

The directors of China Wireless Technologies Limited (the “Company”) are pleased to present their report together with the audited financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2004.

LISTING ON THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

The Company was listed on the Stock Exchange on 9 December 2004 by way of placing and public offer of a total number of 132,000,000 shares comprising 100,000,000 new shares and 32,000,000 sale shares at HK\$0.86 per share.

PRINCIPAL ACTIVITIES

The Group is a wireless solution and equipment provider in the PRC. The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 15 to the financial statements. There were no significant changes in the nature of the Group’s principal activities during the year.

RESULTS AND DIVIDENDS

The Group’s profit for the year ended 31 December 2004 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 27 to 64.

No interim dividend was paid to the shareholders during the year. The directors have resolved to recommend the payment on 30 May 2005 of a final dividend of HK\$0.02 per ordinary share for the year ended 31 December 2004 to shareholders on register of members. A resolution regarding the payment of such dividend will be proposed at the forthcoming annual general meeting of the Company. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the capital and reserves section of the balance sheet.

For the purpose of the forthcoming annual general meeting and entitlement to the proposed dividend, the register of members of the Company will be closed from 9 May 2005 to 13 May 2005 (both days inclusive).

USE OF PROCEEDS FROM THE COMPANY’S INITIAL PUBLIC OFFERING (THE “IPO”)

The net proceeds from the IPO of the Company, as disclosed in the Company’s prospectus dated 30 November 2004, (after deducting estimated underwriting commission and issue expenses) was approximately HK\$70 million (equivalent to approximately RMB74 million), which the Group intended to use in the following manner:

- approximately HK\$25 million (equivalent to approximately RMB26.5 million) for strengthening research and development capabilities, by using in research and development of smartphone and related industry application, enhancement of wireless coverage solution for personal handyphone system (“PHS”) network, enhancement of the Group’s integrated telecom business platform, the third generation wireless service (“3G”) technologies and upgrading of existing products and solutions to be 3G compatible, and further research and development of core technologies of wireless telecommunication;

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- approximately HK\$25 million (equivalent to approximately RMB26.5 million) for the manufacturing and marketing of smartphones;
- approximately HK\$9 million (equivalent to approximately RMB9.5 million) for promotion of overall corporate image, including television advertising, newspaper and out-door media advertising, and other promotion;
- approximately HK\$5 million (equivalent to approximately RMB5.3 million) for strategic investments in wireless technologies companies;
- approximately HK\$5 million (equivalent to approximately RMB5.3 million) for enhancing the Group's network for sales and provision of customer support services; and
- the remaining balance to be used as general working capital of the Group, mainly to finance the purchase of materials, manufacturing and marketing of the Group's products and solutions.

SUMMARY FINANCIAL INFORMATION

The following is a summary of the consolidated/combined financial results and consolidated/combined assets and liabilities of the Group for the last four financial years, prepared on the basis set out in note 1 below:

	Year ended 31 December			
	2004	2003	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
RESULTS				
Turnover	245,545	151,808	95,243	79,676
Profit before tax	51,195	39,966	33,005	13,755
Tax	(7,528)	(3,103)	(2,299)	(1,337)
Profit before minority interests	43,667	36,863	30,706	12,418
Minority interests	—	—	—	322
Net profit from ordinary activities attributable to shareholders	43,667	36,863	30,706	12,740

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	31 December			
	2004	2003	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
ASSETS AND LIABILITIES				
Non-current assets	39,485	30,660	26,695	10,011
Current assets	341,813	175,478	71,126	89,817
Current liabilities	165,097	111,016	69,370	83,488
Net assets	215,010	95,122	28,451	16,340

As the Group listed in the Stock Exchange, the directors consider it would be more appropriate to present their results in HKD. The translation rate is HK\$1:RMB1.0639.

Notes:

1. The summary of the published combined results of the Group for each of the three years ended 31 December 2001, 2002 and 2003 was extracted from the Company's prospectus dated 30 November 2004 (the "Prospectus"). Such summary was prepared as if the current Group structure had been in existence throughout these financial years. The consolidated results of the Group for the year ended 31 December 2004 are those set out on page 27 of this annual report and the basis of presentation of the consolidated results is detailed in note 3 to the financial statements.
2. The summary of the consolidated/combined assets and liabilities as at 31 December 2001, 2002 and 2003 was extracted from the Prospectus. Such summary was prepared on the same basis as detailed in note 1 above. The consolidated/combined assets and liabilities as at 31 December 2004 are those set out on page 28 of this annual report.

FIXED ASSETS

Details of movements in the fixed assets of the Group for the year ended 31 December 2004 are set out in note 14 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital for the year ended 31 December 2004 are set out in note 29 to the financial statements. The Company has adopted a share option scheme (the "Scheme") by a written resolution of all shareholders of the Company on 21 November 2004. During the year, no share options have been granted or exercised.

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RESERVES

Details of movements of reserves of the Company and the Group during the year are set out in note 30 to the financial statements and in the consolidated summary statement of changes in equity.

DISTRIBUTABLE RESERVES

As at 31 December 2004, the Company's reserves available for distribution, calculated in accordance with the Companies Law (2001 Second Revision) of the Cayman Islands, amounted to HK\$139,961,000 of which HK\$8,000,000 has been proposed as a final dividend for the year. The distributable reserves include the Company's share premium account and contributed surplus, amounted to HK\$140,274,000 at 31 December 2004, which may be distributed provided that immediately following the date on which such reserve 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.

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

MAJOR CUSTOMERS AND SUPPLIERS

Sales to the Group's five largest customers accounted for approximately 65% of the Group's turnover for the year, and sales to the Group's largest customer included therein amounted to 24%. Purchases from the Group's five largest suppliers accounted for approximately 80% of the total purchases for the year, and purchases from the Group's largest supplier included therein amounted to 50%.

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.

DIRECTORS

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

Executive directors:

Mr. Guo Deying (*Chairman*)

Mr. Jiang Chao

Non-executive directors:

Ms. Yang Xiao

Ms. Ma Dehui

Independent non-executive directors:

Dr. Huang Dazhan

Mr. Xie Weixin

Mr. Chan Kingchung

Under the current articles of association (the "Articles") of the Company, all of the directors of the Company (except the Chairman of the board (the "Board") of the directors and/or the managing director of the Company) are subject to retirement by rotation and re-election in accordance with the provision of the Articles.

In accordance with Article 87 of the Articles, Ms Ma Dehui, a non-executive director, will retire at the forthcoming annual general meeting of the Company and, being eligible, will offer herself for re-election.

In accordance with Article 86 of the Articles, Dr. Huang Dazhan, Mr. Xie Weixin and Mr. Chan Kingchung, each an independent non-executive director of the Company and being directors appointed since the last annual general meeting by the Board, will retire at the forthcoming annual general meeting and, being eligible, will offer himself for re-election.

The Company has received from each of the independent non-executive directors an annual confirmation pursuant to Rule 3.13 of 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

The biographical details of the directors and the senior management of the Group are set out on pages 12 to 14 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.

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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.

Each of the independent non-executive directors has entered into a service agreement with the Company for an initial term of one year commencing from 21 November 2004.

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

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 22 and 33 to the financial statements, no director had a significant beneficial 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 AND UNDERLYING SHARES AND DEBENTURES

At 31 December 2004, the interests and short positions of the directors, the chief executive or their associates in the share capital of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

Long positions in shares of the Company:

Name of director	Notes	Number of shares held, capacity and nature of interest					Percentage of the Company's issued share capital
		Directly beneficially owned	Through spouse or minor children	Through controlled corporation	Beneficiary of a trust	Founder of a discretionary trust	
Mr. Guo Deying	1 & 2	—	227,454,545	18,000,000	—	227,454,545	61.36
Ms. Yang Xiao	1	—	227,454,545	—	—	227,454,545	56.86
Mr. Jiang Chao	3	—	—	—	18,000,000	—	4.5

Short positions in shares of the Company:

Name of director	Note	Number of shares held, capacity and nature of interest					Percentage of the Company's issued share capital
		Directly beneficially owned	Through spouse or minor children	Through controlled corporation	Beneficiary of a trust	Founder of a discretionary trust	
Mr. Guo Deying	1	—	19,661,733	—	—	19,661,733	4.92
Ms. Yang Xiao	1	—	19,661,733	—	—	19,661,733	4.92

Long positions in shares of associated corporation

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

Notes:

- The entire issued share capital of Data Dreamland Holding Limited ("Data Dreamland") is held by Barrie Bay Limited ("Barrie Bay"), which is acting as the trustee of the Barrie Bay Unit Trust. The Barrie Bay Unit Trust is a unit trust, of which 9,999 units are held by HSBC International Trustee Limited ("HSBC Trustee") acting as the trustee of the Barrie Bay Trust and the remaining 1 unit is held by Ms. Yang Hua. The Barrie Bay Trust is a discretionary trust set up by Mr. Guo Deying ("Mr. Guo") an executive director and his spouse, Ms. Yang Xiao ("Ms. Yang"), a non-executive director, on 22 November 2004, 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 227,454,545 shares held by Data Dreamland as each of them is a settlor of the Barrie Bay Trust and by virtue of the interests of their children under the Barrie Bay Trust. The long position of each of Mr. Guo and Ms. Yang under the column "Through spouse or minor children" and the column "Founder of discretionary trust" under the table headed "Long position in shares of the Company" above refers to the same 227,454,545 shares.

Each of Mr. Guo and Ms. Yang is also taken to have a short position in the 19,661,733 shares which are subject to an option (as defined below) under an agreement dated 22 December 2003 and entered into between JATF Asia Technology Fund ("JATF"), Data Dreamland, Mr. Guo, Ms. Yang and Ms. Ma Dehui (as amended by an amendment deed dated 23 November 2004 and entered into among the same five parties and Barrie Bay) (the "Option Agreement"). Subject to Rule 10.07(1) of the Listing Rules, upon exercise of the option (the "Option") granted by Data Dreamland to JATF pursuant to the Option Agreement, JATF can purchase 19,661,733 shares from Data Dreamland at a nominal aggregate consideration of US\$1.00. The short position of each of Mr. Guo and Ms. Yang under the column "Through spouse or minor children" and the column "Founder of discretionary trust" under the table headed "Short position in shares of the Company" above refer to the same 19,661,733 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 Trust and by virtue of the interests of their children under the Barrie Bay Trust. The long position of each of Mr. Guo and Ms. Yang under the column "Through spouse or minor children" and the column "Founder of discretionary trust" under the table headed "Long position in shares of associated corporation" above refers to the same 1,000 shares.

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

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

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Directors' rights to acquire shares

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

Share option scheme

The Company has adopted the Scheme by a written resolution of all shareholders of the Company on 21 November 2004. During the year, no share options have been granted or exercised.

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

As at 31 December 2004, 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 in which interested under equity derivatives	Nature of interest	Total number of shares	Percentage of the Company's issued share capital
Data Dreamland Holding Limited	1	227,454,545	—	Beneficial owner	227,454,545	56.86
Barrie Bay Limited	2	227,454,545	—	Interest of a controlled corporation	227,454,545	56.86
HSBC International Trustee Limited	2	227,454,545	—	Trustee	227,454,545	56.86
JAFCO Asia Technology Fund	3	22,545,455	19,661,733	Beneficial owner	42,207,188	10.55
JAFCO Asia Technology Fund L.P.	4	22,545,455	19,661,733	Interest of a controlled corporation	42,207,188	10.55
JAFCO Asia Technology Holdings Limited	4	22,545,455	19,661,733	Interest of a controlled corporation	42,207,188	10.55
JAFCO Investment (Asia Pacific) Limited	4	22,545,455	19,661,733	Interest of a controlled corporation	42,207,188	10.55
JAFCO Co., Ltd.	4	22,545,455	19,661,733	Interest of a controlled corporation	42,207,188	10.55
Nomura Holdings, Inc.	4	22,545,455	19,661,733	Interest of a controlled corporation	42,207,188	10.55
Yuanta Asset Management Ltd.		27,200,000	—	Investment manager	27,200,000	6.80

Short positions in shares of the Company:

Name	Notes	Number of shares in short positions	Number of shares in short positions under equity derivatives	Nature of interest	Total	Percentage of the Company's issued share capital
Data Dreamland Holding Limited	1	—	19,661,733	Beneficial owner	19,661,733	4.92
Barrie Bay Limited	2	—	19,661,733	Interest of a controlled corporation	19,661,733	4.92
HSBC International Trustee Limited	2	—	19,661,733	Trustee	19,661,733	4.92

Notes:

1. The entire issued share capital of Data Dreamland is held by Barrie Bay. Barrie Bay is acting as the trustee of the Barrie Bay Unit Trust. The Barrie Bay Unit Trust is a unit trust of which 9,999 units are held by HSBC Trustee, which is acting as the trustee of the Barrie Bay Trust and the remaining 1 unit is owned by Ms. Yang Hua. The Barrie Bay Trust is a discretionary trust set up by Mr. Guo and Ms. Yang on 22 November 2004 and the discretionary objects of which include the minor children of Mr. Guo and Ms. Yang.

Data Dreamland has a short position in the 19,661,733 shares which are subject to the Option under the Option Agreement. Subject to Rule 10.07(1) of the Listing Rules, upon exercise of the Option by JATF pursuant to the Option Agreement, JATF can purchase 19,661,733 shares from Data Dreamland at a nominal aggregate consideration of US\$1.00.

2. The 227,454,545 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.

Each of Barrie Bay and HSBC Trustee is also taken to have a short position in 19,661,733 shares which are subject to the Option Agreement.

3. JATF holds 22,454,545 shares and has a long position in 19,661,733 shares under the Option Agreement. Subject to Rule 10.07(1) of the Listing Rules, upon exercise of the Option by JATF pursuant to the Option Agreement, JATF can purchase 19,661,733 shares from Data Dreamland at a nominal aggregate consideration of US\$1.00.

4. The 22,454,545 shares are held by JATF, a company 100% beneficially owned by JAFCO Asia Technology Fund L.P.

JAFCO Asia Technology Fund L.P. is a limited partnership which is managed by its sole general partner, JAFCO Asia Technology Holdings Limited. JAFCO Co., Ltd. has a 44.38% interest in JAFCO Asia Technology Fund L.P. JAFCO Asia Technology Holdings Limited is 100% beneficially owned by JAFCO Investment (Asia Pacific) Ltd.

JAFCO Investment (Asia Pacific) Ltd. is 100% beneficially owned by JAFCO Co., Ltd.

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

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Each of JAFCO Asia Technology Fund L.P., JAFCO Asia Technology Holdings Limited, JAFCO Investment (Asia Pacific) Ltd. and JAFCO Co., Ltd. and Nomura Holdings, Inc. is taken to be interested in the 22,454,545 shares held by JATF and the long position in 19,661,733 shares subject to the Option under the Option Agreement.

Save as disclosed above, as at 31 December 2004, 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.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company complied with the Code of Best Practice (the “Code”), as set out in Appendix 14 of the Listing Rules, throughout the accounting period covered by the annual report. The Code has been replaced by the Code on Corporate Governance Practices effective from 1 January 2005 which is also applicable to the Company effective from that date subject to certain transitional arrangements.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as the Company’s code of conduct for dealings in securities of the Company by the directors. Based on specific enquiry of the Company’s directors, the directors complied with the required standard set out in the Model Code, throughout the accounting period covered by the annual report.

AUDIT COMMITTEE

The Company established an Audit Committee (the “Committee”) on 21 November 2004 with written terms of reference in compliance with the Code, as set out in Appendix 14 of the Listing Rules. The primary duties of the Committee are to review and supervise the financial reporting process and internal control systems of the Group. The Committee comprises three independent non-executive directors. The Group’s financial statements for the year ended 31 December 2004 have been reviewed by the members of the Committee, who are of the opinion that such statements comply with applicable accounting standards, the Listing Rules and legal requirements and that adequate disclosures have been made therein.

COMPETING INTERESTS

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.

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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 minimum public float as set out in Rule 8.08 of the Listing Rules.

AUDITORS

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

On behalf of the Board

Guo Deying

Chairman

Hong Kong

12 April 2005