

1. CORPORATE INFORMATION AND GROUP REORGANISATION

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

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

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

2. BASIS OF PREPARATION

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

4. SEGMENT INFORMATION

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

4. SEGMENT INFORMATION (Continued)

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

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

NOTES TO CONDENSED FINANCIAL STATEMENTS

4. SEGMENT INFORMATION (Continued)

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

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

NOTES TO CONDENSED FINANCIAL STATEMENTS

5. TURNOVER AND OTHER REVENUE

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

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

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

NOTES TO CONDENSED FINANCIAL STATEMENTS

6. PROFIT FROM OPERATING ACTIVITIES

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

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

NOTES TO CONDENSED FINANCIAL STATEMENTS

7. FINANCE COSTS

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

8. TAX

No provision for Hong Kong profits tax has been made (Six months ended 30 June 2004: Nil) as the Group did not generate any assessable profits arising in Hong Kong during the period under review. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

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

8. TAX (Continued)

According to the Income Tax Law of the PRC for Foreign Investment Enterprises and Foreign Enterprises and as approved by relevant tax authorities, Yulong Computer Telecommunications Scientific (Shenzhen) Co., Ltd. ("Shenzhen Yulong"), a wholly-owned subsidiary of the Company operating in PRC, which is qualified as a high-technology enterprise and operates in Shenzhen, was exempted from corporate income tax of the PRC for the two years starting from the first profitable year of operations and was entitled to a 50% relief from the corporate income tax of the PRC for the following six years. The first profitable year of operations of Shenzhen Yulong was 1996. An income tax rate of 15% was applied for the six months ended 30 June 2005.

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

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

9. DIVIDEND

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

10. EARNINGS PER SHARE

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

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

11. INTERESTS IN SUBSIDIARIES

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

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

NOTES TO CONDENSED FINANCIAL STATEMENTS

12. TRADE RECEIVABLES

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

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

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

13. TRADE PAYABLES

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

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

NOTES TO CONDENSED FINANCIAL STATEMENTS

14. SHARE CAPITAL

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

15. RESERVES

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

16. SHARE OPTIONS

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

16. SHARE OPTIONS (Continued)

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

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

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

16. SHARE OPTIONS (Continued)

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

16. SHARE OPTIONS (Continued)

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



NOTES TO CONDENSED FINANCIAL STATEMENTS

16. SHARE OPTIONS (Continued)

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

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

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

Notes:

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

16. SHARE OPTIONS (Continued)

Notes: (Continued)

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

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



NOTES TO CONDENSED FINANCIAL STATEMENTS

17. OPERATING LEASE ARRANGEMENTS

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

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

18. RELATED PARTY TRANSACTIONS

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

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

Notes:

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

NOTES TO CONDENSED FINANCIAL STATEMENTS

19. DIRECTORS' REMUNERATION

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

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

(a) Independent non-executive directors

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

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

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

19. DIRECTORS' REMUNERATION (Continued)

(b) Executive directors and non-executive directors

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

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

NOTES TO CONDENSED FINANCIAL STATEMENTS

20. CONTINGENT LIABILITIES

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

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

Note:

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

21. APPROVAL OF THE FINANCIAL STATEMENTS

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