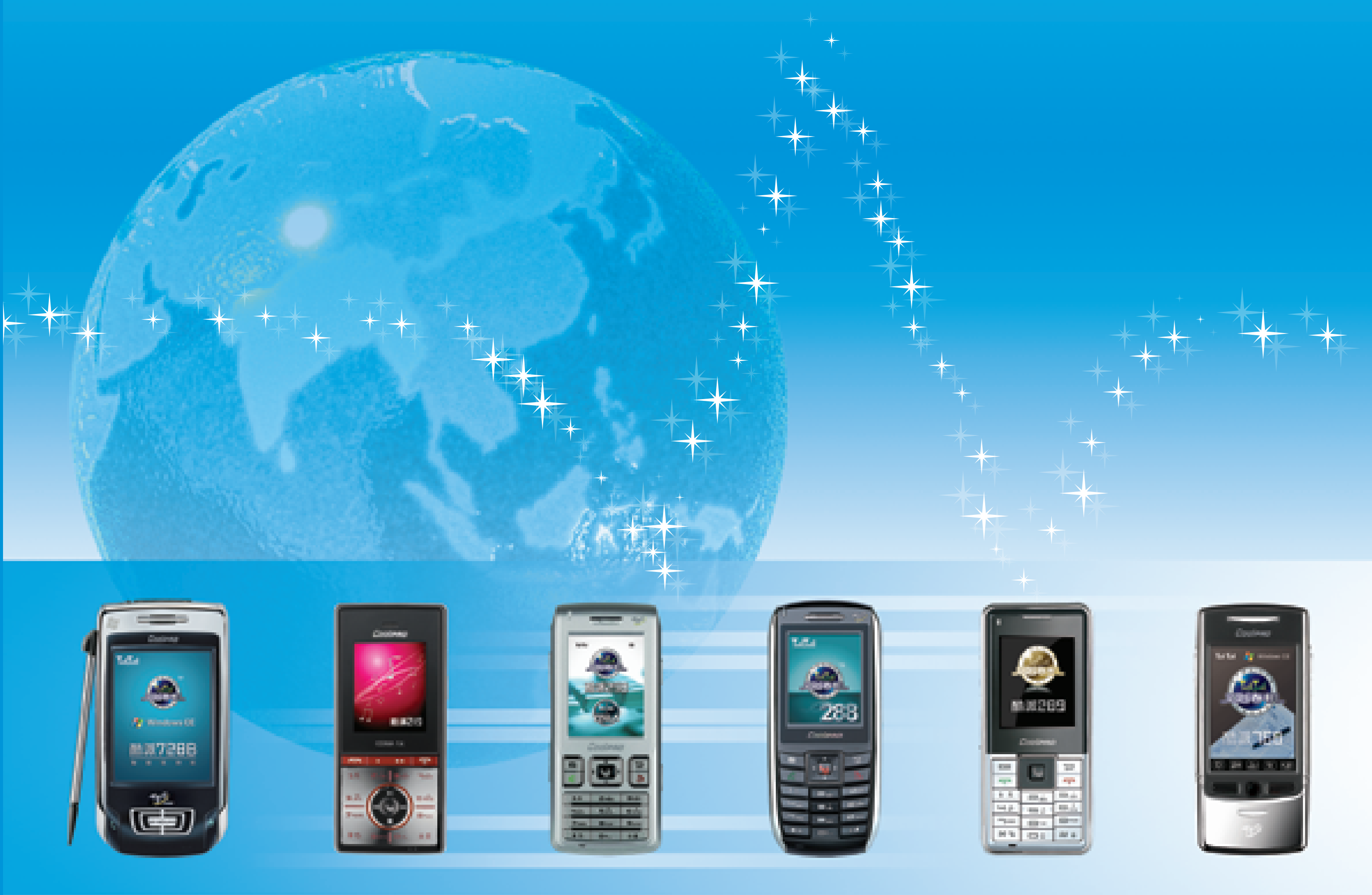

ANNUAL REPORT 2006

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

Stock Code: 2369

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Corporate Information

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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

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
Mr. YANG Xianzu

AUTHORISED REPRESENTATIVES

Mr. GUO Deying
Mr. JIANG Chao

AUDITORS AND REPORTING ACCOUNTANTS

Ernst & Young
Certified Public Accountants

LEGAL ADVISERS TO THE COMPANY AS TO HONG KONG LAW

Dibb Luplon Alsop

LEGAL ADVISERS TO THE COMPANY 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

Bank of communications
DBS Bank (Hong Kong) Limited
CITIC Ka Wah Bank Limited

STOCK CODE

2369

Financial Highlights

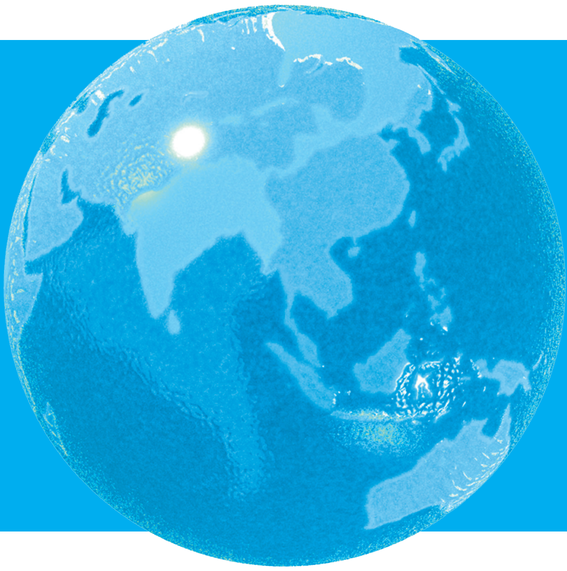
CONDENSED CONSOLIDATED INCOME STATEMENT

	Year ended 31 December				
	2006	2005	2004	2003	2002
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
CONTINUING OPERATIONS					
REVENUE	**640,855**	353,995	245,545	151,808	95,243
Profit before tax	**53,684**	60,318	51,195	39,966	33,005
Tax	—	(9,442)	(7,528)	(3,103)	(2,299)
Profit for the year from continuing operations before minority interests	**53,684**	50,876	43,667	36,863	30,706
Net profit from continuing operations attributable to shareholders	**53,684**	50,876	43,667	36,863	30,706

CONDENSED CONSOLIDATED BALANCE SHEETS

	2006	2005	2004	2003	2002
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS AND LIABILITIES					
Non-current assets	**168,586**	64,468	39,485	30,660	26,695
Current assets	**854,087**	527,554	341,813	175,478	71,126
Non-current liabilities	**102,939**	2,035	1,191	—	—
Current liabilities	**488,070**	276,291	165,097	111,016	69,370
Net assets	**431,664**	313,696	215,010	95,122	28,451

Chairman's Statement



On behalf of the board ("Board") of Directors ("Directors") of China Wireless Technologies Limited (the "Company"), I am pleased to present to all shareholders the annual report of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2006.

OPERATING RESULTS

The Group achieved considerable growth in 2006. Total revenue for the year 2006 under review increased by 81% to HK$640.9 million from HK$354.0 million in the same period last year. The revenue from smartphones increased by 93.7% to HK$630.7 million in 2006 from HK$325.6 million in 2005.

The Group recorded gross profit of HK$240.0 million, representing an increase of 93% as compared with the gross profit in 2005.

The Group's audited net profit for the year ended 31 December 2006 was HK$53.7 million, a modest increase of 5.5% from last year. Basic and diluted earnings per share for the year ended 31 December 2006 were HK$0.108 and HK$0.105, respectively.

DIVIDENDS

The Board recommended the payment of a final dividend of HK$0.03 per share for the year ended 31 December 2006. The Group had paid the interim dividend of HK$0.01 per share during 2006. The proposed final dividend is expected to be paid on or before 15 June 2007 to shareholders whose names appear on the register of members of the Company as at 21 May 2007. As announced in an announcement made by the Company on 20 April 2007, the Board recommended a bonus issue of 1 bonus share for every 1 ordinary share, subject to the approval by the shareholders at the AGM (please see Note 36(b) to the financial statements below for details).

BUSINESS REVIEW

As one of the leading wireless data total solutions providers and the smartphone (especially dual-mode smartphone) leaders in the world, the Group offers innovative products and personalised solutions to satisfy demands of different clients and various industries for domestic and overseas markets.

Chairman's Statement

2006 was an exciting year. The Group recorded good performances. The Group established a sound and robust R&D team and became one of the strongest domestic smartphone developers. Through close cooperation with well-known expert companies, the Group mastered some advanced technologies to maintain the long-term strengths as a leader in the field of wireless technologies.

Faced with increasing pressure of competition, the Group enhanced promotion and advertisement and expanded its sale channels. By marketing an increasing variety of smartphones, the Group actively enlarged some new customers and operators base and expects continuing cooperation with China Unicom. For example, the Group cooperated with some well-known distributors. In addition, the Group also exploited overseas markets. Smartphones have been sold in countries and regions, such as Russia, Vietnam, Indonesia, and India and so on.

The "Coolpad" brand is widely recognized and enjoys enhanced reputation in the PRC and international smartphone market. The "Coolpad" brand has been becoming the most famous brand in dual-mode and CDMA smartphone market in the PRC. In order to further boost the awareness of the "Coolpad" brand, the Group actively participated in several domestic and global telecommunication exhibitions and also placed a significant amount of advertisement in newspapers, aviation magazine and outdoor media.

BUSINESS OUTLOOK

In 2007, the Group has launched and will continue to launch various smartphone models targeting different customers and telecom operators in different countries to provide wireless data total solutions. By providing various smartphone models, the Group will continue to broaden its market coverage by consolidating existing markets while developing new ones, strengthening partnerships and expanding its industry clientele. In addition to continuing to maintain a close working relationship with China Unicom, the Group will also concentrate on cooperation with the other telecom operators. Currently, the GSM-GSM dual-mode smartphone and TD-SCDMA-GSM dual-mode smartphone are being tested by telecom operator. With various dual-mode smartphones market in 2007, the Group is actively seeking various distributors with a view expanding its customers base.

As a R&D enterprise, the Group always places R&D as its highest priority. In 2007, the Group will continue to employ some vigorous R&D strategies to maintain its strengths as a leader in technology by employing highly skilled and experienced personnel, furthering cooperation with key enterprises and perfecting its R&D management system. The TD-SCMDA 3G technology will be the most important R&D field and will be the central direction for the Group in future. By continuing with investments, the Group will achieve the leading position in wireless data communication field.

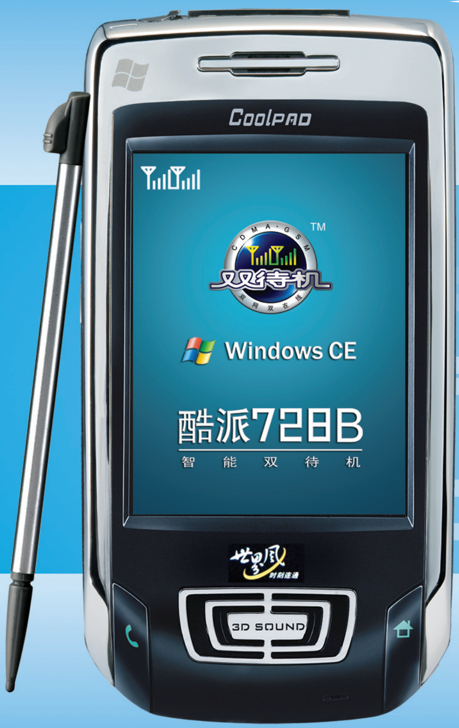
Chairman's Statement

ACKNOWLEDGEMENTS

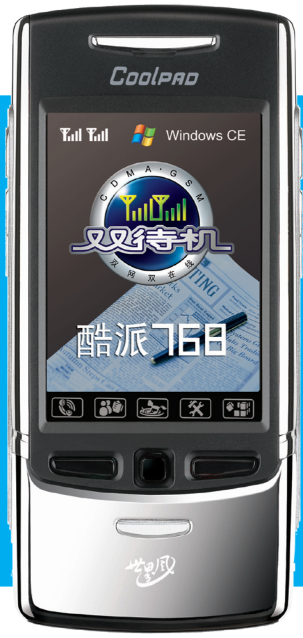
On behalf of the Board and the management, I would like to take this opportunity to express my cordial thanks to all our shareholders, clients and business partners for their support and our staff, who contributed to the outstanding performance of the Group, for their hard work in the past year. We will strive to provide our clients with the best products and services and bring maximum returns to our shareholders.

Guo Deying
Chairman
China Wireless Technologies Limited

Hong Kong, 11 April 2007



Management Discussion and Analysis



Interms of revenue mix, turnover from smartphones accounted for 98% of the Group's turnover in 2006, as compared with 92% in 2005.

REVIEW OF OPERATIONS

Turnover

For the year ended 31 December 2006, the Group achieved a turnover of HK$640.9 million, representing an increase a growth of 81% over that of the year ended 31 December 2005. The revenue from the smartphones amounted to HK$630.7 million, representing the 98% of the total revenue.

	2006		2005	
	HK$ million	% of turnover	HK$ million	% of turnover
Wireless systems solutions				
PHS Intelligent Coverage System	10.2	2%	22.1	6%
Integrated Telecom Business Platform	—	—	6.3	2%
Subtotal	10.2	2%	28.4	8%
Smartphones				
Dual-mode smartphone	526.5	82%	297.4	84%
CDMA smartphone	104.2	16%	28.2	8%
Subtotal	630.7	98%	325.6	92%
Total	640.9		354.0	

Management Discussion and Analysis

Gross Profit

The Group's gross profit increased by 93.4% to HK$240.0 million in 2006. Although the competition was fierce, the gross profit margin of the Group still increased by 2.3% to 37.4% in 2006, as compared with 35.1% in 2005. The increase is attributable to the technology strength of the Group and its well production cost control.

Selling and distribution costs

Selling and marketing expenses increased significantly by 119.3% from HK$39.4 million in 2005 to HK$86.4 million in 2006, representing 13.5% of the total revenue of the Group. The increment principally reflected the stepping up of promotional and advertising activities, the higher staff costs as the number of marketing staff was increased, and the extended distribution network. Faced with market competition, the Group placed more emphasis on market promotion to enhance the "Coolpad" brand reputation.

Administrative expenses

Administrative expenses increased by 206.0% from HK$34.9 million in 2005 to HK$106.8 million in 2006, representing 16.7% of the total revenue of the Group. The sharp increase was mainly attributable to higher research and development expenses including recruiting more R&D employees, paying substantial R&D fees to some 3G companies such as TI, Qualcomm and Datang and so on.

Income tax expense

In 2006, the Group's profit tax charge was nil, as compared to HK$9.4 million in 2005. In accordance with the Income Tax Law of the PRC for Foreign Investment Enterprise and Foreign Enterprises and as approved by relevant tax authorities, Shenzhen Yulong a wholly-owned subsidiary of the Company operating in Mainland China, which is qualified as a high-technology enterprise and operates in Shenzhen, was exempted from the corporate income tax of the PRC for the two years starting from the first profitable year of operations and was entitled to a 50% relief from the corporate income tax of the PRC for the following six years. The first profitable year of operations of Shenzhen Yulong was 1996. An income tax rate of 15% was applied for the year ended 31 December 2006. No provision for taxation has been made as Shenzhen Yulong suffered a loss for the year.

Coolpad Software was set up on 7 March 2006 and commenced operation in September 2006. Coolpad Software also enjoyed exemption from corporation income tax for the two years starting from the first profitable year of operation and was entitled to a 50% relief from the corporate income tax of the PRC for the following three years. Since the tax holiday of Coolpad Software commenced in 2006, no provision for income tax was needed in current year.

Dongguan Yulong was set up on 3 November 2006. There were no operations for Dongguan Yulong up to the end of December 2006.

Net Profit

For the year ended 31 December 2006, the Group recorded a net profit of HK$53.7 million, representing a slight increase of 5.5% over 2005. The net profit margin dropped significantly from 14.4% in 2005 to 8.4% in 2006. The major reasons was that, during the reporting period: the Group increased its research and development expenses; and the Group increased its marketing promotion and brand building expenses.

Management Discussion and Analysis

BUSINESS ACTIVITIES

As one of the leading wireless data total solutions providers and the smartphone (especially dual-mode smartphone) leaders in the world, the Group offers innovative products and personalised solutions to satisfy demands of different clients and various industries for domestic and overseas markets.

2006 was an exciting year. The "Coolpad" brand was widely recognised and enjoyed enhanced reputation in the PRC and the international smartphone market. The "Coolpad" brand became the most famous brand in dual-mode and CDMA smartphone market in the PRC. In order to further boost the awareness of the "Coolpad" brand, the Group actively participated in many domestic and global telecommunication exhibitions and also placed substantial amount of advertisement in newspapers, aviation magazine and outdoor media and so on.

In 2006, the Group marketed six new models of smartphones with propriety operation system, including two CDMA-GSM smartphones, one GSM-GSM smartphone, one PHS-GSM smartphone and two CDMA smartphones. The Group successfully developed the Coolpad 288 dual-mode smartphone, which was the first medium-priced dual-mode smartphone to target popular people. With the launch of the Coolpad 288 dual-mode smartphone, an increasing number of customers are becoming attracted to and familiar with the dual-mode smartphone. The Coolpad 728B with its more powerful functions and attractive price attracted huge market interests upon its launch and the Group has secured a large order from China Unicom.

During the reporting period, the Group invested substantial resources in the research and development fields. To establish itself in the market and to increase its competitiveness, the Group employed a large number of experienced and skilled R&D engineers. Compared with the same period of last year, the number of R&D engineers increased more than 100%. In addition, to develop top quality and competitively-priced products, the Group actively cooperated with international well-known chipset companies and soft company such as TI, Qualcomm and Microsoft. To capture the TD-SCDMA 3G market and secure a leading advantage, the Group established close strategic partnerships with Datang Telecom company, the leading TD-SCDMA 3G standard developer. The Directors believe that these cooperations and the huge investment in R&D will yield successful outcomes and help to maintain the competitive advantage and market leader position in future.

LIQUIDITY AND FINANCIAL RESOURCES

For the year ended 31 December, 2006, the Group's operating capital was mainly generated from cash from its daily operations and bank borrowings.

- As at 31 December 2006, the Group had a gearing ratio of 58% (based on debt over total assets) (2005 : 47%)

- As at 31 December 2006, the Group had a current ratio of 1.7 (based on current assets over current liability) (2005 : 1.9)

PLEDGE OF ASSETS

As at 31 December 2006, approximately HK$40 million of the Group's bank deposits was pledged to secure notes payable and HK$5 million of the Company's bank deposits was pledged to secure a letter of credit. The Group's leasehold land with a net book value of approximately HK$11.6 million was pledged to secure a short term bank loan of HK$59.7 million and a long term bank loan of HK$99.5 million granted to the Group.

Management Discussion and Analysis

OUTLOOK

In 2007, the Group plans to launch at least 12 new smartphone models targeting different customers and telecom operators in different countries to provide wireless data total solutions. Among the 12 new smartphone models, 10 models will be based on 2.5G network while others will be based on TD-SCDMA 3G network. The Directors believe that the TD-SCDMA-GSM dual-mode smartphone will be marketed in the second half of 2007. The three models based on 2.5G network will target overseas markets. The revenue from overseas market is expected to increase significantly in 2007.

In 2007, in addition to maintaining a close working relationship with China Unicom, the Group will also concentrate on cooperation with other telecom operators. Currently, the GSM-GSM dual-mode smartphone is being tested. The Directors believe orders of GSM-GSM smartphone will be possible in the first half of 2007. With plans of various dual-mode smartphones to be marketed in 2007, the Group is actively seeking various distributors of its dual-mode smartphone products with a view to expanding its customers base.

Starting from the second half of 2007, the Group will move to a new larger building from the current dispersed offices, which will markedly improve the administrative efficiency of the Group.

As a R&D enterprise, the Group always places the R&D as it highest priority. In 2007, the Group will continue to employ some vigorous R&D strategies to maintain its strengths as a leader in technology by employing highly skilled and experienced personnel, furthering cooperation with key enterprises and perfecting its R&D management system.

USE OF PROCEEDS

The Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 9 December 2004. As at 31 December 2006, the Company had used up its listing proceeds as set out in the Company's listing prospectus except for the HK$5 million intended for strategic investments.

In December 2005, the Company and Data Dreamland Holdings Limited, a substantial shareholder of the Company, and the placing agents entered into an agreement pursuant to which the Company issued and placed 40,000,000 new shares, at a price of HK$1.05 per share by way of top up placing. The net proceeds from the placement of the Company were approximately HK$40.5 million, which had been used up as at 31 December 2006.

In January 2006, the Company and Data Dreamland Holdings Limited and the placing agents entered into an agreement pursuant to which the Company issued and placed 40,000,000 new shares, at a price of HK$1.22 per share by way of top up placing. The net proceeds from the placement of the Company were approximately HK$47.6 million, which had been used up as at 31 December 2006.

FOREIGN EXCHANGE EXPOSURE

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

EMPLOYEES AND REMUNERATION POLICY

During the year, the staff cost amounted to HK$70.5 million. The remuneration of the Group's employees is commensurate with their responsibilities and market levels, with discretionary bonuses and training given on a merit basis.

SIGNIFICANT INVESTMENTS

There were no significant investments held by the Group as at 31 December 2006.

MATERIAL ACQUISITION AND DISPOSALS DURING THE YEAR

There were no material acquisitions and disposals of the Company and its subsidiaries as at 31 December 2006.

Corporate Governance Report

APPLICATION OF CORPORATE GOVERNANCE PRINCIPLES

The Group's goals are to continue to increase its transparency to shareholders and the public and to promote good corporate governance.

The Company has applied the principles of the Code Provisions under the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange of Hong Kong Limited throughout the year ended 31 December 2006, save for the deviation discussed below. The following sections set out the principles in the Code as they have been applied by the Company, including any deviations therefrom, for the year under review.

BOARD COMPOSITION

The overall management and control of the business of the Company is vested in the Board. It is the duty of the Board to create value to the shareholders of the Company, establish the Company's strategic direction, set the Company's objectives and plan in accordance therewith, and provide leadership and ensure availability of resources in the attainment of such objectives. The Board endeavours to manage the Company in a responsible and effective manner, and strive to ensure that each of the Directors carries out his duty in good faith and in compliance with the memorandum and articles of association of the Company (the "Articles of Association"), the applicable laws and regulations, and acts in the best interests of the Company and its shareholders at all times.

The Board and the management of the Company (the "Management") have clearly defined responsibilities under various internal control and checks-and-balance mechanisms. The Board has delegated certain responsibilities to the Management, including implementation of the decisions of the Board and organisation and direction of the day-to-day operation and management of the Company in accordance with the management strategies and plans approved by the Board; preparation and monitoring of annual business plans and operating budget; and control, supervision and monitoring of capital, technical and human resources. The Board will review these arrangements on a periodic basis to ensure that they remain appropriate to the needs of the Group.

The Company has arranged for appropriate liability insurance to indemnify its Directors for their liabilities arising out of corporate affairs. The insurance coverage is reviewed annually.

The Board held four meetings during the year under review.

The Board comprises a total of eight Directors, with two executive Directors, namely, Mr. Guo Deying (the chairman of the Board and the chief executive officer of the Company) and Mr. Jiang Chao; two non-executive Directors, namely Ms. Yang Xiao and Ms. Ma Dehui; and four independent non-executive Directors, namely, Mr. Chan King Chung, Dr. Huang Dazhan, Mr. Yang Xianzu and Mr. Xie Weixin. The Directors are well-versed in respective areas such as accounting, business management and industry knowledge.

To the best of the Company's knowledge, there is no financial or family relationship among the Board members except that Ms. Yang Xiao, a non-executive Director, is the spouse of Mr. Guo Deying, an executive Director, the chairman of the Board and the Chief Executive Office. In addition, Ms. Ma Dehui, a non-executive Director, is the mother of Ms. Yang Xiao thus the mother-in-law of Mr. Guo Deying.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code Provision A.2.1 of the Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Currently, Mr. Guo Deying is the chairman of the Board and the chief executive officer of the company. The Board considers that this structure will not impair the balance of power and authority between the Board and the Management and believes that this structure enables the Group to make and implement decision promptly and efficiently. In addition, the Board is of the view that, in view of the current scale of operations of the Group, the separation of the roles of the chairman and chief executive officer of the Company may hinder administrative efficiency and is neither suitable to the Group nor in the interests of shareholder as a whole.

INDEPENDENT NON-EXECUTIVE DIRECTORS (''INEDs'')

The INEDs have the same duties of care, skill and fiduciary duties as the executive Directors. They are expressly identified as such in all corporate communications that disclose the names of the Directors. The INEDs have expertise in respective areas of accounting, business management and process in-depth industry knowledge. With their professional knowledge and experience, the INEDs have advised the Company on its operation and management; participated in the Audit Committee meetings and Remuneration Committee meetings of the Company. The INEDs have contributed to provide checks and balance to protect the interests of the Company and its shareholders as a whole, and to promote the development of the Company.

The Company has received an annual confirmation of independence from each of the INDEs pursuant to Rule 3.13 of the Listing Rules and on this basis, considers that all INEDs to be independent as at the date of this report.

Under the Code Provision A.4.1, non-executive Directors should be appointed for specific terms, subject to re-election. Currently, all INDEs are appointed for a period of 1 year subject to renewal and retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Articles of Association.

Corporate Governance Report

BOARD OPERATION

The Board meets regularly over the Company's affairs and operations. In 2006, the Board held four meetings. The attendance record of each member of the Board is set out below:

	Attendance
Executive Directors	
Mr. Guo Deying	4/4
Mr. Jiang Chao	4/4
Non-executive Directors	
Ms. Yang Xiao	4/4
Ms. Ma Dehui	4/4
Independent Non-executive Directors	
Mr. Chan King Chung	4/4
Dr. Huang Dazhan	4/4
Mr. Yang Xianzu	4/4
Mr. Xie Weixin	4/4

REMUNERATION COMMITTEE

The written terms of reference of the Remuneration Committee is in compliance with the Code. The primary duties of the Remuneration Committee include (without limitation):

(a) to make recommendations to the Board on policies and structure for remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration; and

(b) to determine the remuneration packages for executive Directors and senior management and to make recommendations to the Board on the remuneration of non-executive Directors.

The Remuneration Committee is made up of all of the INEDs, namely, Mr. Chan King Chung (Chairman), Dr. Huang Dazhan, Mr. Yang Xianzu and Mr. Xie Weixin.

The Remuneration Committee had one meeting in 2006 which was attended by all members of the Remuneration Committee, which was consulted by Mr. Guo Deying, the chairman of the Company, to review the remuneration packages of Directors and senior management of the Group.

No Directors took part in any discussion about his or her own remuneration.

PROVISION OF INFORMATION TO DIRECTORS

To assist the Directors in the discharge of their respective duties, the Company will provide every newly appointed Director with a comprehensive induction program on the first occasion of his appointment, in which the newly appointed Director will be provided with information on the Company's organisation and business, including the membership, duties and responsibilities of the Board, the various Board committees and the Management; corporate governance practices and procedures; and the latest financial information of the Company. Such information shall be supplemented with visits to the Company's key plant sites and meetings with key members of the Management.

Throughout their tenure, the Directors will be provided with updates on the business of the Company, latest developments of the Listing Rules and other applicable legal and regulatory requirements, corporate social responsibility matters and other changes affecting the Company from time to time.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct for securities transactions and dealings (the "Code of Conduct") based on the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the "Model Code"). The terms of the Code of Conduct are no less exacting than the standards in the Model Code, and the Code of Conduct applies to all relevant persons as defined in the Model Code, including all the Directors, all other employees of the Company, and Directors and employees of a subsidiary or holding company of the Company who, because of such office or employment, are likely to be in possession of unpublished price sensitive information in relation to the Company or its securities. Specific enquiry has been made of all the Directors who have confirmed in writing their compliance with the required standards set out in the Code of Conduct during the year under review.

AUDIT COMMITTEE

The Audit Committee, comprising all four INEDs, namely, Mr. Yang Xianzu, Dr. Huang Dazhan, Mr. Xie Weixin and Mr. Chan King Chung (Chairman), has reviewed the accounting principles and practices adopted by the Company and has discussed the auditing, internal control and financial reporting matters.

In 2006, the Audit Committee held two meetings. The attendance record of each member of the Audit Committee is set out below:

	Attendance
Mr. Chan King Chung (Chairman)	2/2
Dr. Huang Dazhan	2/2
Mr. Yang Xianzu	2/2
Mr. Xie Weixin	2/2

The Audit Committee has carefully reviewed and discussed the Company's half-yearly and annual results for the year under review and the system of internal control and has made commendations for improvement. The Audit Committee has carried out and discharged its duties set out in Code.

ACCOUNTABILITY AND INTERNAL CONTROL

The Directors acknowledge their responsibility for all information and representations contained in the financial statements of the Company for the year under review. The Directors have reviewed and considered that the financial statements have been prepared in conformity with the generally accepted accounting standards in Hong Kong, and reflected amounts that are based on the best estimates and reasonable, informed and prudent judgment of the Board and the Management with an appropriate consideration to materiality.

The Board has reviewed and is satisfied with the effectiveness of the Group's internal control system and believe that, such system is sufficient in providing reasonable assurances that the Group's assets are safeguarded against loss from unauthorised use or disposition, transactions are properly authorised and proper accounting records are maintained. Such system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss, and to manage rather than eliminate risks of failure in the Group's operational system.

NOMINATION OF DIRECTORS

Directors are responsible for making recommendations to the Board for consideration and approval on nominations, appointment of Directors and Board succession, with a view to appoint to the Board individuals with the relevant experience and capabilities to maintain and improve the competitiveness of the Company. The Board formulates the policy, reviews the size, structure and composition of the Board, and assesses the independence of the INEDs in accordance with the criteria prescribed under the Listing Rules and the Code.

EXTERNAL AUDITORS

Ernst & Young has been appointed as the External Auditors of the Company for the year under review. An amount of $1.68 million (2005: HKD1.5 million) was charged by Ernst & Young for its audit services provided to the Group. The responsibilities of the external auditors with respect to financial reporting are set out in the section headed "Independent Auditors' Report" on page 30 of this report.

COMMUNICATION WITH SHAREHOLDERS

The Company placed great priority to establish effective communications with its shareholders and investors. In an effort to enhance such communications, the Company provides information relating to the Company and its business in its annual and half-yearly report and also disseminates such information electronically through its website at www.chinawireless.cn and the website of the Stock Exchange. The Company regards the annual general meeting as an important event as it provides an opportunity for direct communications between the Board and its shareholders. All Directors, the Management and the external auditors make an effort to attend the annual general meeting of the Company to respond to any queries from shareholders. All shareholders of the Company are given a minimum of 21 days' notice of the date and venue of such annual general meeting. The Company supports the Code's principle to encourage shareholders' participation.

Specific enquiries and suggestions by shareholders can be sent in writing to the Board or the Company Secretary at the Principal Place of business in Hong Kong or by e-mail to the Company's website.

Directors and Senior Management

DIRECTORS

Executive Directors

Mr. GUO Deying, aged 42, is an executive Directors, the chairman and chief executive officer of the Group. He is responsible for the Group's overall management and 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 14 years of experience in the 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 (Outstanding 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 36, is an executive Director, the chief financial officer, vice president of the Group, and the qualified accountant and company secretary of the Company. Mr. Jiang 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 14 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 where he was 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 76, 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 of Ms. Yang Xiao, a non-executive Director.

Ms. YANG Xiao, aged 38, 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 do not hold any management role in the Company.

Independent non-executive Directors

Dr. HUANG Dazhan, aged 49, 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, England, the United Kingdom 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. (the shares of which are listed on the Shanghai Stock Exchange of the PRC) and an executive Director of China Merchants China Direct Investments Ltd. (the shares of which are listed on the main Board of the Stock Exchange).

Directors and Senior Management

Mr. XIE Weixin, aged 65, 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 Shenzhen University.

Mr. CHAN King Chung, aged 45, is an independent non-executive Director and joined the Group in November 2004. He obtained a bachelor's degree 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 a master's degrees in business administration and accountancy. 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 more than 10 years of experience in corporate governance, management and financial controlling, Mr. Chan was the company secretary and financial controller of Shenzhen High-Tech Holdings Limited (Stock Code: 106) from 2000 to 2006. He is currently the managing Director of an investment company.

Mr. YANG Xianzu, aged 67, an independent non-executive Director and joined the Group in May 2006. He graduated from the Department of Telephone and Telegraph at the Wuhan College of Posts and Telecommunications in 1965 and served as the Deputy Director General of the Post and Telecommunications Bureau of Hubei Province and the Director General of the Post and Telecommunications Administration of Henan Province. From 1990 to 1999, Mr. Yang served as the Vice Minister of the Ministry of Posts and Telecommunications and later as Vice Minister of the Ministry of Information Industry. He was the chairman and chief executive officer of China Unicom Limited (the shares of which are listed on the main Board of the Stock Exchange, Stock Code: 762) from 2000 to 2003. He is currently an independent non-executive Director of Dongfeng Motor Group Company Limited (the shares of which are listed on the main Board of the Stock Exchange, Stock Code: 489) and CITIC 1616 Holdings Limited (the shares of which are listed on the main Board of the Stock Exchange, Stock Code: 1883). Mr. Yang has over 35 years of experience in the telecommunications industry in China. Mr. Yang has extensive knowledge on company operations and control.

SENIOR MANAGEMENT

Mr. LI Wang, aged 35, is a deputy general manager of the Group and is responsible for the Group's sales and marketing functions. He joined the Group in March 2001. He has 9 years of 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. DONG Yongquan, aged 44, 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. Mr. Dong graduated from the faculty of wireless communication of 長春郵電學院 (Changchun Institute of Post and Telecommunications) 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 Xidian University in November 2003.

Mr. LI Liuqun, aged 44, 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 20 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.

Directors and Senior Management

Mr. LI Bin, aged 37, is a deputy general manager of the Group and is responsible for the research and development of software and testing. Mr. Li has more 10 years of experience in software development and testing. He joined the Group in June 1996. Prior to joining the Group, Mr. Li worked in 中國工江航天工業集團有限公司 (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.

Mr. Zhang Hanwu, aged 44, is a deputy general manager of the Group and is responsible for the human resources and administration functions. Mr. Zhang has 18 years of specialised experience in human resources and administration in various industries. Prior to joining the Group in 2006, he worked in fast-consuming goods industry, communications system equipment manufacture industry and communications terminal equipment manufacture industry.

Ms. FU Qun, aged 32, 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.

Report of the Directors

The Directors of China Wireless Technologies Limited (the "Company") are pleased to present their report and the audited financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The Group is a wireless solution and equipment provider in Mainland China. The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 17 to the financial statements. There were no significant changes to the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2006 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 31 to 90.

A final dividend of HK$0.02 per ordinary share for the year ended 31 December 2005 and an interim dividend of HK$0.01 per ordinary share for the six months ended 30 June 2006 were paid in 2006. The Directors recommend the payment of a final dividend of HK$0.03 per ordinary share for the year ended 31 December 2006 to shareholders on the register of members as at 21 May 2007. A resolution regarding the payment of such dividend will be proposed at the forthcoming annual general meeting (the "AGM") of the Company. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section of the balance sheet.

For the purpose of the forthcoming AGM and the entitlement to the proposed dividend, the register of members of the Company will be closed from 22 May 2007 to 25 May 2007 (both dates inclusive).

USE OF PROCEEDS

The Share of the Company was listed on The Hong Kong Stock Exchange Limited (the "Stock Exchange") on 9 December 2004. As at 31 December 2006, the Company had used up the listing proceeds as set out in the Company's listing prospectus except for the HK$5 million intended for strategic investments.

In December 2005, the Company issued and placed 40,000,000 new shares, at a price of HK$1.05 per share. The net proceeds from the placement of the Company were approximately HK$40.5 million, of which HK$35 million was utilised for the purchase of materials and components, and HK$5.5 million for the marketing and promotion of new smartphone products in the year ended 31 December 2006.

In January 2006, the Company issued and placed 40,000,000 new shares, at a price of HK$1.22 per share. The net proceeds from the placement of the Company were approximately HK$47.6 million, of which HK$40 million had been utilised for the purchase of materials and components, and HK$7.6 million for the marketing and promotion of new smartphone products in the year ended 31 December 2006.

SUMMARY FINANCIAL INFORMATION

The following is a summary of the consolidated/combined financial results and of the consolidated/combined assets and liabilities of the Group for the last five financial years, prepared on the basis set out in note 2.1 below:

	Year ended 31 December				
	2006*	2005*	2004*	2003*	2002**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
Revenue	**640,855**	353,995	245,545	151,808	95,243
Profit before tax	**53,684**	60,318	51,195	39,966	33,005
Tax	—	(9,442)	(7,528)	(3,103)	(2,299)
Profit for the year	**53,684**	50,876	43,667	36,863	30,706
Attributable to:					
Equity holders of the Company	**53,684**	50,876	43,667	36,863	30,706

	2006*	2005*	2004*	2003*	2002**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS AND LIABILITIES					
Non-current assets	**168,586**	64,468	39,485	30,660	26,695
Current assets	**854,087**	527,554	341,813	175,478	71,126
Non-current liabilities	**102,939**	2,035	1,191	—	—
Current liabilities	**488,070**	276,291	165,097	111,016	69,370
Net assets	**431,664**	313,696	215,010	95,122	28,451

* Extracted from the published audited financial statements

** Extracted from the published prospectus of the Company dated 30 November 2004

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 14 to the financial statements.

Report of the Directors

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year are set out in notes 29 and 30, respectively, to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's existing articles of association (the "Articles") 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

Neither the Company, nor any of its subsidiaries, purchased, redeemed or sold any of the Company's listed securities during the year and up to the date of this report.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 31 to the financial statements and in the consolidated summary statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2006, the Company's reserves available for distribution, calculated in accordance with the Companies Law (2001 Second Revision) of the Cayman Islands, amounted to HK$213,372,000 of which HK$14,957,000 has been proposed as a final dividend for the year. The distributable reserves include the Company's share premium account and contributed surplus, amounting to HK$241,613,000 as at 31 December 2006, which may be distributed provided that immediately following the date on which such reserves are proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 77% of the total sales for the year and sales to the largest customer included therein amounted to 67%. Purchases from the Group's five largest suppliers accounted for approximately 73% of the total purchases for the year, and purchase from the Group's largest supplier accounted for approximately 36% of the total purchases for the year.

None of the Directors or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and/or suppliers.

Report of the Directors

DIRECTORS

The Directors of the Company during the year and up to the date of this report were:

Executive Directors:

Mr. Guo Deying *(Chairman and Chief Executive Officer)*
Mr. Jiang Chao

Non-executive Directors:

Ms. Yang Xiao
Ms. Ma Dehui

Independent non-executive Directors:

Dr. Huang Dazhan
Mr. Xie Weixin
Mr. Chan King Chung
Mr. Yang Xianzu

Under the provisions of the Articles, all of the Directors of the Company are subject to retirement by rotation and re-election.

In accordance with Article 86(3) of the Articles, Mr. Yang Xianzu, an independent non-executive Director, will retire and, being eligible, will offer himself for re-election at the forthcoming AGM of the Company.

In accordance with Article 87(1) of the Articles, Mr. Huang Dazhan, an independent non-executive Director, Mr. Xie Weixin, an independent non-executive Director and Mr. Chan King Chung, an independent non-executive Director, will retire and, being eligible, will offer themselves for re-election at the forthcoming AGM of the Company.

The Company has received from each of the independent non-executive Directors an annual confirmation pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and the Board still considers each of the independent non-executive Directors to be independent from the Company.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 18 to 20 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service agreement with the Company dated 15 August 2003 as amended by a supplemental deed dated 21 November 2004 for an initial term of three years commencing from 21 November 2004.

Each of the non-executive Directors has entered into a service agreement with the Company dated 21 November 2004 for an initial term of three years commencing from 21 November 2004.

DIRECTORS' SERVICE CONTRACTS (CONTINUED)

Except for Mr. Yang Xianzu, who has entered into a service agreement with the Company dated 26 May 2006 for an initial term of one year commencing from 26 May 2006, each of the remaining independent non-executive Directors have entered into a service agreement with the Company for an initial term of one year commencing from 21 November 2006.

None of the Directors has entered into any service agreement with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

The Directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's Board with reference to Directors' duties, responsibilities and performance and the results of the Group.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in notes 22 and 34 to the financial statements, no Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during or at the end of the year.

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

At 31 December 2006, the interests and short positions of the Directors, the chief executive or their associates in the share capital, underlying shares and debentures of the Company or its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance, chapter 571 of the Laws of Hong Kong (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

Long positions in shares of the Company:

		Number of shares held, capacity and nature of interest					
Name of Director	Notes	Directly beneficially owned	Through spouse or minor children	Through controlled corporation	Beneficiary of a trust	Founder of a discretionary trust	Percentage of the Company's issued share capital
Mr. Guo Deying	1 & 2	—	207,792,812	7,916,000	—	207,792,812	43.27
Ms. Yang Xiao	1	—	207,792,812	—	—	207,792,812	41.68
Mr. Jiang Chao	3	—	—	—	7,916,000	—	1.59

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

Long positions in shares of an associated corporation:

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

Notes:

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

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

2. Mr. Guo is interested in the 7,916,000 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 interested in the 7,916,000 shares held by Wintech Consultants Limited as he is one of the discretionary objects under the China Wireless Employee Benefit Trust, a discretionary trust established for the benefit of the employees of the Group.

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

As at 31 December 2006, the following interests and short positions of 5% or more in the issued share capital and share options of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions in shares of the Company:

Name	Notes	Number of shares in which interested	Number of shares interested under equity derivatives	Nature of interest	Total number of shares	Percentage of the Company's issued share capital
Data Dreamland Holding Limited	1	207,792,812	—	Beneficial owner	207,792,812	41.68
Barrie Bay Limited	2	207,792,812	—	Interest of controlled corporation	207,792,812	41.68
HSBC International Trustee Limited	2	207,792,812	—	Trustee	207,792,812	41.68

Notes:

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

2. The 207,792,812 shares are held by Data Dreamland, the entire share capital of which is held by Barrie Bay, which is acting as the trustee of the Barrie Bay Unit Trust and the entire issued share capital of which is held by HSBC Trustee.

Save as disclosed above, as at 31 December 2006, so far as the Directors are aware, there are no other persons, other than the Directors and chief executive of the Company, who had interests or short positions in the shares, underlying shares or debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and are required to be recorded in the register required to be kept pursuant to Section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the sub-section entitled "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or his/her spouse or minor children, or were any such rights exercised by them; or was the Company, or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

SHARE OPTIONS

The fair value of the Group's share options was calculated by an external professionally qualified valuer, LCH (Asia-Pacific) Surveyors Limited, at HK$9,528,000 using the binomial option pricing model as at the date of grant of the options:

Grantee	Number of share options granted during the year	Theoretical value of share options HK$
Employees in aggregate	14,752,000	9,528,000

The binomial option pricing model is a generally accepted method of valuing options, using certain key determinants to calculate the theoretical value of share options. The significant assumptions used in the calculation of the values of the share options included the risk-free interest rate, expected life, expected volatility and expected dividend. The measurement dates used in the valuation calculations were the dates on which the options were granted. For details of the assumptions, please refer to note 30 to the financial statements.

The value of share options calculated using the binomial option pricing model is subject to certain fundamental limitations, due to the subjective nature of and uncertainty relating to a number of assumptions of the expected future performance input to the model, and certain inherent limitations of the model itself.

The value of an option varies with different variables of certain subjective assumptions. Any change to the variables used may materially affect the estimation of the fair value of an option.

AUDIT COMMITTEE

The audit committee ("Audit Committee") of the Company comprising the four independent non-executive Directors, has reviewed the accounting principles and practices adopted by the Company and has discussed auditing, internal control and financial reporting matters. The Audit Committee has reviewed the Group's audited financial statements for the year ended 31 December 2006.

DIRECTORS' INTEREST IN A COMPETING BUSINESS

None of the Directors or the substantial shareholders of the Company and their respective associates (as defined in the Listing Rules) had any interest in a business which competes or may compete with the business of the Group.

MATERIAL LEGAL PROCEEDINGS

During the year, the Company was not involved in any material litigation or arbitration and no material litigation or claim was pending or threatened or made against the Company as far as the Board was aware of.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, the percentage of shares of the Company in public hands is in compliance with the prescribed level of the minimum public float as set out in Rule 8.08 of the Listing Rules.

Report of the Directors

FOREIGN EXCHANGE EXPOSURE

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

EMPLOYEES AND REMUNERATION POLICY

During the year, the staff cost amounted to HK$70,496,000. The remuneration of the Group's employees is commensurate with their responsibilities and the market levels, with discretionary bonuses and training given on a merit basis.

SIGNIFICANT INVESTMENTS

There were no significant investments held by the Group as at 31 December 2006.

MATERIAL ACQUISITIONS AND DISPOSALS DURING THE YEAR

There were no material acquisitions and disposals by of the Company and its subsidiaries as at 31 December 2006.

EVENT AFTER THE BALANCE SHEET DATE

Details of the significant event after the balance sheet date of the Group are set out in note 36 to the financial statements.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming AGM.

On behalf of the Board

Guo Deying
Chairman
Hong Kong
11 April 2007

Independent Auditors' Report

ERNST & YOUNG
安永會計師事務所

To the shareholders of
China Wireless Technologies Limited
(Incorporated in Cayman Islands with limited liability)

We have audited the financial statements of China Wireless Technologies Limited set out on pages 31 to 90, which comprise the consolidated and company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated summary statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

Hong Kong
11 April 2007

Financial Section

Consolidated Income Statement

Year ended 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
REVENUE	5	**640,855**	353,995
Cost of sales		**(400,859)**	(229,880)
Gross profit		**239,996**	124,115
Other income	5	**17,336**	13,801
Selling and distribution costs		**(86,372)**	(39,427)
Administrative expenses		**(106,830)**	(34,909)
Other expenses		**(991)**	(283)
Finance costs, net	7	**(9,455)**	(2,979)
PROFIT BEFORE TAX	6	**53,684**	60,318
Tax	10	**—**	(9,442)
PROFIT FOR THE YEAR		**53,684**	50,876
DIVIDENDS	12		
Interim		**4,982**	4,000
Proposed final		**14,957**	9,964
		19,939	13,964
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	13		
Basic		**10.79 cents**	12.66 cents
Diluted		**10.54 cents**	12.55 cents

Consolidated Balance Sheet

31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**134,934**	39,095
Prepaid land lease payments	15	**11,597**	—
Intangible assets	16	**22,055**	25,373
Total non-current assets		**168,586**	64,468
CURRENT ASSETS			
Inventories	18	**248,306**	64,599
Trade receivables	19	**168,047**	110,652
Prepayments, deposits and other receivables	20	**308,891**	193,419
Due from Directors	22	**591**	201
Pledged deposits	23	**44,813**	49,077
Cash and cash equivalents	23	**83,439**	109,606
Total current assets		**854,087**	527,554
CURRENT LIABILITIES			
Trade payables	24	**61,089**	27,263
Bills payable	25	**85,963**	91,360
Other payables and accruals	26	**189,096**	104,635
Interest-bearing bank and other borrowings	27	**137,451**	31,716
Due to a related company	21	**110**	106
Due to Directors	22	**17**	164
Tax payable		**14,344**	21,047
Total current liabilities		**488,070**	276,291
NET CURRENT ASSETS		**366,017**	251,263
TOTAL ASSETS LESS CURRENT LIABILITIES		**534,603**	315,731

Consolidated Balance Sheet

31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	27	**99,532**	—
Deferred tax liabilities	28	**3,407**	2,035
Total non-current liabilities		**102,939**	2,035
Net assets		**431,664**	313,696
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	29	**4,986**	4,490
Reserves	31	**411,721**	299,242
Proposed final dividend	12	**14,957**	9,964
Total equity		**431,664**	313,696

Guo Deying
Director

Jiang Chao
Director

Consolidated Summary Statement of Changes in Equity

Year ended 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
TOTAL EQUITY			
Balance at beginning of year		**313,696**	215,010
Surplus on revaluation of land and buildings	31	**8,339**	5,447
Deferred tax on revaluation reserve	31	**(1,300)**	(817)
Profit for the year	31	**53,684**	50,876
Dividends paid		**(14,946)**	(12,000)
Issue of shares, including share premium	29	**56,268**	48,300
Share premium account, transfer from share option reserve	29, 31	**1,859**	—
Share issue expenses	29, 31	**(2,768)**	(1,334)
Equity-settled share option arrangements	31	**4,736**	3,741
Share option reserve, transfer to share premium account	31	**(1,859)**	—
Exchange realignment	31	**13,955**	4,473
Balance at end of year		**431,664**	313,696

The Group's share capital and the movements therein for the current and prior years are presented in note 29.

The Group's reserves and the movements therein for the current and prior years are presented in note 31.

Consolidated Cash Flow Statement

Year ended 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		53,684	60,318
Adjustments for:			
Bank interest income	5	(1,811)	(713)
Finance costs	7	9,455	2,979
Depreciation	6	4,830	2,863
Amortisation of patents and licences	6	7,242	3,408
Amortisation of product development costs	6	3,234	1,771
Recognition of prepaid land lease payments	15	255	—
Loss on disposal of items of property, plant and equipment	6	943	85
Provision for trade receivables	6	2,337	—
Write-back of provision for trade receivables	6	—	(2,027)
Equity-settled share option expense	6	4,736	3,741
		84,905	72,425
Increase in inventories		(183,707)	(36,040)
Increase in trade receivables		(60,532)	(3,710)
Increase in prepayments, deposits and other receivables		(115,472)	(96,775)
Decrease in an amount due from a related company		—	258
(Increase)/decrease in amounts due from Directors		(390)	893
Increase in trade payables		33,826	11,141
Increase/(decrease) in bills payable		(5,397)	78,168
Increase in other payables and accruals		84,461	36,726
Increase in an amount due to a related company		4	106
Increase/(decrease) in amounts due to Directors		(147)	64
Cash generated from/(used in) operations		(162,449)	63,256
Tax paid		(6,360)	—
Net cash inflow/(outflow) from operating activities		(168,809)	63,256

Consolidated Cash Flow Statement

Year ended 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Bank interest received	5	**1,811**	713
Purchases of property, plant and equipment	14	**(93,830)**	(3,614)
Additions to product development costs	16	**—**	(5,616)
Additions to patents and licences	16	**(6,489)**	(17,543)
Additions to prepaid land lease payments	15	**(12,130)**	—
Increase/(decrease) in pledged time deposits		**4,264**	(19,187)
Net cash outflow from investing activities		**(106,374)**	(45,247)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of ordinary shares	29	**56,268**	48,300
Share issue expenses	31	**(2,768)**	(1,334)
New bank loans		**376,328**	148,006
Repayment of bank loans		**(172,191)**	(173,955)
Interest paid		**(9,455)**	(2,979)
Dividends paid		**(14,946)**	(12,000)
Net cash inflow from financing activities		**233,236**	6,038
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(41,947)**	24,047
Cash and cash equivalents at beginning of year		**109,606**	80,352
Effect of foreign exchange rate changes, net		**15,780**	5,207
CASH AND CASH EQUIVALENTS AT END OF YEAR	23	**83,439**	109,606
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	23	**83,439**	99,995
Non-pledged time deposits with original maturity of less than half a year		**—**	9,611
		83,439	109,606

Balance Sheet

31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	17	**44,991**	44,991
Intangible assets	16	**5,057**	6,613
Total non-current assets		**50,048**	51,604
CURRENT ASSETS			
Due from subsidiaries	17	**173,709**	117,442
Deposits and other receivables	20	**11**	—
Pledged deposits	23	**5,000**	—
Cash and cash equivalents	23	**2,255**	8,507
Total current assets		**180,975**	125,949
CURRENT LIABILITIES			
Bills payable	25	**5,121**	—
Other payables and accruals	26	**85**	42
Interest-bearing bank and other borrowings	27	**6,069**	—
Due to Directors	22	**1,390**	1,699
Total current liabilities		**12,665**	1,741
NET CURRENT ASSETS		**168,310**	124,208
Net assets		**218,358**	175,812
EQUITY			
Issued capital	29	**4,986**	4,490
Reserves	31	**198,415**	161,358
Proposed final dividend	12	**14,957**	9,964
Total equity		**218,358**	175,812

Guo Deying
Director

Jiang Chao
Director

Notes to Financial Statements

1. CORPORATE INFORMATION

China Wireless Technologies Limited is a limited liability company incorporated in the Cayman Islands. The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KYI-1111, Cayman Islands.

During the year, the Group was involved in providing wireless solutions and equipment for the wireless telecommunication market in Mainland China.

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

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Companies Ordinance. They have been prepared under the historical cost convention, except for certain buildings, which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2006. The results of the subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date on which such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretations has had no material effect on these financial statements.

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HK(IFRIC)-Int 4	Determination whether an Arrangement contains a Lease

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

The principal changes in accounting policies are as follows:

(a) **HKAS 21 The Effects of Changes in Foreign Exchange Rates**

Upon the adoption of the HKAS 21 Amendment regarding a net investment in a foreign operation, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements irrespective of the currency in which the monetary item is denominated. This change has had no material impact on these financial statements as at 31 December 2006 or 31 December 2005.

(b) **HKAS 39 Financial Instruments: Recognition and Measurement**

(i) Amendment for financial guarantee contracts

This amendment has revised the scope of HKAS 39 to require financial guarantee contracts issued that are not considered insurance contracts, to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 Revenue. The adoption of this amendment has had no material impact on these financial statements.

(ii) Amendment for the fair value option

This amendment has changed the definition of a financial instrument classified as fair value through profit or loss and has restricted the use of the option to designate any financial asset or any financial liability to be measured at fair value through the income statement. The Group had not previously used this option, and hence the amendment has had no effect on the financial statements.

(iii) Amendment for cash flow hedge accounting of forecast intragroup transactions

This amendment has revised HKAS 39 to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as a hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the consolidated income statement. As the Group currently has no such transactions, the amendment has had no effect on these financial statements.

(c) **HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease**

The Group has adopted this interpretation as at 1 January 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This interpretation has had no material impact on these financial statements.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HKFRS 8	Operating Segments
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 *Financial Reporting in Hyperinflationary Economies*
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements

The HKAS 1 Amendment shall be applied for accounting period beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 shall be applied for accounting period beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments.

HKFRS 8 shall be applied for accounting period beginning on or after 1 January 2009. The standard requires disclosures that enable users of the financial statements to evaluate the nature and financial effects of the business activities in which the Group engages and the economic environments in which the Group operates.

HK(IFRIC)-Int 7, HK(IFRIC)-Int 8, HK(IFRIC)-Int 9, HK(IFRIC)-Int 10, HK(IFRIC)-Int 11 and HK(IFRIC)-Int 12 shall be applied for accounting periods beginning on or after 1 March 2006, 1 May 2006, 1 June 2006, 1 November 2006, 1 March 2007 and 1 January 2008, respectively.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. The Group expects that the adoption of the pronouncements above will have no impact on the Group's financial statements in the period of initial application.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5. The cost of an item of property, plant and equipment 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 items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement 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 an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment and depreciation (continued)

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the income statement. Any subsequent revaluation surplus is credited to the income statement to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the revaluation reserve realised in respect of the previous valuations is transferred to retained profits as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	5%
Furniture, fixtures and office equipment	20%
Motor vehicles	20%
Leasehold improvements	20%

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings and plant under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment or investment property when completed and ready for use.

Investment property

An investment property is interest in buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is stated at fair value, which reflects market conditions at the balance sheet date.

Gains or losses arising from changes in the fair values of an investment property are included in the income statement in the year in which they arise.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment property (continued)

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

For a transfer from an investment property to owner-occupied property or inventory, the deemed cost of property for subsequent accounting is its fair value at the date of change in use.

Intangible assets

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

Patents and licences

Purchased patents and licences are stated at cost less impairment losses and are amortised on the straight-line basis over their estimated useful lives of two to five years.

Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Product development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five years, commencing from the date when the products are put into commercial production.

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, an investment property and non-current assets), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial assets other than goodwill (continued)

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset only if there are revalued assets in the financial statements, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that 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 such impairment loss is credited to the income statement in the period in which it arises only if there are revalued assets in the financial statements, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Leases

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 property, plant and equipment, 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 income statement so as to provide a constant periodic rate of charge over the lease terms.

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 lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. When such financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. After initial measurement, loans and receivables are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

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 estimated costs expected to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within six 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 sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings, are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

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 income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provisions (continued)

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, discounted to their present values as appropriate.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date 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, except:

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants and subsidies

Government grants and subsidies from the government authorities 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 the grant or subsidy relates to an expense item, it is recognised as income over the periods necessary to match the grant or subsidy 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 from the carrying amount of the asset and released to the income statement by way of a reduced depreciation charge.

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) from the sale of the realink PHS intelligent coverage system to the telecommunication equipment or solution distributors and the sale of wireless terminals to the telecommunication operators and wireless terminal distributors, upon delivery of the products;

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

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

(iv) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset;

(v) government grants and subsidies, when there is a reasonable assurance that the grants or subsidies will be received and all attaching conditions will be complied with; and

(vi) dividend income, when the shareholders' right to receive payment has been established.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employee benefits

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external professionally qualified valuer using a binomial option pricing model, further details of which are given in note 30. 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 ("market conditions"), if applicable.

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 the 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.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

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

The Group has adopted the transitional provisions of HKFRS 2 in respect of equity-settled awards and has applied HKFRS 2 only to equity-settled awards granted after 7 November 2002 that had not vested by 1 January 2005 and to those granted on or after 1 January 2005.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employee benefits (continued)

Retirement benefits scheme

The Company, Yulong Infotech Inc. ("YII") and Digital Tech Inc. ("DTI") have not participated in any retirement benefits scheme since the dates of their incorporation.

The employees of Shenzhen Yulong Computer Telecommunication Scientific Co., Ltd. ("Shenzhen Yulong"), Coolpad Software Tech (Shenzhen) Co., Ltd. ("Coolpad Software") and Dongguan Yulong Computer Telecommunication Scientific Co., Ltd. ("Dongguan Yulong"), the Group's subsidiaries which operate in Mainland China, are required to participate in a central pension scheme operated by the local municipal government. The subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

Borrowing costs are recognised as expenses in the income statement in the period in which they are incurred.

Dividends

Final dividends proposed by the Directors are classified as a separate allocation of retained profits within the equity 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, because the Company's memorandum and articles of association grant the Directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies (continued)

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollars. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars 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 Hong Kong dollars at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING ESTIMATE

Estimation uncertainty

The key assumption concerning the future and other key sources of estimation uncertainty at the balance sheet date, that has a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, is discussed below.

Research and development costs

Research and development costs are capitalised in accordance with the accounting policy for research and development costs in note 2.4 to the financial statements. Determining the amounts to be capitalised requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. At 31 December 2006, the best estimate of the carrying amount of capitalised product development costs was HK$8,405,000 (2005: HK$11,238,000).

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 the Group's customers and operations are mainly located in Mainland China.

The Group's operating businesses are structured and managed separately according to the nature of their operation and the products and services they provide. Each of the Group's business segment represents 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. Summary details of the business segments are as follows:

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

4. SEGMENT INFORMATION (CONTINUED)

(b) the wireless terminals segment engaged in the provision of smartphones, which integrate a mobile phone and a PDA with wireless applications like e-mail and internet browsing, and the provision of other mobile phones.

Business segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2006 and 2005.

	2006 HK$'000	2005 HK$'000
Segment revenue:		
Wireless system solutions	**10,200**	28,405
Wireless terminals	**630,655**	325,590
Consolidated revenue	**640,855**	353,995
Segment net profit:		
Wireless system solutions	**2,336**	12,335
Wireless terminals	**93,202**	76,058
	95,538	88,393
Unallocated corporate expenses	**(32,399)**	(25,096)
Finance costs, net	**(9,455)**	(2,979)
Profit before tax	**53,684**	60,318
Tax	**—**	(9,442)
Profit for the year	**53,684**	50,876

4. SEGMENT INFORMATION (CONTINUED)

Business segments (continued)

	2006 HK$'000	2005 HK$'000
Segment assets:		
Wireless system solutions	**20,608**	50,881
Wireless terminals	**687,194**	324,097
Unallocated corporate assets	**314,871**	217,044
Total assets	**1,022,673**	592,022
Segment liabilities:		
Wireless system solutions	**3,289**	8,574
Wireless terminals	**267,453**	123,060
Unallocated corporate liabilities	**320,267**	146,692
Total liabilities	**591,009**	278,326
Capital expenditure:		
Wireless system solutions	**—**	—
Wireless terminals	**23,238**	25,956
Others	**89,211**	909
	112,449	26,865
Depreciation:		
Wireless system solutions	**235**	544
Wireless terminals	**964**	622
Others	**3,631**	1,697
	4,830	2,863
Amortisation:		
Wireless system solutions	**—**	—
Wireless terminals	**10,476**	5,179
Others	**255**	—
	10,731	5,179
Surplus on revaluation recognised directly in equity:		
Wireless system solutions	**—**	—
Wireless terminals	**—**	—
Others	**7,039**	4,630
	7,039	4,630

5. REVENUE AND OTHER INCOME

Revenue, which is also the Group's turnover, represents the net invoiced value of goods, 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 revenue and other income is as follows:

	2006 HK$'000	2005 HK$'000
Revenue		
Sale of wireless system solutions and wireless terminals	640,855	353,995
Other income		
Rental income	—	233
Bank interest income	1,811	713
Government grants and subsidies*	14,426	11,191
Maintenance income	—	1,206
Sundry income	1,099	458
	17,336	13,801
	658,191	367,796

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

6. PROFIT BEFORE TAX

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

	Notes	2006 HK$'000	2005 HK$'000
Cost of inventories sold		**400,859**	228,534
Depreciation	14	**4,830**	2,863
Amortisation of patents and licences *	16	**7,242**	3,408
Recognition of prepaid land lease payments	15	**255**	—
Research and development costs:			
Product development costs amortised *	16	**3,234**	1,771
Current year expenditure		**8,946**	9,915
		12,180	11,686
Operating lease rental		**1,616**	175
Provision/write-back of provision for trade receivables		**2,337**	(2,027)
Loss on disposal of items of property, plant and equipment		**943**	85
Auditors' remuneration		**1,637**	1,500
Staff costs (including Directors' and senior executives' emoluments - note 8):			
Salaries and wages		**60,962**	21,793
Staff welfare expenses		**1,736**	1,146
Pension scheme contributions		**3,062**	1,473
Equity-settled share option expense		**4,736**	3,741
Total staff costs		**70,496**	28,153
Foreign exchange differences, net		**78**	(227)
Rental income		**—**	(233)
Bank interest income		**(1,811)**	(713)

* The amortisation of patents and licenses and product development costs for the year is included in "Administrative expenses" on the face of the consolidated income statement.

7. FINANCE COSTS

	Group	
	2006	2005
	HK$'000	HK$'000
Interest on:		
Bank loans wholly repayable within one year	6,056	2,979
Bank loans wholly repayable within five years	35	—
Bills payable	3,364	—
	9,455	2,979

8. DIRECTORS' REMUNERATION

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

	Group	
	2006	2005
	HK$'000	HK$'000
Fees	337	220
Other emoluments of executive Directors:		
Salaries, allowances and benefits in kind	1,178	661
Pension scheme contributions	5	4
	1,183	665
	1,520	885

8. DIRECTORS' REMUNERATION (CONTINUED)

(a) **Independent non-executive Directors**

The fees paid to the Group's independent non-executive Directors during the year were as follows:

	2006 HK$'000	2005 HK$'000
Mr. Xie Weixin	—	—
Dr. Huang Dazhan	120	120
Mr. Chan King Chung	100	100
Mr. Yang Xianzu	117	—
	337	220

There were no other emoluments payable to the independent non-executive Directors during the year (2005: Nil).

(b) **Executive Directors and non-executive Directors**

2006	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
Executive Directors:				
Mr. Guo Deying	—	749	—	749
Mr. Jiang Chao	—	166	5	171
Non-executive Directors:				
Ms. Ma Dehui	—	—	—	—
Ms. Yang Xiao	—	263	—	263
	—	1,178	5	1,183

8. DIRECTORS' REMUNERATION (CONTINUED)

(b) Executive Directors and non-executive Directors (continued)

2005	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
Executive Directors:				
Mr. Guo Deying	—	466	—	466
Mr. Jiang Chao	—	177	4	121
Non-executive Directors:				
Ms. Ma Dehui	—	—	—	—
Ms. Yang Xiao	—	78	—	78
	—	661	4	665

There was no arrangement under which a Director waived or agreed to waive any remuneration during the year.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2005: one) Directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two (2005: four) non-Director, highest paid employees for the year are as follows:

	Group 2006 HK$'000	2005 HK$'000
Salaries, allowances and benefits in kind	**312**	546
Employee share option benefits	**150**	19
Pension scheme contributions	**5**	15
	467	580

The remuneration of all the non-Director, highest paid employees fell within the band of nil to HK$1,000,000.

During the year, share options were granted to a non-Director, highest paid employee in respect of his services to the Group, further details of which are included in the disclosures in note 30 to the financial statements. The fair value of such options, which has been recognised to the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-Director, highest paid employees' remuneration disclosures.

10. TAX

No provision for Hong Kong profits tax has been made (2005: Nil) as the Group did not generate any assessable profits arising in Hong Kong during the year. 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.

	2006 HK$'000	2005 HK$'000
Group:		
Current year provision		
Hong Kong	—	—
Mainland China	—	9,442
Total tax charge for the year	—	9,442

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

	2006 HK$'000	2005 HK$'000
Profit before tax	53,684	60,318
Tax at the applicable tax rate (2006: 15%, 2005: 15%)	8,053	9,069
Income not subject to tax	—	(1,045)
Expenses not deductible for tax	—	1,418
Tax losses not recognised	4,649	—
Tax exemption/relief	(12,702)	—
Tax charge at the Group's effective rate (2006: Nil, 2005: 15.6%)	—	9,442

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 Mainland China, which is qualified as a high-technology enterprise and operates in Shenzhen, was exempted from the corporate income tax of the PRC for the two years starting from the first profitable year of operations and was entitled to a 50% relief from the corporate income tax of the PRC for the following six years. The first profitable year of operations of Shenzhen Yulong was 1996. An income tax rate of 15% was applied for the year ended 31 December 2006. No provision for taxation has been made as Shenzhen Yulong suffered a loss for the year.

10. TAX (CONTINUED)

Coolpad Software was set up on 7 March 2006 and commenced operations in September 2006. Coolpad Software also enjoyed an exemption from corporation income tax 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 three years. Since the tax holiday of Coolpad Software commenced in 2006, no provision for income tax was needed in current year.

Dongguan Yulong was set up on 3 November 2006. There were no operations for Dongguan Yulong up to the end of December 2006.

11. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated profit attributable to equity holders of the Company for the year ended 31 December 2006 includes a loss of HK$744,000 (2005: a loss of HK$7,244,000) which has been dealt with in the financial statements of the Company (note 31).

12. DIVIDENDS

	Group	
	2006	2005
	HK$'000	HK$'000
Interim		
– HK$0.01 (2005: HK$0.01) per ordinary share	**4,982**	4,000
Proposed final dividend		
– HK$0.03 (2005: HK$0.02) per ordinary share	**14,957**	9,964
	19,939	13,964

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming AGM.

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

The calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares in issue during the year.

The calculation of diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the Company. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all the dilutive potential ordinary shares into ordinary shares.

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

	2006 HK$'000	2005 HK$'000
Earnings		
Profit attributable to ordinary equity holders of the Company used in the basic earnings per share calculation	**53,684**	50,876

Shares	Number of shares 2006	 2005
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**497,449,732**	401,745,205
Effect of dilution - weighted average number of ordinary shares:		
Share options	**12,095,605**	3,616,624
	509,545,337	405,361,829

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2006						
Cost or valuation:						
At beginning of year	31,021	—	18,942	3,763	—	53,726
Additions	—	2,219	14,130	400	77,081	93,830
Surplus on revaluation (note 31)	8,339	—	—	—	—	8,339
Write-back of revaluation	(1,675)	—	—	—	—	(1,675)
Disposals	(1,463)	—	(6,922)	(310)	—	(8,695)
Exchange realignment	1,107	—	674	133	—	1,914
At 31 December 2006	37,329	2,219	26,824	3,986	77,081	147,439
Accumulated depreciation:						
At beginning of year	786	—	11,216	2,629	—	14,631
Addition	1,810	37	2,832	151	—	4,830
Write-back of revaluation	(1,675)	—	—	—	—	(1,675)
Disposal	(348)	—	(5,434)	(20)	—	(5,802)
Exchange realignment	28	—	400	93	—	521
At 31 December 2006	601	37	9,014	2,853	—	12,505
Net book value:						
At 31 December 2006	36,728	2,182	17,810	1,133	77,081	134,934
At 31 December 2005	30,235	—	7,726	1,134	—	39,095
Analysis of cost or valuation:						
At cost	1,468	2,219	26,824	3,986	77,081	111,578
At valuation	35,861	—	—	—	—	35,861
	37,329	2,219	26,824	3,986	77,081	147,439

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Group (continued)

	Investment property HK$'000	Buildings HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
31 December 2005					
Cost or valuation:					
At beginning of year	2,137	26,336	16,133	3,059	47,665
Transfers	(2,185)	2,185	—	—	—
Additions	—	—	2,797	909	3,706
Surplus on revaluation (note 31)	—	5,447	—	—	5,447
Write-back of revaluation	—	(3,448)	—	—	(3,448)
Disposals	—	—	(351)	(274)	(625)
Exchange realignment	48	501	363	69	981
At 31 December 2005	—	31,021	18,942	3,763	53,726
Accumulated depreciation:					
At beginning of year	—	3,143	9,578	2,688	15,409
Additions	—	1,020	1,716	127	2,863
Write-back of revaluation	—	(3,448)	—	—	(3,448)
Disposals	—	—	(293)	(247)	(540)
Exchange realignment	—	71	215	61	347
At 31 December 2005	—	786	11,216	2,629	14,631
Net book value:					
At 31 December 2005	—	30,235	7,726	1,134	39,095
At 31 December 2004	2,137	23,193	6,555	371	32,256
Analysis of cost or valuation:					
At cost	—	2,150	18,942	3,763	24,855
At valuation	—	28,871	—	—	28,871
	—	31,021	18,942	3,763	53,726

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The office building of the Group is located in Shenzhen, the PRC. The Group's office building was valued on an open market, existing use basis at 31 December 2006 by Debenham Tie Leung, an independent firm of professionally qualified valuers, at HK$35,861,000 (31 December 2005: HK$28,871,000). A surplus of HK$8,339,000 (2005: HK$5,447,000) arising therefrom, which represented the excess of the revalued amount over the then carrying value of the building, on an individual asset basis, has been credited to the fixed asset revaluation reserve (note 31).

The Group's investment property, which represents an office apartment located in Shenzhen, the PRC, has been used by the Group as an office building since September 2005.

Had the Group's office building been stated at cost less accumulated depreciation, it would have been included in the financial statements at approximately HK$13,148,000 (2005: HK$13,509,000).

The dormitory of the Group is located in Taoyuan Village, Longzhu Avenue, Nansan District, Shenzhen, the PRC, with a historical net book value of HK$867,000 as at 31 December 2006.

The furniture, fixtures and office equipment and motor vehicles were stated at cost less accumulated depreciation.

15. PREPAID LAND LEASE PAYMENTS

	Group HK$'000
Carrying amount at 1 January 2006	—
Additions during the year	12,130
Recognised during the year	(255)
Carrying amount at 31 December 2006	11,875
Current portion included in prepayments, deposits and other receivables	(278)
Non-current portion	11,597

The leasehold land is held under a long term lease and is situated in Mainland China.

The leasehold land was pledged to secure a short term bank loan of HK$59,719,000 and a long term bank loan of HK$99,532,000 granted to the Group. For details of the Group's interest-bearing bank borrowings, please refer to note 27.

16. INTANGIBLE ASSETS

Group

	Product development costs HK$'000	Patents and licences HK$'000	Total HK$'000
31 December 2006			
Cost:			
At beginning of year	15,708	17,543	33,251
Additions	—	6,489	6,489
Exchange realignment	560	348	908
At 31 December 2006	16,268	24,380	40,648
Accumulated amortisation:			
At beginning of year	4,470	3,408	7,878
Provided during the year	3,234	7,242	10,476
Exchange realignment	159	80	239
At 31 December 2006	7,863	10,730	18,593
Net book value:			
At 31 December 2006	8,405	13,650	22,055
At 31 December 2005	11,238	14,135	25,373

16. INTANGIBLE ASSETS (CONTINUED)

Group (continued)

	Product development costs HK$'000	Patents and licences HK$'000	Total HK$'000
31 December 2005			
Cost:			
At beginning of year	9,870	—	9,870
Additions	5,616	17,543	23,159
Exchange realignment	222	—	222
At 31 December 2005	15,708	17,543	33,251
Accumulated amortisation:			
At beginning of year	2,641	—	2,641
Provided during the year	1,771	3,408	5,179
Exchange realignment	58	—	58
At 31 December 2005	4,470	3,408	7,878
Net book value:			
At 31 December 2005	11,238	14,135	25,373
At 31 December 2004	7,229	—	7,229

16. INTANGIBLE ASSETS (CONTINUED)

Company

	Patents and licences HK$'000
31 December 2006	
Cost:	
At beginning of year	7,780
Additions	—
At 31 December 2006	7,780
Accumulated amortisation:	
At beginning of year	1,167
Provided during the year	1,556
At 31 December 2006	2,723
Net book value:	
At 31 December 2006	5,057
At 31 December 2005	6,613

17. INTERESTS IN SUBSIDIARIES

	Company 2006 HK$'000	Company 2005 HK$'000
Unlisted shares, at cost	**44,991**	44,991

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

The amounts due from subsidiaries included in the Company's current assets of HK$173,709,000 (2005: HK$117,442,000) are unsecured, interest-free and are repayable on demand or within one year.

Particulars of the subsidiaries are as follows:

Company	Place of incorporation/ registration and operations	Nominal value of issued and fully paid-up/registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Yulong Infotech Inc.	BVI/Mainland China	Ordinary US$50,000	100	—	Investment holding
Digital Tech Inc.	BVI/Mainland China	Ordinary US$10	100	—	Investment holding
Shenzhen Yulong Computer Telecommunication Scientific Co., Ltd.	PRC/Mainland China	Paid-up and registered RMB240,600,000	—	100	Developing, manufacturing and operating wireless equipment, handheld communication terminals and mobile data business system
Coolpad Software Tech (Shenzhen) Co., Ltd.	PRC/Mainland China	Paid-up RMB1,541,700 Registered HK$10,000,000	—	100	Research and development and sale of mobile telecommunication, computer and multimedia technologies
Dongguan Yulong Computer Telecommunication Scientific Co., Ltd.	PRC/Mainland China	Paid-up Nil Registered RMB120,000,000	—	100	Research, development and design of handheld communication terminals and related technologies on telecommunication service platform

18. INVENTORIES

	Group	
	2006	2005
	HK$'000	HK$'000
Raw materials	**79,983**	30,022
Work in progress	**147,035**	8,524
Finished goods	**21,288**	26,053
	248,306	64,599

19. TRADE RECEIVABLES

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

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

	Group	
	2006	2005
	HK$'000	HK$'000
Within 3 months	**154,148**	93,346
4 to 6 months	**8,799**	14,648
7 to 12 months	**1,739**	2,824
1 to 2 years	**6,670**	1,180
More than 2 years	**2,411**	1,237
	173,767	113,235
Less: provision	**(5,720)**	(2,583)
	168,047	110,652

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Prepayments	**243,512**	171,667	**—**	—
Deposits and other receivables	**65,379**	21,752	**11**	—
	308,891	193,419	**11**	—

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

21. DUE TO A RELATED COMPANY

The balance due to a related company mainly represented a rental charge payable for warehouse facilities, which was unsecured, interest-free and had no fixed terms of repayment. The amount due to a related company was fully settled in March 2007.

22. AMOUNTS DUE FROM/TO DIRECTORS

Particulars of the amounts due from/to Directors, disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance, are as follows:

Group

Amounts due from Directors

	31 December 2006	Maximum amount outstanding during 2006	1 January 2006
	HK$'000	HK$'000	HK$'000
Mr. Guo Deying	591	1,639	201
Mr. Jiang Chao	—	764	—
Ms. Yang Xiao	—	72	—
Total	591		201

22. AMOUNTS DUE FROM/TO DIRECTORS (CONTINUED)

Amounts due to Directors

	31 December 2006 HK$'000	Maximum amount outstanding during 2006 HK$'000	1 January 2006 HK$'000
Mr. Jiang Chao	—	164	164
Ms. Yang Xiao	17	20	—
	17		164

Company

Amounts due to Directors

	31 December 2006 HK$'000	Maximum amount outstanding during 2006 HK$'000	1 January 2006 HK$'000
Mr. Guo Deying	1,390	1,738	1,535
Mr. Jiang Chao	—	164	164
	1,390		1,699

The amounts due from Directors mainly represented advances granted to Directors for business trips. The amounts were unsecured, interest-free and were fully settled in March 2007.

The amounts due to Directors were unsecured, interest-free and were fully settled in March 2007.

23. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**83,439**	99,995	**2,255**	8,507
Time deposits	**44,813**	58,688	**5,000**	—
	128,252	158,683	**7,255**	8,507
Less: Pledged time deposits:				
Pledged for bills payable	**(39,813)**	(49,077)	**—**	—
Pledged for a letter of credit	**(5,000)**	—	**(5,000)**	—
Cash and cash equivalents	**83,439**	109,606	**2,255**	8,507

As at 31 December 2006, the cash and cash equivalents of the Group denominated in Renminbi ("RMB") amounted to HK$120,874,000 (2005: HK$150,102,000). The RMB is not freely convertible into other currencies, however, under Mainland China'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.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The carrying amounts of the cash and cash equivalents and the pledged deposits approximate to their fair values.

24. TRADE PAYABLES

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

	Group	
	2006	2005
	HK$'000	HK$'000
Within 3 months	**56,788**	24,994
4 to 6 months	**2,069**	349
7 to 12 months	**552**	540
More than 1 year	**1,680**	1,380
	61,089	27,263

The trade payables are non-interest-bearing and are normally settled on 30-day terms.

25. BILLS PAYABLE

An aged analysis of the bills payable as at the balance sheet date, based on the issue date, is as follows:

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within 3 months	**46,150**	91,360	**5,121**	—
4 to 6 months	**39,813**	—	**—**	—
	85,963	91,360	**5,121**	—

26. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Other payables	**179,757**	99,635	**—**	—
Accruals	**9,339**	5,000	**85**	42
	189,096	104,635	**85**	42

Other payables and accruals are non-interest-bearing and have an average term of three months.

27. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Notes	Group 2006 HK$'000	Group 2005 HK$'000
Current			
Bank loans, wholly repayable within one year (secured)	(a), (b)	**65,788**	28,832
Bank loans, wholly repayable within one year (unsecured)	(c), (d)	**71,663**	—
Other borrowings, wholly repayable within one year		**—**	2,884
		137,451	31,716
Non-current			
Bank loans (secured)	(e)	**99,532**	—
		236,983	31,716

	Note	Company 2006 HK$'000	Company 2005 HK$'000
Current			
Bank loans, wholly repayable within one year (secured)	(b)	**6,069**	—

Notes:

The bank loans as at 31 December 2006 represented the following borrowings.

(a) The Group's bank loan of HK$59,719,000 (RMB60,000,000), which is secured by the Group's land use right with a net book value of approximately HK$11,597,000 as at 31 December 2006, bears interest at an annual rate of 5.85% and is repayable within one year (Note 15).

(b) The Company's bank loan of HK$6,069,000 (US$780,000), which is secured by pledged time deposits of HK$5,000,000 under the Letter of Credit facility, bears interest at a rate of 1.75% over Hong Kong Interbank Offer Rate and is repayable within 120 days.

(c) The Group's bank loan of HK$59,719,000 (RMB60,000,000), which is guaranteed by the Company, bears interest at annual rates ranging from 5.40% to 5.80% and is repayable within 6 months.

(d) The Group's bank loan of HK$11,944,000 (RMB12,000,000) with an annual interest rate of 5.85% is guaranteed by Shenzhen Small and Medium Business Guarantee Centre which acts as a guarantor when the small and medium businesses need financial support from banks or other borrowers. Such loan is repayable within one year.

27. INTEREST-BEARING BANK AND OTHER BORROWINGS (CONTINUED)

(e) The Group's non-current portion of bank loan amounting to HK$99,532,000 (RMB100,000,000), which is secured by the Group's land use right with a net book value of approximately HK$11,597,000 as at 31 December 2006, bears interest at a floating rate (note 15). The Group is subjected to an annual interest rate of 6.48% before the first repayable date which is 31 December 2008. Such bank loan is repayable in four instalments, i.e., RMB26,000,000 due on 31 December 2008, RMB28,000,000 due on 31 December 2009, RMB24,000,000 due on 31 December 2010 and RMB22,000,000 due on 31 December 2011. The interest rate for the above repayment terms will be adjusted based on the benchmark interest rate determined by the People's Bank of China.

The Directors estimate that the fair value of the Group's borrowings by discounting their future cash flows at the market rate approximate, to their carrying amounts.

28. DEFERRED TAX

The movements in deferred tax liabilities during the year are as follows:

Group

	Revaluation of buildings HK$'000
At 1 January 2006	2,035
Deferred tax debited to equity during the year (note 31)	1,300
Exchange differences	72
At 31 December 2006	3,407

Shenzhen Yulong had tax losses of HK$21,500,000 in current year. Deferred tax assets should be recognised for the unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilized. The management of the Group is not sure whether Shenzhen Yulong has the ability in generating future taxable profit to offset against the unused tax credits. Therefore, no deferred tax assets were recognised.

29. SHARE CAPITAL

	2006 HK$'000	2005 HK$'000
Authorised:		
1,000,000,000 (2005: 1,000,000,000) ordinary shares of HK$0.01 each	**10,000**	10,000
Issued and fully paid:		
498,560,000 (2005: 449,000,000) ordinary shares of HK$0.01 each	**4,986**	4,490

During the year, the movements in issued share capital were as follows:

(a) The subscription rights attached to 5,000,000 share options were exercised at the subscription price of HK$0.7 per share (note 30), resulting in the issue of 5,000,000 shares of HK$0.7 each for a total cash consideration, before expenses, of HK$3,500,000.

(b) The subscription rights attached to 4,560,000 share options were exercised at the subscription price of HK$0.87 per share (note 30), resulting in the issue of 4,560,000 shares of HK$0.87 each for a total cash consideration, before expenses, of HK$3,967,200.

(c) 40,000,000 shares were issued for cash at a subscription price of HK$1.22 per share for a total cash consideration, before expenses, of HK$48,800,000.

29. SHARE CAPITAL (CONTINUED)

A summary of the transactions during the year with reference to the above movements in the Company's issued ordinary share capital is as follows:

	Number of shares in issue	Issued share capital HK$'000	Share premium account (Note 31) HK$'000	Total HK$'000
At 1 January 2005	400,000,000	4,000	95,282	99,282
Share options exercised	9,000,000	90	6,210	6,300
New issue	40,000,000	400	41,600	42,000
Share issue expenses	—	—	(1,334)	(1,334)
At 31 December 2005 and 1 January 2006	449,000,000	4,490	141,758	146,248
Share options exercised (a), (b)	9,560,000	96	7,372	7,468
Share options exercised	—	—	1,859	1,859
New issue (c)	40,000,000	400	48,400	48,800
Share issue expenses	—	—	(2,768)	(2,768)
At 31 December 2006	498,560,000	4,986	196,621	201,607

Details of the Company's share option scheme and the share options issued under the scheme are included in note 30 to the financial statements.

30. SHARE OPTION SCHEME

Pursuant to the share option scheme (the "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.

During the year, the Company granted options for the subscription of an aggregate of 14,752,000 shares pursuant to the terms of the Share Option Scheme, as follows:

On 27 July 2006, options for the subscription of 14,752,000 shares were granted to certain employees of the Group at an exercise price of HK$1.846 per share, which are exercisable in the manner set out detailed below:

(i) as for options to subscribe for 4,000,000 shares held by 2 grantees of options for 2,000,000 shares each, such options are exercisable by each of the grantees:

   (a) in respect of options to subscribe for 500,000 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 to subscribe for 500,000 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 to subscribe for 500,000 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;

   (d) in respect of options to subscribe for 500,000 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;

30. SHARE OPTION SCHEME (CONTINUED)

(ii) as for options to subscribe for 1,488,000 shares held by 3 grantees of options for 496,000 shares each, such options are exercisable by each of the grantees:

(a) in respect of options to subscribe for 124,000 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 to subscribe 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 to subscribe 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;

(d) in respect of options to subscribe 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;

(iii) as for options to subscribe for 2,496,000 shares held by 13 grantees of options for 192,000 shares each, such options are exercisable by each of the grantees:

(a) in respect of options to subscribe for 48,000 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 to subscribe for 48,000 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 to subscribe 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;

(d) in respect of options to subscribe 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;

30. SHARE OPTION SCHEME (CONTINUED)

(iv) as for options to subscribe for 4,608,000 shares held by 48 grantees of options for 96,000 shares each, such options are exercisable by each of the grantees:

(a) in respect of options to subscribe for 24,000 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 to subscribe for 24,000 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 to subscribe for 24,000 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;

(d) in respect of options to subscribe for 24,000 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;

(v) as for options to subscribe for 960,000 shares held by 20 grantees of options for 48,000 shares each, such options are exercisable by each of the grantees:

(a) in respect of options to subscribe for 12,000 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 to subscribe for 12,000 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 to subscribe for 12,000 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;

(d) in respect of options to subscribe for 12,000 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;

30. SHARE OPTION SCHEME (CONTINUED)

(vi) as for options to subscribe for 768,000 shares held by 4 grantees of options for 192,000 shares each, such options are exercisable by each of the grantees:

(a) in respect of options to subscribe for 48,000 shares, at any time during the period commencing from the first anniversary up to (but not including) the date falling on the fifth anniversary from the date of acceptance of the grant;

(b) in respect of options to subscribe 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 fifth anniversary from the date of acceptance of the grant;

(c) in respect of options to subscribe 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 fifth anniversary from the date of acceptance of the grant;

(d) in respect of options to subscribe for 48,000 shares, at any time during the period commencing from the fourth anniversary up to (but not including) the date falling on the fifth anniversary from the date of acceptance of the grant;

(vii) as for options to subscribe for 384,000 shares held by 4 grantees of options for 96,000 shares each, such options are exercisable by each of the grantees:

(a) in respect of options to subscribe for 24,000 shares, at any time during the period commencing from the first anniversary up to (but not including) the date falling on the fifth anniversary from the date of acceptance of the grant;

(b) in respect of options to subscribe for 24,000 shares, at any time during the period commencing from the second anniversary up to (but not including) the date falling on the fifth anniversary from the date of acceptance of the grant;

(c) in respect of options to subscribe for 24,000 shares, at any time during the period commencing from the third anniversary up to (but not including) the date falling on the fifth anniversary from the date of acceptance of the grant;

(d) in respect of options to subscribe for 24,000 shares, at any time during the period commencing from the fourth anniversary up to (but not including) the date falling on the fifth anniversary from the date of acceptance of the grant;

30. SHARE OPTION SCHEME (CONTINUED)

(viii) as for options to subscribe for 48,000 shares held by 1 grantee, they are exercisable by:

(a) in respect of options to subscribe for 12,000 shares, at any time during the period commencing from the first anniversary up to (but not including) the date falling on the fifth anniversary from the date of acceptance of the grant;

(b) in respect of options to subscribe for 12,000 shares, at any time during the period commencing from the second anniversary up to (but not including) the date falling on the fifth anniversary from the date of acceptance of the grant;

(c) in respect of options to subscribe for 12,000 shares, at any time during the period commencing from the third anniversary up to (but not including) the date falling on the fifth anniversary from the date of acceptance of the grant;

(d) in respect of options to subscribe for 12,000 shares, at any time during the period commencing from the fourth anniversary up to (but not including) the date falling on the fifth anniversary from the date of acceptance of the grant;

A consideration of HK$1.00 is payable by the grantee upon acceptance of the grant. The closing price per share at 26 July 2006, being the date immediately before the date the options were granted, was HK$1.83.

30. SHARE OPTION SCHEME (CONTINUED)

The following share options were outstanding under the Share Option Scheme during the year:

	Number of share options								Price of the Company's shares***			
Name or category of participant	At 1 January 2006	Granted during the year	Exercised during the year	Expired during the year	Forfeited during the year	At 31 December 2006	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK$ per share	At grant date of options HK$ per share	Immediately before the exercise date HK$ per share	At exercise date of options HK$ per share
Employees												
In aggregate — granted on 2 June 2005	1,000,000	—	(1,000,000)	—	—	—	2-06-05	7-06-05 to 6-06-07	0.7	0.69	1.3	1.43
In aggregate — granted on 6 June 2005	16,000,000	—	—	—	—	16,000,000	6-06-05	7-06-05 to 6-06-08	0.7	0.7	—	—
In aggregate — granted on 20 June 2005	10,000,000	—	(4,560,000)	—	—	5,440,000	20-06-05	28-06-05 to 27-06-09	0.87	0.87	1.43–1.77	1.51–1.75
In aggregate — granted on 27 July 2006	—	13,552,000	—	—	—	13,552,000	27-07-06	27-07-06 to 26-07-10	1.846	1.83	—	—
In aggregate — granted on 27 July 2006	—	1,200,000	—	—	—	1,200,000	27-07-06	27-07-07 to 26-07-11	1.846	1.83	—	—
Subtotal	27,000,000	14,752,000	(5,560,000)	—	—	36,192,000						
Business consultants												
Individual consultants	4,000,000	—	(4,000,000)	—	—	—	6-06-05	7-06-05 to 6-06-08	0.7	0.7	1.51–1.58	1.46–1.52
Total	31,000,000	14,752,000	(9,560,000)	—	—	36,192,000						

Notes to the reconciliation of share options outstanding during the year:

* The vesting period of the share options is from the date of grant until the commencement of the exercise period.

** The exercise price of the share options is the amount that the employee is required to pay to obtain each share under the option.

*** The price of the Company's shares disclosed as at the date of grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of grant of the options. The price of the Company's shares disclosed immediately before the exercise date of the share options is the weighted average of the Stock Exchange closing prices immediately before the dates on which the options were exercised over all of the exercises of options within the disclosure line.

The fair value of the share options granted during the year was HK$9,528,000 of which the Group recognised a share option expense of HK$4,736,000 during the year ended 31 December 2006.

30. SHARE OPTION SCHEME (CONTINUED)

The fair value of the equity-settled share options granted during the year was calculated by an external professionally qualified valuer, LCH (Asia-Pacific) Surveyors Limited, at HK$9,528,000 using the binomial option pricing model as at the date of grant of the options, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the year ended 31 December 2006:

Dividend yield (HK$)	0.01 – 0.02
Expected volatility (%)	56.94
Risk-free interest rate (%)	4.33 – 4.51
Expected life of option (year)	2 – 4
Exercise price (HK$)	1.846
Share price at grant date (HK$)	1.83

The expected life of the options is based on the historical data and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

The 9,560,000 share options exercised during the year resulted in the issue of 9,560,000 ordinary shares of the Company and new share capital of HK$95,600 and share premium of HK$9,231,000 (before issue expenses), as further detailed in note 29 to the financial statements.

At the balance sheet date, the Company had 36,192,000 share options outstanding under the Share Option Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 36,192,000 additional ordinary shares of the Company and additional share capital of HK$361,920 and share premium of HK$42,803,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 36,192,000 share options outstanding under the Share Option Scheme, which represented approximately 7.26% of the Company's shares in issue as at that date.

31. RESERVES

Group

	Notes	Share premium account (Note (a)) HK$'000	Contributed surplus (Notes (a), (b)) HK$'000	Revaluation reserve HK$'000	Statutory reserve (Note (c)) HK$'000	Share option reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2005		95,282	390	6,749	2,214	—	—	98,375	203,010
Issue of shares	29	47,810	—	—	—	—	—	—	47,810
Share issue expenses	29	(1,334)	—	—	—	—	—	—	(1,334)
Surplus on revaluation of buildings	14	—	—	5,447	—	—	—	—	5,447
Deferred tax on revaluation reserve		—	—	(817)	—	—	—	—	(817)
Equity-settled share option arrangements		—	—	—	—	3,741	—	—	3,741
Profit for the year		—	—	—	—	—	—	50,876	50,876
Exchange realignment		—	—	—	—	—	4,473	—	4,473
Statutory reserves		—	—	—	762	—	—	(762)	—
Interim 2005 dividend	12	—	—	—	—	—	—	(4,000)	(4,000)
Proposed final 2005 dividend	12	—	—	—	—	—	—	(9,964)	(9,964)
At 31 December 2005 and 1 January 2006		141,758	390	11,379	2,976	3,741	4,473	134,525	299,242
Issue of shares	29	55,772	—	—	—	—	—	—	55,772
Share issue expenses	29	(2,768)	—	—	—	—	—	—	(2,768)
Share options exercised	29	1,859	—	—	—	(1,859)	—	—	—
Surplus on revaluation of buildings	14	—	—	8,339	—	—	—	—	8,339
Deferred tax on revaluation reserve	28	—	—	(1,300)	—	—	—	—	(1,300)
Equity-settled share option arrangements		—	—	—	—	4,736	—	—	4,736
Profit for the year		—	—	—	—	—	—	53,684	53,684
Exchange realignment		—	—	—	—	—	13,955	—	13,955
Statutory reserves		—	—	—	3,513	—	—	(3,513)	—
Interim 2006 dividend	12	—	—	—	—	—	—	(4,982)	(4,982)
Proposed final 2006 dividend	12	—	—	—	—	—	—	(14,957)	(14,957)
At 31 December 2006		**196,621**	**390**	**18,418**	**6,489**	**6,618**	**18,428**	**164,757**	**411,721**

31. RESERVES (CONTINUED)

Company

	Notes	Share premium account (Note (a)) HK$'000	Contributed surplus (Notes (a), (b)) HK$'000	Share option reserves HK$'000	Exchange fluctuation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2005		95,282	44,992	—	—	(8,313)	131,961
Issue of shares	29	47,810	—	—	—	—	47,810
Share issue expenses	29	(1,334)	—	—	—	—	(1,334)
Equity-settled share option arrangements		—	—	3,741	—	—	3,741
Loss for the year		—	—	—	—	(7,244)	(7,244)
Exchange realignment		—	—	—	388	—	388
Interim 2005 dividend	12	—	—	—	—	(4,000)	(4,000)
Proposed final 2005 dividend	12	—	—	—	—	(9,964)	(9,964)
At 31 December 2005 and 1 January 2006		141,758	44,992	3,741	388	(29,521)	161,358
Issue of shares	29	55,772	—	—	—	—	55,772
Share issue expenses	29	(2,768)	—	—	—	—	(2,768)
Share options exercised	29	1,859	—	(1,859)	—	—	—
Equity-settled share option arrangements		—	—	4,736	—	—	4,736
Loss for the year		—	—	—	—	(744)	(744)
Exchange realignment		—	—	—	—	—	—
Interim 2006 dividend	12	—	—	—	—	(4,982)	(4,982)
Proposed final 2006 dividend	12	—	—	—	—	(14,957)	(14,957)
At 31 December 2006		**196,621**	**44,992**	**6,618**	**388**	**(50,204)**	**198,415**

Notes:

(a) Under the Companies Law (2001 Second Revision) of the Cayman Islands, the share premium account and contributed surplus are distributable to the shareholders of the Company, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

(b) The contributed surplus of the Group represents the difference between the aggregate of the nominal value of the paid-up capital of the subsidiaries acquired pursuant to the Group Reorganisation on 31 July 2003 over the nominal value of the Company's shares issued in exchange therefore. The contributed surplus of the Company represents the excess of the then consolidated net assets of the subsidiaries acquired pursuant to the Group Reorganisation, over the nominal value of the Company's shares issued in exchange therefore.

(c) In accordance with the PRC regulations, the PRC subsidiaries are required to allocate 10% of their profit after tax, as determined under the PRC accounting regulations, to the statutory reserve until such reserve reaches 50% of the registered capital of the PRC subsidiaries. Part of the statutory reserve may be converted to increase paid-up capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

32. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its warehouse premises and office building premises under operating lease arrangements for lease terms ranging from two to five years. 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:

	2006 HK$'000	2005 HK$'000
Within one year	3,269	106
In the second to fifth years, inclusive	11,060	26
Over five years	—	—
	14,329	132

33. COMMITMENTS

In addition to the operating lease commitments detailed in note 32 above, the Group had the following capital commitments at the balance sheet date:

	Group	
	2006 HK$'000	2005 HK$'000
Contracted, but not provided for:		
Patents and licences	66,168	77,536
Capital injection	120,000	—
Plant expansion	36,979	—
	223,147	77,536

As at the balance sheet date, the Company had no significant lease and capital commitments.

34. RELATED PARTY TRANSACTIONS AND BALANCES

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

	2006 HK$'000	2005 HK$'000
Rental expense to a related company	**110**	106

During the year, Shenzhen Yulong rented the warehouse facilities of Shenzhen Space Star Network Company Limited ("Space Star") at an annual charge of HK$110,000. The rental charge was made according to the market rates.

(b) Outstanding balance with a related party:

As disclosed in the consolidated balance sheet and in note 21, the Group had an outstanding payable to Space Star of HK$110,000 (2005: HK$106,000). The payable is unsecured, interest-free and has no fixed terms of repayment.

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

	2006 HK$'000	2005 HK$'000
Salaries, allowances and benefits in kind	**2,424**	1,544
Pension scheme contributions	**31**	23
Employee share option benefits	**922**	19
Total compensation paid to key management personnel	**3,377**	1,586

Further details of Directors' emoluments are included in note 8 to the financial statements.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

It is, and has been, throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

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

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with a floating interest rate. The interest rates and terms of repayment of the Group's loans are disclosed in note 27.

Foreign currency risk

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

The Group has no transactional currency exposure as all sales and purchases are denominated in RMB, the functional currency of Shenzhen Yulong and Coolpad Software, which are the sales-generating units of the Group.

Credit risk

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

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

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

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and availability of funding through the ability to close-out market positions. In the opinion of the Directors of the Company, the Group does not have any significant liquidity risk exposure.

36. EVENT APTER THE BALANCE SHEET DATE

(a) During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law ("the New Corporate Income Tax Law") was approved and will become effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Since the detailed implementation and administrative rules and regulations have not yet been announced, the financial impact of the New Corporate Income Tax Law to the Group cannot be reasonably estimated at this stage.

(b) The Directors proposed to issue 1 bonus share for 1 ordinary share at par value of HK$0.01 each held by the existing shareholders, which is subject to the approval of the Company's shareholders at the forthcoming AGM.

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board on 11 April 2007.