ERNST & YOUNG
安永會計師事務所

15th Floor
Hutchison House
10 Harcourt Road
Central
Hong Kong

30 November 2004

The Directors
China Wireless Technologies Limited
DBS Asia Capital Limited

Dear Sirs,

We set out below our report on the financial information regarding China Wireless Technologies Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for the years ended 31 December 2001, 2002, 2003 and the five months ended 31 May 2004 (the "Relevant Periods") prepared on the basis set out in Section 1 below, for inclusion in the prospectus of the Company dated 30 November 2004 (the "Prospectus").

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 11 June 2002 under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised), of the Cayman Islands for the purpose of acting as a holding company of the subsidiaries set out in Section 1 below. The Company has not carried on any business since the date of its incorporation, save for the acquisition on 31 July 2003 of the entire issued share capital of Yulong Infotech Inc. ("YII") and Digital Tech Inc. ("DTI"), companies incorporated in the British Virgin Islands, which are, as at the date of this report, the intermediate holding companies of the other subsidiary set out in Section 1 below.

At the date of this report, no audited financial statements have been prepared for YII and DTI since their dates of incorporation. We have, however, performed independent audits of the management accounts of these companies since the dates of their incorporation and carried out such procedures as we considered necessary for the inclusion of financial information relating to these companies in this report.

We have audited the combined financial statements of the Group for the three years ended 31 December 2001, 2002, 2003 and the five months ended 31 May 2004 and the financial statements of the Company since the date of its incorporation, which were prepared in accordance with accounting principles generally accepted in Hong Kong. For the purpose of this report, we have undertaken an independent audit of the combined financial statements of the Group for each of the Relevant Periods in accordance with Hong Kong Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants (formerly the Hong Kong Society of Accountants) (the "HKICPA"), and have carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" issued by the HKICPA.

We have acted as auditors of the Company and its subsidiaries for each of the Relevant Periods except for Yulong Computer Telecommunications Scientific (Shenzhen) Co., Ltd. ("Shenzhen Yulong"), the Company's subsidiary established in the People's Republic of

China (the "PRC"). The statutory financial statements of Shenzhen Yulong for the three years ended 31 December 2001, 2002, 2003 were prepared in accordance with accounting principles generally accepted in the PRC and audited by Shenzhen Jing Ye Certified Public Accountants, a firm of certified public accountants in the PRC. We have, however, undertaken an independent audit of the financial statements of these companies for each of the Relevant Periods for the purpose of determining the adjustments necessary to comply with the accounting principles generally accepted in Hong Kong, for inclusion of these companies' financial statements in the combined financial statements of the Group.

The summaries of the combined results, combined statements of changes in equity and combined cash flow statements of the Group for the Relevant Periods and the combined balance sheets of the Group as at 31 December 2001, 2002, 2003 and 31 May 2004 (the "Summaries") and the balance sheets of the Company as at 31 December 2003 and 31 May 2004, together with the notes thereto, set out in this report have been prepared from the audited combined financial statements of the Group, as if the current group structure had been in existence throughout the Relevant Periods or since the respective dates of their incorporation/establishment, whichever is shorter. All material intra-group transactions and balances have been eliminated on combination.

The preparation of the Summaries is the responsibility of the directors of the respective companies, who approve their issuance. The directors of the Company are responsible for the contents of the Prospectus in which this report is included. It is our responsibility to form an independent opinion on the Summaries.

In our opinion, the Summaries together with the notes thereto give, for the purpose of this report, a true and fair view of the combined results and cash flows of the Group for each of the Relevant Periods and of the combined balance sheets of the Group as at 31 December 2001, 2002, 2003 and 31 May 2004 and the balance sheets of the Company as at 31 December 2003 and 31 May 2004.

1. BASIS OF PRESENTATION

The Summaries, which are based on the audited financial statements or, where appropriate, the management accounts of the companies now comprising the Group, include the combined results, combined statements of changes in equity, combined cash flow statements and combined balance sheets of the companies now comprising the Group as if the current group structure had been in existence throughout the Relevant Periods or since the respective dates of their incorporation/establishment, whichever is shorter, except that the results of YII were combined into the Summaries since 11 June 2001, being the date of acquisition of the remaining 48% issued share capital of Shenzhen Yulong from independent third party. All material intra-group transactions and balances have been eliminated on combination.

At the date of this report, the ultimate holding company of the Company is Data Dreamland Holding Limited, a company incorporated in the British Virgin Islands. At the date of this report, the Company had direct or indirect interests in the following subsidiaries, all of which are private companies (or, if incorporated outside Hong Kong, have substantially similar characteristics to a private company incorporated in Hong Kong), the particulars of which are as set out below:

Company name	Place and date of incorporation/ registration and operations	Issued and fully paid-up registered share capital	Equity interest attributable to the Company	Principal activities
Yulong Infotech Inc.	British Virgin Islands ("BVI") 27 June 2000	Ordinary US$50,000	100%	Investment holding
Digital Tech Inc.	BVI 25 March 2002	Ordinary US$10	100%	Investment holding
Yulong Computer Telecommunications Scientific (Shenzhen) Co., Ltd.	The PRC 29 April 1993	Paid-up and registered RMB30,000,000	100% *(Note)*	Wireless solutions and equipment provider for the wireless telecommunication market in the PRC

Note: Shenzhen Yulong is a wholly-foreign-owned enterprise with an operating period of 15 years commencing 29 April 1993 with an original registered capital of RMB3,100,000. On 30 September 2003, Shenzhen Yulong increased its registered capital to RMB30,000,0000 which was fully paid up on the same date.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted by the Group in arriving at the financial information set out in this report, which conform with accounting principles generally accepted in Hong Kong, are as follows:

(a) Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the Relevant Periods were combined from or to their effective dates of acquisition or disposal, respectively.

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

(b) Associate

An associate is a company, not being a subsidiary, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The results of associates are included in the Company's combined results to the extent of dividends received and receivable. The Company's interests in associates are treated as long term assets and are stated at cost less any impairment losses.

(c) Revenue recognition

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

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

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

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

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

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

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

(vi) government grants, on receipt of such grants.

(d) Fixed assets and depreciation

Fixed assets, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. Construction in progress is stated at cost. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed assets, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life, after taking into account its estimated residual value. The estimated useful lives used for this purpose are as follows:

Buildings	20 years
Furniture, fixtures and office equipment	5 years
Motor vehicles	5 years

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

(e) Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year, except where the unexpired term of the lease is 20 years or less, in which case depreciation is provided on the then carrying amount over the remaining term of the lease.

(f) Research and development costs

All research costs are charged to the profit and loss account as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably, there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are amortised using the straight-line basis over the commercial lives of the underlying products of not exceeding five years commencing from the date when the products are put into commercial production.

At each balance sheet date, the Group assesses whether there is any indication of impairment. If any such indication exists, the recoverable amount will be estimated.

(g) Impairment of assets

An assessment is made at the end of each of the Relevant Periods of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises.

(h) Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the shareholders' capital and reserves section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

(i) Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

Provisions for product warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs and returns.

(j) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any further costs expected to be incurred to completion and disposal.

(k) Leases assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing.

Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

(l) Tax

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

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet dates between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised.

(m) Government grants and subsidies

Grants and subsidies from the government are recognised at their fair value where there is reasonable assurance that the grants or subsidies will be received and all attaching conditions will be complied with. When a grant or subsidy relates to an expense item, it is recognised as income over the periods necessary to match it on a systematic basis to the costs which it is intended to compensate. Where the grant or subsidy relates to an asset, the fair value is deducted on arriving at the carrying amount of the related asset.

(n) Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On combination, the financial statements of overseas subsidiaries are translated into Renminbi using the net investment method. The profit and loss accounts of overseas subsidiaries are translated in Renminbi at the weighted average exchange rates for the year. The balance sheets of overseas subsidiaries are translated to Renminbi at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the combined cash flow statement, the cash flows of overseas subsidiaries are translated into Renminbi at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Renminbi at the weighted average exchange rates for the year.

(o) Cash and cash equivalents

For the purpose of the combined cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits which are not restricted as to use.

(p) Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

(q) Borrowing costs

Borrowing costs are expensed in the year in which they are incurred.

(r) Retirement benefits scheme

The Company, YII and DTI have not participated in any retirement benefits scheme since the dates of their incorporation.

The employees of the Group's subsidiary which operates in the Mainland China are required to participate in a central pension scheme operated by the local municipal government. The subsidiary is required to contribute a certain percentage of its payroll costs to the central pension scheme. The contributions are charged to the profit and loss account as they become payable in accordance with the rules of the central pension scheme.

3. COMBINED RESULTS

The following is a summary of the combined results of the Group for the Relevant Periods, prepared on the basis set out in Section 1 above:

		Year ended 31 December			Five months ended 31 May	
		2001	2002	2003	2003	2004
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
		Audited	*Audited*	*Audited*	*Unaudited*	*Audited*
TURNOVER	(a)	84,767	101,329	161,508	47,028	84,189
Cost of sales		(34,317)	(40,454)	(92,845)	(25,151)	(52,372)
Gross profit		50,450	60,875	68,663	21,877	31,817
Other revenue	(a)	1,063	3,551	3,271	1,540	1,885
Selling and distribution costs		(15,716)	(10,155)	(11,818)	(4,620)	(7,503)
Administrative expenses		(18,295)	(16,825)	(15,110)	(5,068)	(7,367)
Other operating expenses		(1,293)	(890)	(494)	(98)	(255)
Profit from operating activities	(b)	16,209	36,556	44,512	13,631	18,577
Finance costs	(d)	(857)	(1,127)	(1,951)	(372)	(828)
Share of losses of an associate		(718)	(315)	(43)	(23)	—
PROFIT BEFORE TAX		14,634	35,114	42,518	13,236	17,749
Tax	(e)	(1,422)	(2,446)	(3,301)	(895)	(2,316)
PROFIT BEFORE MINORITY INTEREST		13,212	32,668	39,217	12,341	15,433
Minority interest		343	—	—	—	—
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		13,555	32,668	39,217	12,341	15,433
Dividends	(f)	—	(20,198)	—	—	—
Earnings per share — Basic (RMB)	(g)	0.05	0.11	0.13	0.04	0.05

Notes:—

(a) Turnover and revenue

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

Revenue is analysed as follows:

	Year ended 31 December			Five months ended 31 May	
	2001	**2002**	**2003**	**2003**	**2004**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Audited	*Audited*	*Audited*	*Unaudited*	*Audited*
Turnover					
Sale of wireless system solutions and wireless terminals	84,767	101,329	161,508	47,028	84,189
Other revenue					
Gain on disposal of an associate — note 4(c)	—	—	—	—	1,076
Rental income	—	207	310	129	129
Interest income	60	77	117	41	50
Government grants	—	2,529	1,810	1,205	443
Maintenance income	550	379	733	165	56
Sundry income	453	359	301	—	131
	1,063	3,551	3,271	1,540	1,885
	85,830	104,880	164,779	48,568	86,074

(b) **Profit from operating activities**

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

	Year ended 31 December			Five months ended 31 May	
	2001	2002	2003	2003	2004
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Audited	*Audited*	*Audited*	*Unaudited*	*Audited*
Cost of inventories sold and services provided	34,317	40,454	92,845	25,151	52,372
Auditors' remuneration	212	493	854	—	428
Amortisation of product development costs	—	28	400	307	563
Depreciation	2,985	3,155	2,556	1,198	1,154
Operating lease rental	—	—	110	158	46
Provision/(write-back) for doubtful debts	788	1,727	(315)	—	(7)
Provision for other receivables	—	299	—	—	—
Write-off of obsolete inventories	804	—	—	—	—
Loss on disposal of fixed assets	473	791	74	9	98
Staff costs (including directors' and senior executives' emoluments — note 3(c)):					
Salaries and wages	11,882	9,497	11,117	5,396	7,612
Staff welfare expenses	625	499	585	313	401
Pension scheme contributions	565	656	960	358	509
Total staff costs	13,072	10,652	12,662	6,067	8,522
Rental income	—	(207)	(310)	(129)	(129)
Interest income	(60)	(77)	(117)	(41)	(50)

(c) **Directors' and five highest paid individuals**

Details of directors' remuneration are as follows:

	Year ended 31 December			Five months ended 31 May	
	2001	2002	2003	2003	2004
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Audited	*Audited*	*Audited*	*Unaudited*	*Audited*
Fees	—	—	—	—	—
Salaries, allowances and benefits in kind	148	210	368	154	153
Performance-related bonuses	—	—	—	—	—
Pension scheme contributions	—	2	4	2	2
	148	212	372	156	155

The number of directors whose remuneration fell within the following bands is as follows:

	Year ended 31 December			Five months ended 31 May	
	2001	**2002**	**2003**	**2003**	**2004**
	Audited	*Audited*	*Audited*	*Unaudited*	*Audited*
Nil to HK$1,000,000	3	4	5	4	4

The numbers of directors and non-directors included in the five highest paid individuals in the Group during the Relevant Periods are as follows:

	Year ended 31 December			Five months ended 31 May	
	2001	**2002**	**2003**	**2003**	**2004**
	Audited	*Audited*	*Audited*	*Unaudited*	*Audited*
Directors	1	1	2	2	2
Non-directors	4	4	3	3	3
	5	5	5	5	5

The information relating to emoluments of the directors has been disclosed above. Details of the emoluments of the non-director, highest paid individuals during the Relevant Periods are as follows:

	Year ended 31 December			Five months ended 31 May	
	2001	**2002**	**2003**	**2003**	**2004**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Audited	*Audited*	*Audited*	*Unaudited*	*Audited*
Salaries, allowances and benefits in kind	498	498	378	160	166
Performance-related bonuses	—	—	—	—	—
Pension scheme contributions	10	10	8	3	3
	508	508	386	163	169

During the Relevant Periods, no emoluments were paid by the Group to the directors of the Company or any of the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office. No director waived or agreed to waive any emoluments during the Relevant Periods.

(d) Finance costs

	Year ended 31 December			Five months ended 31 May	
	2001	**2002**	**2003**	**2003**	**2004**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Audited	*Audited*	*Audited*	*Unaudited*	*Audited*
Interest expense on an amount due to a director	474	661	120	120	—
Interest expense on bank loans wholly repayable within one year	383	466	1,471	252	828
Interest expense on discounted trade receivables	—	—	360	—	—
	857	1,127	1,951	372	828

(e) Tax

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

	Year ended 31 December			Five months ended 31 May	
	2001	**2002**	**2003**	**2003**	**2004**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Audited	*Audited*	*Audited*	*Unaudited*	*Audited*
Current year provision:					
Hong Kong	—	—	—	—	—
Mainland China	1,422	2,446	3,301	895	2,316
Total tax charge for the year	1,422	2,446	3,301	895	2,316

According to the Income Tax Law of the PRC for Foreign Investment Enterprises and Foreign Enterprises and as approved by relevant tax authorities, Shenzhen Yulong, a wholly-owned subsidiary of the Company operating in the PRC, which is qualified as a high-technology enterprise and operates in Shenzhen, was exempted from corporate income tax of the PRC for the two years starting from the first profitable year of operations and was entitled to a 50% relief from the corporate income tax of the PRC for the following six years. The first profitable year of operations of Shenzhen Yulong was 1996 and applicable corporate income tax rate was 7.5% for the three years ended 31 December 2001, 2002 and 2003. Income tax rate of 15% was applied for the five months ended 31 May 2004.

A reconciliation of the expected tax expense with the actual tax expense is presented below:

	Year ended 31 December			Five months ended 31 May	
	2001	2002	2003	2003	2004
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Audited	*Audited*	*Audited*	*Unaudited*	*Audited*
Profit before tax	14,634	35,114	42,518	13,236	17,749
Tax at the applicable tax rate	1,098	2,634	3,189	993	2,662
Expenses not deductible for tax purposes	324	—	112	—	—
Tax exemptions/deductions	—	(188)	—	(98)	(346)
	1,422	2,446	3,301	895	2,316

(f) Dividends

No dividend has been paid or declared by the Company since the date of its incorporation.

During the Relevant Periods, dividends in the aggregate amount of RMB20,198,000 were declared and fully paid by Shenzhen Yulong to its then shareholders on 28 February 2002 and 27 June 2002, respectively.

The dividend rates and the number of shares ranking for dividends are not presented because such information is not considered meaningful for the purpose of this report.

(g) Earnings per share

The calculation of basic earnings per share for the Relevant Periods is based on the net profit from ordinary activities attributable to shareholders for each of the Relevant Periods and on the assumption that 300,000,000 shares were deemed to have been in issue throughout the Relevant Periods, comprising 22,000,000 shares in issue as at the date of the Prospectus and 278,000,000 shares to be issued pursuant to the capitalisation issue, as described more fully in the paragraph headed "Written resolutions of all the Shareholders of the Company date 21 November 2004" in the section headed "Further information about the Company" in Appendix VI to the Prospectus.

No diluted earnings per share amounts have been presented as the Company did not have any dilutive potential ordinary shares during the Relevant Periods.

(h) Related party transactions

During the Relevant Periods, the Group had the following material transactions with related parties:

	Year ended 31 December			Five months ended 31 May	
	2001	2002	2003	2003	2004
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Audited	*Audited*	*Audited*	*Unaudited*	*Audited*
Rental expense to a related company	—	—	110	46	46
Interest expense on an amount due to a director *(note 3(d))*	474	661	120	120	—

During the year of 2001, Shenzhen Yulong used the office building facilities of Shenzhen Space Star Company Limited ("Space Star"), a related company of the Company, for a period of 12 months free of charge. The market value of rental expenses for leasing the office building facilities was RMB824,000 for the year of 2001. Shenzhen Yulong no longer used the office building since 1 January 2002.

During the years of 2001 and 2002, Shenzhen Yulong used the warehouse facilities of Space Star for a period of 24 months free of charge. The market value of total rental expenses for leasing the warehouse facilities was RMB220,000 for the years of 2001 and 2002.

During the years of 2003 and 2004, Shenzhen Yulong used the warehouse facilities of Space Star with an annual charge of RMB110,000. The rental charge was made according to the market value.

Interest expenses on an amount due to a director was calculated at 6.9% per annum, which was the interest rate for mortgage loans of China Merchants Bank.

4. COMBINED BALANCE SHEETS

Set out below is a summary of the combined balance sheets of the Group as at the end of each of the Relevant Periods prepared on the basis set out in Section 1 above:

		Group			
		31 December			31 May
		2001	2002	2003	2004
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
NON-CURRENT ASSETS					
Fixed assets	(a)	9,193	24,004	23,593	24,145
Investment property	(b)	—	2,274	2,274	2,274
Interest in an associate	(c)	782	467	424	—
Product development costs	(d)	676	1,656	6,328	8,350
		10,651	28,401	32,619	34,769
CURRENT ASSETS					
Inventories	(e)	36,451	19,693	20,883	33,393
Trade receivables	(f)	9,362	36,257	108,016	99,484
Prepayments, deposits and other receivables	(g)	15,858	9,547	30,810	38,256
Tax prepaid		780	—	—	—
Due from related companies	(i)	15,037	717	—	—
Due from a director	(j)	5,173	—	—	1,046
Pledged time deposit	(h)	—	—	8,270	—
Cash and cash equivalents	(h)	12,895	9,457	18,713	49,670
		95,556	75,671	186,692	221,849
CURRENT LIABILITIES					
Trade payables	(k)	10,103	7,580	20,811	25,728
Notes payable	(l)	—	4,492	23,090	22,368
Tax payable		—	682	4,099	6,382
Other payables and accruals	(m)	60,815	34,513	32,975	49,460
Short term bank and other loans	(n)	11,000	6,000	31,600	36,000
Due to related companies	(i)	4,192	—	3,579	46
Due to directors	(j)	2,713	20,536	1,956	—
		88,823	73,803	118,110	139,984
NET CURRENT ASSETS		6,733	1,868	68,582	81,865
TOTAL ASSETS LESS CURRENT LIABILITIES		17,384	30,269	101,201	116,634
Represented by:					
Combined shareholders' equity	Section 5	17,384	30,269	101,201	116,634

	Notes	Company 31 December 2003 RMB'000	31 May 2004 RMB'000
NON-CURRENT ASSETS			
Interests in subsidiaries	(o)	68,748	70,612
		68,748	70,612
CURRENT ASSETS			
Prepayments, deposits and other receivables		1,536	2,008
Cash and cash equivalents	(h)	9,294	8,357
		10,830	10,365
CURRENT LIABILITIES			
Due to a director	(j)	—	1,378
NET CURRENT ASSETS		10,830	8,987
TOTAL ASSETS LESS CURRENT LIABILITIES		79,578	79,599
CAPITAL AND RESERVES	Section 5		
Issued capital		42	42
Share premium		31,673	31,673
Contributed surplus		47,866	47,866
(Accumulated loss)/retained profits		(3)	18
		79,578	79,599

Notes: The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 11 June 2002 under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised), of the Cayman Islands for the purpose of acting as a holding company of the subsidiaries set out in Section 1 and remained dormant till 31 July 2003 when it acquired the entire issued share capital of YII and DTI.

Notes:

(a) Fixed assets

	Buildings *RMB'000*	Furniture, fixtures and office equipment *RMB'000*	Motor vehicles *RMB'000*	Total *RMB'000*
Cost:				
At 1 January 2001	5,514	10,795	3,016	19,325
Additions	6	1,334	231	1,571
Disposals	(785)	(44)	—	(829)
At 31 December 2001	4,735	12,085	3,247	20,067
Additions	17,333	1,448	—	18,781
Disposals	(2,488)	(107)	—	(2,595)
At 31 December 2002	19,580	13,426	3,247	36,253
Additions	—	2,212	7	2,219
Disposals	(9)	(316)	—	(325)
At 31 December 2003	19,571	15,322	3,254	38,147
Additions	—	1,804	—	1,804
Disposals	—	(909)	—	(909)
At 31 May 2004	19,571	16,217	3,254	39,042
Accumulated depreciation and impairment:				
At 1 January 2001	1,565	4,675	1,807	8,047
Provided during the year	710	1,860	415	2,985
Written back on disposals	(134)	(24)	—	(158)
At 31 December 2001	2,141	6,511	2,222	10,874
Provided during the year	1,025	1,764	366	3,155
Written back on disposals	(1,746)	(34)	—	(1,780)
At 31 December 2002	1,420	8,241	2,588	12,249
Provided during the year	916	1,508	132	2,556
Written back on disposals	—	(251)	—	(251)
At 31 December 2003	2,336	9,498	2,720	14,554
Provided during the five months ended 31 May 2004	405	694	55	1,154
Written back on disposals	—	(811)	—	(811)
At 31 May 2004	2,741	9,381	2,775	14,897
Net book value:				
At 31 December 2001	2,594	5,574	1,025	9,193
At 31 December 2002	18,160	5,185	659	24,004
At 31 December 2003	17,235	5,824	534	23,593
At 31 May 2004	16,830	6,836	479	24,145

The office building of the Group is located at 8/F B. High Tech Plaza, Tian An Cyberpark, Chegongmiao, Shenzhen, the PRC, with a net book value of RMB13 million as at 31 May 2004. The dormitory of the Group is located at Taoyuan Village, Longzhu Avenue, Nansan District, Shenzhen, the PRC, with a net book value of RMB4 million as at 31 May 2004, with transfer restrictions.

As at 31 May 2004, the Group's buildings with a net book value of approximately RMB13 million were pledged to secure a short term bank loan granted to the Group by Commercial Bank of Shenzhen. For details of the short term bank loan, please refer to note 4(n).

(b) Investment property

	RMB'000
Cost:	
At 1 January 2001 and 2002	—
Additions during the year 2002	2,274
At 31 December 2002	2,274
Additions during the year 2003	—
At 31 December 2003	2,274
Additions during the five months ended 31 May 2004	—
At 31 May 2004	2,274

The Group's investment property represents an office apartment located at Room A801, High Tech Plaza, Tian An Cyberpark, Chegongmiao, Shenzhen, the PRC, and held under medium leases, which has been leased to a third party for a lease term to May 2005. The directors consider that the carrying amount of the above investment property did not differ materially from its fair value as at 31 December 2002, 2003 and 31 May 2004 and therefore the investment property was stated at its carrying amount.

As at 31 May 2004, the Group's investment property with a carrying amount of approximately RMB2.3 million was pledged to secure a short term bank loan granted to the Group by Commercial Bank of Shenzhen. For details of the short term bank loan, please refer to note 4(n).

(c) Interest in an associate

	31 December			**31 May**
	2001	**2002**	**2003**	**2004**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Share of net assets of an associate	782	467	424	—

Particulars of the associate, which was established and operates in the PRC, were as follows:

Company	**Percentage of equity interest held**	**Principal activities**
Shenzhen Yi Wei Digital Technology Co., Ltd. ("Shenzhen Yi Wei")	30%	Development and design of website and development of software for network gaming

Shenzhen Yi Wei is a Sino-foreign equity joint venture with an operating period of 20 years commencing 18 January 2001. The registered capital of Shenzhen Yi Wei was fully paid up in 2001. 70% and 30% of the issued share of Shenzhen Yi Wei was held by Space Star, a related company of the Group, and YII respectively. Shenzhen Yi Wei became dormant since June 2002. In February 2004, 30% of the issued shares of Shenzhen Yi Wei were disposed of by YII to a third party at a price of RMB1.5 million. The net book value of Shenzhen Yi Wei as at the disposal date was RMB424,000. Hence a gain on disposal of RMB1,076,000 was generated from this transaction.

(d) Product development costs

	RMB'000
Cost:	
At 1 January 2001	—
Addition during the year 2001	676
At 31 December 2001	676
Addition during the year 2002	1,008
At 31 December 2002	1,684
Addition during the year 2003	5,072
At 31 December 2003	6,756
Addition during the five months ended 31 May 2004	2,585
At 31 May 2004	9,341
Accumulated amortisation:	
At 1 January 2001 and 2002	—
Provided during the year 2002	28
At 31 December 2002	28
Provided during the year 2003	400
At 31 December 2003	428
Provided during the five months ended 31 May 2004	563
At 31 May 2004	991
Net book value:	
At 31 December 2001	676
At 31 December 2002	1,656
At 31 December 2003	6,328
At 31 May 2004	8,350

(e) Inventories

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

No inventory was stated at net realisable value as at 31 December 2001, 2002, 2003 and 31 May 2004.

(f) Trade receivables

The Group's trading terms with its customers are mainly on credit. The credit period is generally for a period of three months and a longer credit term of six months may be extended to customers with long term business relationships and good repayment history. The balances include retention money which is generally receivable upon completion of the one to two year warranty period granted to customers, or after six months upon final verification of products by customers.

An aged analysis of the trade receivables as at the end of the Relevant Periods, based on invoice date and net of provisions, is as follows:

	31 December			31 May
	2001	**2002**	**2003**	**2004**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 3 months	2,886	14,368	45,586	27,544
4 to 6 months	3,468	10,186	24,888	40,646
7 to 12 months	2,362	10,445	36,425	30,274
More than 1 year	646	1,258	1,117	1,020
	9,362	36,257	108,016	99,484

(g) Prepayments, deposits and other receivables

		31 December			31 May
		2001	**2002**	**2003**	**2004**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Prepayment to suppliers		10,067	5,007	17,902	18,666
Advances to staff and representative office	(i)	3,160	1,688	6,605	8,561
Sample products borrowed by sales staff	(ii)	1,625	1,908	2,390	3,342
Others		1,006	944	3,913	7,687
		15,858	9,547	30,810	38,256

Notes:

(i) Advances to staff mainly represent advances granted to staff of the sales department for business trips and operation; advances to representative office for future development mainly represent advances granted to sales contact points for office maintenance expenses and purchases of low value consumables.

(ii) Sample products borrowed by sales staff mainly represent the cost of sample products borrowed by salesmen for promotion and exhibition. These sample products would be returned after sales promotion and exhibition.

(h) Cash and bank balances

As at 31 December 2001, 2002 and 2003 and 31 May 2004 the Group's cash and bank balances equivalents denominated in Renminbi ("RMB") amounted to approximately RMB12,895,000, RMB9,457,000, RMB26,983,000 and RMB49,670,000 respectively. RMB is not freely convertible into foreign currencies in the PRC. Under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks authorised to conduct foreign exchange business.

As at 31 December 2003, the Group's cash and bank balances of RMB26,983,000 included cash and bank balances of RMB18,713,000 and a time deposit of US$1 million (equivalent to RMB8,270,000) which was pledged to secure a short term bank loan granted to the Group by Industrial Bank Co., Ltd,. For details of the short term bank loan, please refer to note 4(n). The pledged time deposit was released in May 2004. Apart from the pledge time deposit, all of the cash and bank balances were not restricted as to use.

(i) Due from/to related companies

The balances due from/to related companies were unsecured and interest-free. The amounts due to related companies as at 31 May 2004 were fully settled in June 2004.

(j) Amounts due from a director/due to directors

Particulars of the amounts due from a director/due to directors disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance, Chapter 32 of the Laws of Hong Kong, are as follows:

Group

Amount due from a director

	At 31 December 2001	Maximum amount outstanding during the year 2001	At 1 January 2001
	RMB'000	*RMB'000*	*RMB'000*
Mr. Deying Guo	5,173	6,091	3,214

	At 31 December 2002	Maximum amount outstanding during the year 2002	At 1 January 2002
	RMB'000	*RMB'000*	*RMB'000*
Mr. Deying Guo	—	5,173	5,173

	At 31 May 2004	Maximum amount outstanding during the five months ended 31 May 2004	At 1 January 2004
	RMB'000	*RMB'000*	*RMB'000*
Mr. Deying Guo	1,046	3,993	—

The amount due from a director was unsecured, interest-free and was fully settled in June 2004.

Amounts due to directors

	31 December			31 May
	2001	2002	2003	2004
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Mr. Deying Guo	—	19,406	824	—
Ms. Xiao Yang	2,552	498	500	—
Ms. Dehui Ma	161	632	632	—
Total	2,713	20,536	1,956	—

The amount due to Mr. Deying Guo of RMB11,000,000 as at 31 December 2002 bore annual interest of 6.9%, which was being the interest rate for mortgage loans of China Merchants Bank, and was repaid in March 2003. Such borrowing was for the mortgage of the Group's office building, which is located at Shenzhen, the PRC. Apart from the above amount, all of the amounts due to directors, which were operating in nature, were unsecured, interest-free and were fully settled in June 2004.

Company

	31 May 2004
	RMB'000
Mr. Deying Guo	1,378

The amount due to the director was unsecured, interest-free and fully settled in June 2004.

(k) Trade payables

An aged analysis of the Group's trade payables as at the end of each of the Relevant Periods, based on invoice date, is analysed as follows:

	31 December			31 May
	2001	2002	2003	2004
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 3 months	3,866	4,077	14,003	4,775
4 to 6 months	2,346	1,084	1,262	10,825
7 to 12 months	2,472	550	3,002	6,841
More than 1 year	1,419	1,869	2,544	3,287
	10,103	7,580	20,811	25,728

(l) Notes payable

Notes payable represent bank draft against acceptance made to certain suppliers. The aging of the Group's notes payables as at the end of each of the Relevant Periods, based on invoice date, are all within three months.

(m) Other payables and accruals

A breakdown of other payables and accruals as at the end of each of the Relevant Periods is as follows:

	31 December			31 May
	2001	2002	2003	2004
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Advance from customers	54,749	21,891	2,438	8,857
VAT payable	(1,661)	4,663	19,630	28,231
Accrued subcontracting fee	—	—	1,284	1,903
Accrued salary	1,781	1,160	1,626	1,820
Due to Dickman Enterprises Company Limited *(note)*	3,179	3,179	3,179	3,179
Others	2,767	3,620	4,818	5,470
	60,815	34,513	32,975	49,460

Note:

Dickman Enterprises Company Limited was a 48% equity shareholder of YII before 11 June 2001, the date of acquisition of the remaining 48% issued share capital of Shenzhen Yulong.

(n) Short term bank and other loans

		31 December			31 May
		2001	2002	2003	2004
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Government loan, wholly repayable within one year:					
Unsecured	(i)	1,000	—	—	—

		31 December			31 May
		2001	2002	2003	2004
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Bank loans, wholly repayable within one year:					
Secured	(ii)	10,000	6,000	17,600	10,000
Guaranteed	(iii)	—	—	14,000	—
Unsecured	(iv)	—	—	—	26,000
		10,000	6,000	31,600	36,000

Notes:

(i) The loan was granted by the Shenzhen Finance Bureau for encouragement of high technology development. Such loan was interest-free and was fully repaid in September 2002.

(ii) The bank loans as at 31 December 2001 and 2002 were secured by trade receivables of Shenzhen Yulong of RMB40,200,000, both carried an average annual interest rate of 5.84% and were repaid in 2002 and 2003, respectively.

Secured bank loans as at 31 December 2003 represented loans from:

(1) Commercial Bank of Shenzhen amounting to RMB10 million which was secured by the office buildings and investment property of Shenzhen Yulong with a net book value of approximately RMB13 million and RMB2.3 million, respectively, as at 31 December 2003, carried an average annual interest rate of 5.58% and was repaid in 2004. For the office buildings and investment property, please refer to note 4(a) and 4(b), respectively.

(2) Industrial Bank Co., Ltd. amounting to RMB7.6 million which was secured by a time deposit of the Company in Industrial Bank Co., Ltd. of US$1 million, carried an average annual interest rate of 5.54% and was repaid in 2004. For details of the pledged time deposit, please refer to note 4(h).

Secured bank loan as at 31 May 2004 represented a loan from:

(1) Commercial bank of Shenzhen amounting to RMB10 million which was secured by the office buildings and investment property of Shenzhen Yulong with a net book value of approximately RMB13 million and RMB2.3 million, respectively, as at 31 May 2004, carried an annual interest rate of 5.84% and was repayable within one year.

(iii) Guaranteed bank loans as at 31 December 2003 represented loans from:

(1) Commercial Bank of Shenzhen amounting to RMB8 million which was guaranteed by Mr. Deying Guo, carried an average annual interest rate of 5.84% and was repayable within one year.

(2) Industrial Bank Co., Ltd. amounting to RMB6 million which was guaranteed by Mr. Deying Guo, carried an average annual interest rate of 5.84% and was repayable within one year.

The above guarantees from Mr. Deying Guo have been released subsequent to 31 December 2003 and these guaranteed loans have been reclassified to unsecured loans.

(iv) Unsecured loans as at 31 May 2004 represented loans from:

(1) Commercial Bank of Shenzhen amounting to RMB20 million which carried an average annual interest rate of 5.65% and was repayable within one year. The due date for this loan is from 13 June 2004 to 10 September 2004.

(2) Industrial Bank Co., Ltd amounting to RMB6 million which carried an annual interest rate of 5.84% was repayable within one year. The due date for this loan is from 9 July 2004 to 31 July 2004.

(o) Interests in subsidiaries

	31 December 2003 *RMB'000*	**31 May 2004** *RMB'000*
Unlisted shares, at cost	47,866	47,866
Due from subsidiaries	20,882	22,746
	68,748	70,612

The amounts due from/to subsidiaries included in the Company's current assets and current liabilities are unsecured, interest-free and have no fixed terms of repayment.

(p) Contingent liabilities

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

		31 December			31 May
		2001	**2002**	**2003**	**2004**
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables discounted with recourse	(i)	—	—	1,350	1,350

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

(q) Commitments

The Group leases certain of its warehouse premises and office building premises under operating lease arrangements for a lease term of 51 months and 12 months, respectively. The total future minimum lease payments under non-cancellable operating leases committed at the respective balance sheet dates to be made by the Group were as follows:

	31 December			31 May
	2001	**2002**	**2003**	**2004**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one year	—	—	135	167
In the second to fifth years, inclusive	—	—	439	202
Over five years	—	—	219	—
	—	—	793	369

5. COMBINED STATEMENTS OF CHANGES IN EQUITY

The following is a summary of the combined statements of changes in shareholders' equity of the Group for the Relevant Periods, prepared on the basis set out in Section 1 above:

	Group						
	Issued share capital Ordinary	Issued share capital Preference	Share premium account	Contributed surplus	Statutory reserves	Retained profits	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2000	—	—	—	—	1,225	2,604	3,829
Arising from further acquisition of equity interest in a subsidiary	—	—	—	—	1,131	(1,131)	—
Profit for the year 2001 attributable to shareholders	—	—	—	—	—	13,555	13,555
At 31 December 2001 and 1 January 2002	—	—	—	—	2,356	15,028	17,384
Contributed surplus	—	—	—	415	—	—	415
Profit for the year 2002 attributable to shareholders	—	—	—	—	—	32,668	32,668
Dividends	—	—	—	—	—	(20,198)	(20,198)
At 31 December 2002 and 1 January 2003	—	—	—	415	2,356	27,498	30,269
Issue of preference shares *(note 1)*	—	42	31,673	—	—	—	31,715
Conversion of preference shares to ordinary shares *(note 2)*	42	(42)	—	—	—	—	—
Profit for the year 2003 attributable to shareholders	—	—	—	—	—	39,217	39,217
At 31 December 2003 and 1 January 2004	42	—	31,673	415	2,356	66,715	101,201
Profit for the five months ended 31 May 2004 attributable to shareholders	—	—	—	—	—	15,433	15,433
At 31 May 2004	42	—	31,673	415	2,356	82,148	116,634
As 31 December 2002 and 1 January 2003	—	—	—	415	2,356	27,498	30,269
Profit for the five months ended 31 May 2003 attributable to shareholders Unaudited	—	—	—	—	—	12,341	12,341
At 31 May 2003 Unaudited	—	—	—	415	2,356	39,839	42,610

Company

	Issued share capital Ordinary	Issued share capital Preference	Share premium account	Contribution surplus	Statutory reserves	Retained profits/ (accumulated losses)	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Issue of preference shares *(Note 1)*	—	42	31,673	—	—	—	31,715
Conversion of preference shares to ordinary shares *(note 2)*	42	(42)	—	—	—	—	—
Contributed surplus	—	—	—	47,866	—	—	47,866
Loss for the period attributable to shareholders	—	—	—	—	—	(3)	(3)
At 31 December 2003 and 1 January 2004	42	—	31,673	47,866	—	(3)	79,578
Contributed surplus	—	—	—	—	—	—	—
Profit for the five months ended 31 May 2004 attributable to shareholders	—	—	—	—	—	21	21
At 31 May 2004	42	—	31,673	47,866	—	18	79,599

Notes:

1. On 23 August 2003, the Group issued 4 million preference shares to JAFCO Asia Technology Fund for a cash consideration of US$4 million (equivalent to RMB33 million), The net proceeds from the issuance of preference shares are approximately RMB31,715,000.

2. On 22 December 2003, 4 million preference share were converted to 4 million ordinary shares.

6. COMBINED CASH FLOW STATEMENTS

The combined cash flow statements of the Group for the Relevant Periods prepared on the basis set out in Section 1 above are as follows:

	Year ended 31 December			Five months ended 31 May	
	2001	**2002**	**2003**	**2003**	**2004**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Audited	*Audited*	*Audited*	*Unaudited*	*Audited*
CASH FLOWS FORM OPERATING ACTIVITIES					
Profit before tax	14,634	35,114	42,518	13,236	17,749
Adjustments for:					
Gain on disposal of an associate	—	—	—	—	(1,076)
Interest income	(60)	(77)	(117)	(41)	(50)
Interest expense	857	1,127	1,951	372	828
Depreciation	2,985	3,155	2,556	1,198	1,154
Amortisation of product development costs	—	28	400	307	563
Loss on disposal of fixed assets	473	791	74	9	98
Provision for doubtful debts	788	1,727	—	—	—
Provision for other receivables	—	299	—	—	—
Write-back of doubtful debts	—	—	(315)	—	(7)
Share of losses of an associate	718	315	43	23	—
Write off of obsolete inventories	804	—	—	—	—
Operating profit before working capital changes	21,199	42,479	47,110	15,104	19,259
(Increase)/decrease in inventories	5,447	16,758	(1,190)	11,591	(12,510)
(Increase)/decrease in trade receivables	68	(28,620)	(71,445)	(43,229)	8,539
(Increase)/decrease in prepayments, deposits and other receivables	(2,129)	3,908	(21,075)	(2,404)	(5,946)
(Increase)/decrease in amounts due from related companies	1,263	14,320	717	65	—
(Increase)/decrease in an amount due from a director	(1,959)	(11,665)	—	—	(1,046)
Increase/(decrease) in trade payables	(1,878)	(2,523)	13,231	(151)	4,917
Increase/(decrease) in notes payable	—	4,492	18,598	3,749	(722)
Increase/(decrease) in other payables and accruals	(29,153)	(26,971)	(1,497)	7,292	16,485
Increase/(decrease) in amounts due to related companies	3,895	(4,192)	3,579	—	(3,533)
Increase/(decrease) in amounts due to directors	1,362	17,823	(1,742)	(1,021)	(1,956)
Cash generated from operations	(1,885)	25,809	(13,714)	(9,004)	23,487
Tax paid	(1,005)	(984)	—	—	(34)
Net cash inflow/(outflow) from operating activities	(2,890)	24,825	(13,714)	(9,004)	23,453

	Year ended 31 December			Five months ended 31 May	
	2001	2002	2003	2003	2004
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Audited	*Audited*	*Audited*	*Unaudited*	*Audited*
CASH FLOWS FROM INVESTING ACTIVITIES					
Additions of fixed assets	(1,569)	(1,445)	(19,169)	(228)	(1,803)
Additions of product development costs	(676)	(1,008)	(5,072)	(1,577)	(2,585)
Acquisition of an associate	(1,500)	—	—	—	—
Proceeds from disposal of fixed assets	197	23	—	—	—
Interest received	60	77	117	41	50
Increase/(decrease) of pledged time deposit	—	—	(8,270)	—	8,270
Net cash inflow/(outflow) from investing activities	(3,488)	(2,353)	(32,394)	(1,764)	3,932
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issuance of share capital	—	415	31,715	—	—
New bank loans	11,000	13,000	69,581	11,800	32,000
Repayment of bank loans	(1,700)	(18,000)	(43,981)	(3,000)	(27,600)
Interest paid	(857)	(1,127)	(1,951)	(372)	(828)
Dividends paid	—	(20,198)	—	—	—
Net cash inflow/(outflow) from financing activities	8,443	(25,910)	55,364	8.428	3,572
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	2,065	(3,438)	9,256	(2,340)	30,957
Cash and cash equivalents at beginning of year/period	10,830	12,895	9,457	9,457	18,713
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD	12,895	9,457	18,713	7,117	49,670
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS					
Cash and cash equipments	12,895	9,457	18,713	7,117	49,670

7. SEGMENT INFORMATION

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

(a) **the Wireless system solutions segment** is for the use of network operators to extend and to enhance the transmission quality of their telecommunication network and to support telecommunication services together with management functions and user interface that could provide value-added services to subscribers;

(b) **the Wireless terminals segment** consists of one-way wireless information receivers currently offered in the form of PDA, fixed wireless terminals mainly for commercial use in office or retail stores and smartphones which integrates a mobile phone and a PDA with wireless applications like e-mail and Internet browsing.

During the Relevant Periods, the Group's revenue, expenses, results, assets and liabilities and capital expenditure were principally generated in the PRC. Accordingly, an analysis by geographical segment is not presented in this report.

	Year ended 31 December			Five months ended 31 May	
	2001	**2002**	**2003**	**2003**	**2004**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Audited	*Audited*	*Audited*	*Unaudited*	*Audited*
Segment revenue:					
Wireless system solutions	84,199	94,950	48,799	31,871	15,360
Wireless terminals	568	6,379	112,709	15,157	68,829
Combined revenue	84,767	101,329	161,508	47,028	84,189
Segment net profit:					
Wireless system solutions	25,765	37,742	23,988	13,145	8,658
Wireless terminals	(154)	1,445	26,564	2,694	13,744
	25,611	39,187	50,552	15,839	22,402
Unallocated corporate expenses	(9,402)	(2,631)	(6,040)	(2,208)	(3,825)
Profit from operating activities	16,209	36,556	44,512	13,631	18,577
Finance costs, net	(857)	(1,127)	(1,951)	(372)	(828)
Share of losses of associates	(718)	(315)	(43)	(23)	—
Profit before tax	14,634	35,114	42,518	13,236	17,749
Tax	(1,422)	(2,446)	(3,301)	(895)	(2,316)
Profit before minority interest	13,212	32,668	39,217	12,341	15,433
Minority interest	343	—	—	—	—
Net profit from ordinary activities attributable to shareholders	13,555	32,668	39,217	12,341	15,433

	31 December			31 May
	2001	2002	2003	2004
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Segment assets:				
Wireless system solutions	50,019	53,928	49,498	49,700
Wireless terminals	1,834	11,835	104,634	118,150
Unallocated corporate assets	54,354	38,309	65,179	88,768
Total assets	106,207	104,072	219,311	256,618
Segment liabilities:				
Wireless system solutions	64,815	27,196	24,274	21,511
Wireless terminals	38	6,083	41,705	64,376
Unallocated corporate liabilities	23,970	40,524	52,131	54,097
Total liabilities	88,823	73,803	118,110	139,984
Capital expenditure:				
Wireless system solutions	923	578	265	157
Wireless terminals	1,046	1,295	6,901	3,682
Others	278	20,190	125	550
	2,247	22,063	7,291	4,389
Depreciation:				
Wireless system solutions	1,825	447	368	105
Wireless terminals	51	95	332	276
Others	1,109	2,613	1,856	773
	2,985	3,155	2,556	1,154

8. DIRECTORS' REMUNERATION

Save as disclosed herein, no remuneration has been paid or is payable to any of the directors of the Company in respect of any of the Relevant Periods referred to in this report, by the Company or any of the companies now comprising the Group. Under the arrangements currently in force, for the year ending 31 December 2004, the aggregate remuneration payable by the Group to the executive directors (excluding any discretionary bonus payment) will be approximately RMB700,000 and the aggregate remuneration, payable by the Group to the independent non-executive directors will be approximately RMB20,000. Further details concerning the terms of which are set out in the paragraph headed "Directors' remuneration" under the section headed "Further information about directors, management and staff" in Appendix VI to the Prospectus.

9. SUBSEQUENT EVENTS

No significant events took place subsequent to 31 May 2004.

10. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 May 2004.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong