1. CORPORATE INFORMATION AND GROUP REORGANISATION

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

The principal activity of the Company is investment holding. Details of the principal activities of the Company's subsidiaries are set out in note 15 to the financial statements. There were no significant changes in the nature of the subsidiaries' principal activities during the year.

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

The Group underwent a reorganisation (the "Group Reorganisation") in preparation for the listing of the Company's shares on the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Pursuant to the Group Reorganisation as set out in the Company's prospectus dated 30 November 2004, Mr. Guo Deying and Ms. Yang Xiao transferred 5,000 and 45,000 shares respectively in Yulong Infotech Inc. ("YII") (which, together, constitute the entire issued share capital of YII) to the Company in consideration of which the Company allotted and issued 8,639,999 shares credited as fully paid to Data Dreamland. Ms. Ma Dehui and Ms. Yang Xiao transferred 1 and 9 shares respectively in Digital Tech Inc. ("DTI") (which, together, constitute the entire issued share capital of DTI) to the Company in consideration for the Company allotting and issuing 9,360,000 shares credited as fully paid to Data Dreamland. Pursuant to the Group Reorganisation, Mr. Guo Deying also transferred 1 share to Data Dreamland in cash at par. Immediately following such allotment, issue and transfer of shares, the Company became wholly owned by Data Dreamland and the entire share capital of YII and DTI were acquired by the Company. YII and DTI were incorporated in the BVI on 27 June 2000 and 25 March 2002, respectively. Both companies are the intermediate holding companies of Yulong Computer Telecommunication Scientific (Shenzhen) Co., Ltd. ("Shenzhen Yulong"), the principal operating subsidiary of the Company established in the People's Republic of China (the "PRC").

2. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Hong Kong Institute of Certified Public Accountants (the "HKICPA") has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards, herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards, (which also include Statements of Standard Accounting Practice ("SSAPs") and Interpretations) issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of leasehold land and buildings, as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2004. The results of the subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

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

Associates

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 Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Associates (continued)

The results of associates are included in the Company's profit and loss account 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.

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.

Impairment of assets

An assessment is made at the end of the current year 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 and 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.

Fixed assets and depreciation

Fixed assets, other than investment properties are stated at cost or valuation less accumulated depreciation and any impairment losses. 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.

3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Fixed assets and depreciation (continued)

Changes in the values of fixed assets, other than investment properties, 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 profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the revaluation reserve realise in respect of 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 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.

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.

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 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 two to five years commencing from the date when the products are put into commercial production.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leased 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.

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.

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 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, discounted to their present values as appropriate.

Income 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:

- except where the deferred tax liability arises from the initial recognition of an asset or liability 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, associates and interests in joint ventures, except 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 assets 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 assets 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 and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, 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 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.

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.

Government grants and subsidies

Government 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.

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 the realink PHS intelligent coverage system) sold to telecommunication operators and corporations, revenue is generally recognised by two instalments. The first instalment of between 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 instalment of the remaining contract amount is normally recognised when the customer issues the final certification after the trial run.

The Group normally provides a 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 customers;

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

(ii) for the 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 and subsidies, on receipt of such grants and subsidies.

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 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.

Borrowing costs

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

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.

4. SEGMENT INFORMATION

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

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

(a) the wireless system solutions segment enables network operators 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;

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

4. SEGMENT INFORMATION (continued)

	2004	2003
	HK$'000	HK$'000
Segment revenue:		
Wireless system solutions	**36,465**	45,868
Wireless terminals	**209,080**	105,940
Consolidated revenue	**245,545**	151,808
Segment net profit:		
Wireless system solutions	**10,944**	22,547
Wireless terminals	**53,198**	24,969
	64,142	47,516
Unallocated corporate expenses	**(10,899)**	(5,676)
Profit from operating activities	**53,243**	41,840
Finance costs, net	**(2,048)**	(1,834)
Share of losses of an associate	**—**	(40)
Profit before tax	**51,195**	39,966
Tax	**(7,528)**	(3,103)
Net profit from ordinary activities attributable to shareholders	**43,667**	36,863

4. SEGMENT INFORMATION (continued)

	2004	2003
	HK$'000	HK$'000
Segment assets:		
Wireless system solutions	**21,344**	46,525
Wireless terminals	**201,267**	98,349
Unallocated corporate assets	**158,687**	61,264
Total assets	**381,298**	206,138
Segment liabilities:		
Wireless system solutions	**11,820**	22,816
Wireless terminals	**71,748**	39,200
Unallocated corporate liabilities	**82,720**	49,000
Total liabilities	**166,288**	111,016
Capital expenditure:		
Wireless system solutions	**184**	249
Wireless terminals	**5,537**	6,487
Others	**634**	117
	6,355	6,853
Depreciation:		
Wireless system solutions	**278**	346
Wireless terminals	**876**	312
Others	**1,546**	1,744
	2,700	2,402
Amortisation:		
Wireless system solutions	**—**	—
Wireless terminals	**2,239**	376
Others	**—**	—
	2,239	376
Surplus on revaluation recognised directly in equity		
Wireless system solutions	**—**	—
Wireless terminals	**—**	—
Others	**7,940**	—
	7,940	—

5. TURNOVER, REVENUE AND GAIN

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

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

	2004 HK$'000	2003 HK$'000
Turnover		
Sale of wireless system solutions and wireless terminals	**245,545**	151,808
Other revenue and gain		
Gain on disposal of an associate — note 16	**1,011**	—
Rental income	**341**	291
Interest income	**87**	110
Government grants and subsidies	**869**	1,701
Maintenance income	**166**	689
Sundry income	**492**	284
	2,966	3,075
	248,511	154,883

6. PROFIT FROM OPERATING ACTIVITIES

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

	Notes	2004 HK$'000	2003 HK$'000
Cost of inventories sold and services provided		**146,137**	87,269
Depreciation	14	**2,700**	2,402
Research and development costs:			
Deferred expenditure amortised	17	**2,239**	376
Current year expenditure		**7,503**	3,048
Operating lease rental		**487**	103
Write-back of provision for trade receivables		**—**	(296)
Provision for other receivables		**561**	—
Loss on disposal of fixed assets		**132**	70
Auditors' remuneration		**1,200**	803
Staff costs (including directors' and senior executives' emoluments — notes 8 and 9):			
Salaries and wages		**19,789**	10,352
Staff welfare expenses		**1,041**	545
Pension scheme contributions		**1,338**	894
Total staff costs		**22,168**	11,791
Rental income		**(341)**	(291)
Interest income		**(87)**	(110)
Gain on disposal of an associate		**(1,011)**	—

7. FINANCE COSTS

	Group 2004 HK$'000	2003 HK$'000
Interest expense on:		
Amount due to a director	**—**	113
Bank loans wholly repayable within one year	**1,700**	1,383
Discounted notes receivable	**348**	338
	2,048	1,834

8. DIRECTORS' REMUNERATION

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

	Group	
	2004	2003
	HK$'000	HK$'000
Fees:	**332**	—
Other emoluments of executive directors		
Salaries, allowances and benefits in kind	**346**	346
Pension scheme contributions	**4**	4
	350	350
	682	350

(a) Independent non-executive directors

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

	2004	2003
	HK$'000	HK$'000
Mr. Xie Weixin	**—**	—
Dr. Huang Dazhan	**13**	—
Mr. Chan King Chung	**11**	—
	24	—

There were no other emoluments payable to the independent non-executive directors during the year. (2003: Nil)

8. DIRECTORS' REMUNERATION (continued)

(b) Executive directors and non-executive directors

2004	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Performance related bonuses HK$'000	Pension scheme contributions HK$'000	Total emoluments HK$'000
Executive directors:					
Mr. Guo Deying	**146**	**230**	**—**	**—**	**376**
Mr. Jiang Chao	**162**	**116**	**—**	**4**	**282**
Non-executive directors:					
Ms. Ma Dehui	**—**	**—**	**—**	**—**	**—**
Ms. Yang Xiao	**—**	**—**	**—**	**—**	**—**
	308	**346**	**—**	**4**	**658**

2003	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Performance related bonuses HK$'000	Pension scheme contributions HK$'000	Total emoluments HK$'000
Executive directors:					
Mr. Guo Deying	—	230	—	—	230
Mr. Jiang Chao	—	116	—	4	120
Non-executive directors:					
Ms. Ma Dehui	—	—	—	—	—
Ms. Yang Xiao	—	—	—	—	—
	—	346	—	4	350

No directors waived or agreed to waive any remuneration during the year (2003: Nil). In addition, no emoluments were paid by the Group to the directors as an inducement to join, or upon joining the Group, or as a compensation for loss of office (2003: Nil).

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one (2003: two) director, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining four (2003: three) non-director, highest paid employees for the year are as follows:

	Group	
	2004	2003
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**535**	355
Performance related bonuses	**—**	—
Pension scheme contributions	**12**	8
	547	363

The number of non-director, highest paid employees whose remuneration fell within the following band is as follows:

	Number of employees	
	2004	2003
Nil to HK$1,000,000	**4**	3

10. TAX

No provision for Hong Kong profits tax has been made (2003: 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.

	Group	
	2004	2003
	HK$'000	HK$'000
Current year provision:		
Hong Kong	**—**	—
Mainland China	**7,528**	3,103
Total tax charge for the year	**7,528**	3,103

10. TAX (continued)

According to the Income Tax Law of the PRC for Foreign Investment Enterprises and Foreign Enterprises and as approved by relevant tax authorities, 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 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 2004.

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

	2004	2003
	HK$'000	HK$'000
Profit before tax	**51,195**	39,966
Tax at the applicable tax rate (2004: 15%, 2003: 7.5%)	**7,679**	2,998
Expenses not deductible for tax	**—**	105
Income not subject to tax	**(151)**	—
Tax charge at the Group's effective rate (2004: 14.7%, 2003: 7.8%)	**7,528**	3,103

11. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31 December 2004 dealt with in the financial statements of the Company, was HK$310,000 (2003: HK$3,000). (note 30)

12. DIVIDEND

	Group	
	2004	2003
	HK$'000	HK$'000
Proposed final dividend — HK$0.02 (2003: Nil) per ordinary share	**8,000**	—

13. EARNINGS PER SHARE

The calculation of basic earnings per share for the year is based on the net profit from ordinary activities attributable to shareholders for the year of HK$43,667,000 (2003: HK$36,863,000) and the weighted average of 306,301,370 (2003: 300,000,000) including capitalisation issued shares of 278,000,000) ordinary shares in issue during the year.

No diluted earnings per share amounts for the year ended 31 December 2004 and 2003 have been presented as the Company did not have any dilutive potential ordinary shares during these years.

14. FIXED ASSETS

Group

	Investment property HK$'000	Buildings HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost or valuation:					
At beginning of year	2,137	18,396	14,402	3,059	37,994
Additions	—	—	2,835	—	2,835
Surplus on revaluation (note 30)	—	7,940	—	—	7,940
Disposals	—	—	(1,104)	—	(1,104)
At 31 December 2004	2,137	26,336	16,133	3,059	47,665
Accumulated depreciation:					
At beginning of year	—	2,196	8,928	2,557	13,681
Provided during the year	—	947	1,622	131	2,700
Written back on disposals	—	—	(972)	—	(972)
At 31 December 2004	—	3,143	9,578	2,688	15,409
Net book value:					
At 31 December 2004	2,137	23,193	6,555	371	32,256
At 31 December 2003	2,137	16,200	5,474	502	24,313

14. FIXED ASSETS (continued)

The office building of the Group is located at Shenzhen, the PRC. The Group's office building was valued on an open market, existing use basis at 30 September 2004 by Debenham Tie Leung, an independent firm of professionally qualified valuers, at HK$22,088,000. A surplus of HK$7,940,000 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 30).

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$13,965,000.

The dormitory of the Group is located at Taoyuan Village, Longzhu Avenue, Nansan District, Shenzhen, the PRC, with a historical net book value of HK$1.4 million as at 31 December 2004.

The Group's investment property, which represents an office apartment located in Shenzhen, the PRC, and is held under a medium lease, has been leased to a third party. The directors consider that the carrying amount of the investment property did not differ materially from its fair value as at 31 December 2004 and therefore the investment property was stated at its carrying amount.

As at 31 December 2004, the Group's investment property with a carrying amount of approximately HK$2,137,000 (2003: HK$2,137,000), and one of the Group's building with a net book value of approximately HK$21,762,000 (2003: HK$14,674,000) was pledged to secure a short term bank loan granted to the Group. For details of the interest-bearing bank borrowings, please refer to note 27.

15. INTERESTS IN SUBSIDIARIES

	Company	
	2004	2003
	HK$'000	HK$'000
Unlisted shares, at cost	**44,991**	44,991
Due from subsidiaries	**26,703**	19,628
	71,694	64,619

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

15. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the subsidiaries are as follows:

Company	Place of incorporation/ registration and operation	Nominal value of issued and fully paid-up registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
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
Yulong Computer Telecommunication Scientific (Shenzhen) Co., Ltd.	Mainland China	Paid-up and registered RMB30,000,000	—	100	Wireless solutions and equipment provider for the wireless telecommunication market in Mainland China

16. INTEREST IN AN ASSOCIATE

	2004 **HK$'000**	2003 HK$'000
Share of net assets	**—**	399

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

Company	Percentage of ownership interest attributable to the Group	Principal activities
Shenzhen Yi Wei Digital Technology Co., Ltd. ("Shenzhen Yi Wei")	30	Development and design of websites 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 capital of Shenzhen Yi Wei was held by Shenzhen Space Star Network Company Limited ("Space Star"), a related company of the Group, and YII, respectively. Shenzhen Yi Wei became dormant in June 2002. In February 2004, 30% of the issued shares of Shenzhen Yi Wei were disposed of by YII to a third party for a consideration of HK$1.4 million. The Group's share of net assets in Shenzhen Yi Wei as at the disposal date was HK$399,000. Hence a gain on disposal of HK$1,011,000 was generated from this transaction.

17. PRODUCT DEVELOPMENT COSTS

	Group HK$'000
Cost:	
At beginning of year	6,350
Additions	3,520
At 31 December 2004	9,870
Accumulated amortisation:	
At beginning of year	402
Provided during the year	2,239
At 31 December 2004	2,641
Net book value:	
At 31 December 2004	7,229
At 31 December 2003	5,948

18. INVENTORIES

	Group	
	2004	2003
	HK$'000	HK$'000
Raw materials	**17,347**	9,854
Work in progress	**6,738**	2,492
Finished goods	**4,474**	7,283
	28,559	19,629

No inventory was stated at net realisable value as at 31 December 2004 (2003: Nil).

19. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit. The credit period is generally for a period of three months and a longer credit term of four to six months may be extended to customers with long term business relationship and good repayment history.

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

	Group	
	2004	2003
	HK$'000	HK$'000
Within 3 months	**100,264**	42,848
4 to 6 months	**4,192**	23,393
7 to 12 months	**3,815**	34,237
1 to 2 years	**1,253**	2,100
More than 2 years	**—**	3,458
	109,524	106,036
Provision	**(4,508)**	(4,508)
	105,016	101,528

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2004	2003	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000
Prepayments	**80,189**	16,827	**—**	—
Deposits and other receivables	**16,455**	12,132	**—**	1,444
	96,644	28,959	**—**	1,444

21. DUE FROM/(TO) A RELATED COMPANY

Particulars of the amounts due from/(to) a related company 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/(to) a related company

	At 31 December 2004 HK$'000	Maximum amount outstanding during 2004 HK$'000	At 1 January 2004 HK$'000
Shenzhen Space Star Network Company Limited ("Space Star")	258	6,642	(3,364)

The balances due from/(to) a related company are unsecured and interest-free and have no fixed terms of repayment. The amount due from a related company was fully settled in March 2005.

22. AMOUNTS DUE FROM DIRECTORS

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

Group

Amounts due from directors

	At 31 December 2004 HK$'000	Maximum amount outstanding during 2004 HK$'000	At 1 January 2004 HK$'000
Mr. Guo Deying	28	4,030	—
Ms. Ma Dehui	594	594	—
Ms. Yang Xiao	472	472	—
Total	1,094		

The amounts due from directors were unsecured, interest-free and were fully settled in February 2005.

The amounts due to directors were unsecured, interest-free and were fully settled in February 2005.

23. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

As at 31 December 2004, the cash and cash equivalents balance of the Group denominated in Renminbi ("RMB") amounted to HK$35,843,000 (2003: HK$28,238,000). 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.

As at 31 December 2004, the Group's cash and cash equivalents and pledged deposits of HK$110,242,000 (2003: HK$25,362,000) included cash and cash equivalents of HK$80,352,000 (2003: HK$17,589,000) and time deposits of HK$29,890,000 (2003: HK$7,773,000) which were pledged to secure a short term bank loan granted to the Group. For details of the interest-bearing bank borrowings, please refer to note 27. The pledged deposits would be released when the Group repaid the loan to the bank. Apart from the pledged deposits, all of the cash and cash equivalents were not restricted as to use.

As at 31 December 2004, the Company's cash and cash equivalents and pledged deposits of HK$74,322,000 (2003: HK$8,736,000) included cash and bank balances of HK$44,432,000 (2003: HK$963,000) and time deposits of HK$29,890,000 (2003: HK$7,773,000) which were pledged to secure a short term bank loan granted to the Group. For details of the interest bearing bank borrowings, please refer to note 27. The pledged deposits would be released when the Group repaid the loan to the bank. Apart from the pledged deposits, all of the cash and cash equivalents were not restricted as to use.

24. TRADE PAYABLES

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

	2004	2003
	HK$'000	HK$'000
Within 3 months	**5,898**	13,162
4 to 6 months	**3,494**	1,186
7 to 12 months	**4,968**	2,822
More than 1 year	**1,762**	2,391
	16,122	19,561

25. NOTES PAYABLE

The aging of the Group's notes payable as at the balance sheet date, based on invoice date, is within three months.

26. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2004	2003	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000
Other payables	**64,775**	28,259	**—**	—
Accruals	**3,162**	2,735	**361**	—
	67,937	30,994	**361**	—

27. INTEREST-BEARING BANK BORROWINGS

		Group	
		2004	2003
	Notes	**HK$'000**	HK$'000
Bank loans, wholly repayable within one year:			
Secured	(a)	**37,597**	16,543
Unsecured	(b)	**18,799**	13,159
		56,396	29,702

Notes:

(a) **Secured bank loans as at 31 December 2004 represented borrowings of:**

(1) HK$9,399,000 which were secured by the office buildings and investment property of Shenzhen Yulong with net book values of approximately HK$21,762,000 and HK$2,137,000 million, respectively, as at 31 December 2004, bore an annual interest rate of 5.84% and were repayable within one year.

(2) HK$28,198,000 which were secured by a time deposit of the Group of HK$29,890,000, bore an average annual interest rate of 4.69% and were repayable within one year. (note 23)

Secured bank loans as at 31 December 2003 represented borrowings of:

(1) HK$9,399,000 which were secured by the office buildings and investment property of Shenzhen Yulong with net book values of approximately HK$14,674,000 and HK$2,137,000 respectively, as at 31 December 2003, bore an average annual interest rate of 5.58% and were repaid in 2004. (note 14)

(2) HK$7,144,000 which were secured by a time deposit of the Group of US$1,000,000, bore an average annual interest rate of 5.54% and were repaid in 2004. (notes 23)

27. INTEREST-BEARING BANK BORROWINGS (continued)

(b) Unsecured bank loans as at 31 December 2004 represented borrowings of:

(1) HK$18,799,000 which bore an average annual interest rate of 5.84% and were repayable within one year.

Unsecured bank loans as at 31 December 2003 represented borrowings of:

(1) HK$7,519,000 which were guaranteed by Mr. Guo Deying, bore an average annual interest rate of 5.84% and were repayable within one year. The guarantees from Mr. Guo Deying had been released subsequent to 31 December 2003 and these guaranteed loans had been reclassified to unsecured loans.

(2) HK$5,640,000 which were guaranteed by Mr. Guo Deying, bore an average annual interest rate of 5.84% and were repayable within one year. The guarantees from Mr. Guo Deying had been released subsequent to 31 December 2003 and these loans had been classified as unsecured loans.

28. DEFERRED TAX

The movement in deferred tax liabilities and assets during the year is as follows:

	Revaluation of leasehold land and buildings HK$'000
At 1 January 2004	—
Deferred tax debited to equity during the year	1,191
At 31 December 2004	1,191

29. SHARE CAPITAL

	2004 **HK$'000**	2003 HK$'000
Authorised:		
1,000,000,000 (2003: 39,000,000) ordinary shares of HK$0.01 each	**10,000**	390
Issued and fully paid:		
400,000,000 (2003: 4,000,000) ordinary shares of HK$0.01 each	**4,000**	40

The following changes in the Company's authorised and issued share capital took place during the period from 11 June 2002 (date of incorporation) to 31 December 2004.

29. SHARE CAPITAL (continued)

Notes:

(a) On incorporation, the Company had an authorised share capital of HK$390,000 divided into 39,000,000 ordinary shares of HK$0.01 each.

(b) Pursuant to the Group Reorganisation as set out in the Company's prospectus dated 30 November 2004, Mr. Guo Deying ("Mr. Guo") and Ms. Yang Xiao ("Ms. Yang") transferred 5,000 and 45,000 shares respectively, in YII (which, together, constitute the entire issued share capital of YII) to the Company in consideration of which the Company allotted and issued 8,639,999 shares credited as fully paid to Data Dreamland. Ms. Ma Dehui ("Ms. Ma") and Ms. Yang transferred 1 and 9 shares respectively in DTI (which, together, constitute the entire issued share capital of DTI) to the Company in consideration for the Company allotting and issuing 9,360,000 shares credited as fully paid to Data Dreamland. Pursuant to the Group Reorganisation, Mr. Guo also transferred 1 share to Data Dreamland in cash at par. Immediately following such allotment, issue and transfer of shares, the Company became wholly-owned by Data Dreamland.

(c) On 22 August 2003, the authorised share capital of the Company, whether issued or unissued, was redesignated and reclassified as to (a) HK$40,000 divided into 4,000,000 preference shares; and (b) HK$350,000 divided into 35,000,000 ordinary shares (including HK$180,000 divided into 18,000,000 ordinary shares which have been allotted and issued as at 31 July 2003). On the same day, 4,000,000 preference shares were allotted and issued to JAFCO Asia Technology Fund ("JATF") for cash at the subscription price of US$1.00 per ordinary share. Immediately following such allotment and issue, the Company became owned as to approximately 81.82% by Data Dreamland and 18.18% by JATF.

(d) On 22 December 2003, the 4,000,000 preference shares held by JATF were converted into 4,000,000 ordinary shares by redesignating and reclassifying the preference shares as ordinary shares. On redesignation, the authorised share capital of the Company became HK$390,000 divided into 39,000,000 ordinary shares of HK$0.01 each and the converted ordinary shares rank pari passu in all respects with the ordinary shares then in issue and form part of the class of the ordinary shares and cease to form part of the class of the preference shares for all purposes.

(e) Pursuant to resolutions in writing of all shareholders of the Company passed on 21 November 2004, the authorised share capital of the Company was increased from HK$390,000 to HK$10,000,000 by the creation of a further 961,000,000 ordinary shares.

(f) Pursuant to the written resolutions of all shareholders of the Company passed on 21 November 2004, the directors capitalised HK$2,780,000 standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par 278,000,000 ordinary shares for the allotment and issue to shareholders of the Company on the register of members of the Company at the close of business on 21 November 2004.

29. SHARE CAPITAL (continued)

Notes: (continued)

(g) On 9 December 2004, 100,000,000 ordinary shares of HK$0.10 each were issued at a price of HK$0.86 per ordinary share for a total cash consideration, before issue expenses, of HK$86,000,000 through an initial public offering by way of placing and public offer.

	Notes	Number of shares Preference shares	Ordinary shares	Total shares	HK$'000
Authorised:					
As at 1 January 2003	(a)	—	39,000,000	39,000,000	390
Redesignated and reclassified	(c)	4,000,000	(4,000,000)	—	—
As at 31 December 2003 and 1 January 2004		4,000,000	35,000,000	39,000,000	390
Increase in authorised share capital	(e)	—	961,000,000	961,000,000	9,610
As at 31 December 2004		4,000,000	996,000,000	1,000,000,000	10,000
Issued:					
As at 1 January 2003		—	—	—	—
Issue and allotment to JATF of HK$0.01 each as preference shares, credited as fully paid	(c)	4,000,000	—	4,000,000	40
Preference shares converted to ordinary shares	(d)	(4,000,000)	4,000,000	—	—
As at 31 December 2003 and 1 January 2004		—	4,000,000	4,000,000	40
For the acquisition of the entire issued share capital of YII and DTI, issue and allotment of ordinary shares of HK$0.01 each, credited as fully paid	(b)	—	18,000,000	18,000,000	180
Capitalisation issue	(f)	—	278,000,000	278,000,000	2,780
New shares	(g)	—	100,000,000	100,000,000	1,000
As at 31 December 2004		—	400,000,000	400,000,000	4,000

30. RESERVES

Group

	Notes	Share premium account (Note (a)) HK$'000	Contributed surplus (Notes (a)&(b)) HK$'000	Revaluation reserves HK$'000	Statutory reserves (Note (c)) HK$'000	Retained profits HK$'000	Total HK$'000
As at 1 January 2003		—	390	—	2,214	25,845	28,449
Issue of shares		29,770	—	—	—	—	29,770
Net profit for the year		—	—	—	—	36,863	36,863
As at 31 December 2003 and 1 January 2004		29,770	390	—	2,214	62,708	95,082
Capitalisation issue		82,040	—	—	—	—	82,040
Share issue expenses		(16,528)	—	—	—	—	(16,528)
Surplus on revaluation of leasehold land and buildings	14		—	7,940	—	—	7,940
Deferred tax on revaluation reserve		—	—	(1,191)	—	—	(1,191)
Net profit for the year		—	—	—	—	43,667	43,667
Proposed final dividend	12	—	—	—	—	(8,000)	(8,000)
At 31 December 2004		95,282	390	6,749	2,214	98,375	203,010

30. RESERVES (continued)

Company

	Note	Share premium account (Note (a)) HK$'000	Contributed surplus (Notes (a)&(b)) HK$'000	Accumulated losses HK$'000	Total HK$'000
As at 1 January 2003		—	—	—	—
Issue of shares		29,770	—	—	29,770
Contributed surplus		—	44,992	—	44,992
Net loss for the year		—	—	(3)	(3)
At 31 December 2003 and 1 January 2004		29,770	44,992	(3)	74,759
Capitalisation of share premium for issue of shares		82,040	—	—	82,040
Share issue expenses		(16,528)	—	—	(16,528)
Net loss for the year		—	—	(310)	(310)
Proposed final dividend	12	—	—	(8,000)	(8,000)
At 31 December 2004		95,282	44,992	(8,313)	131,961

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 contribution 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 contribution 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 subsidiary is required to allocate 10% of its 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 subsidiary. 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.

31. OPERATING LEASE ARRANGEMENTS

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

	2004	2003
	HK$'000	HK$'000
Within one year	**115**	127
In the second to fifth years, inclusive	**128**	413
Over five years	**—**	206
	243	746

32. CONTINGENT LIABILITIES

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

		Group	
		2004	2003
	Note	**HK$'000**	HK$'000
Trade receivables discounted with recourse	(a)	**705**	1,269

Note:

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

33. RELATED PARTY TRANSACTIONS

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

	Notes	2004 HK$'000	2003 HK$'000
Rental expense to a related company	(a)	**103**	103
Interest expense on an amount due to a director	(b)	**—**	113

Notes:

(a) During the year, Shenzhen Yulong used the warehouse facilities of Space Star for an annual charge of HK$103,000. The rental charge was made according to the market rates.

(b) The amount due to a director which bore interest was repaid in March 2003. No interest expense on the amount due to a director was incurred in 2004.

34. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 12 April 2005.