

# Report of the Directors

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 2005.

## PRINCIPAL ACTIVITIES

The Group is a wireless solution and equipment provider in Mainland China. The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 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 2005 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 36 to 92.

A final dividend of HK\$0.02 per ordinary share for the year ended 31 December 2004 and an interim dividend of HK\$0.01 per ordinary share for the six months ended 30 June 2005 was paid in 2005. The directors recommend the payment of a final dividend of HK\$0.02 per ordinary share for the year ended 31 December 2005 to shareholders on the register of members on 15 May 2006. 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 equity 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 16 May 2006 to 18 May 2006 (both dates inclusive).

## USE OF PROCEEDS FROM THE COMPANY’S INITIAL PUBLIC OFFERING

The proceeds from the Company’s issue of new shares at the time of its listing on the Hong Kong Stock Exchange in December 2004, after deduction of related issuance expenses, amounted to approximately HK\$70 million. These proceeds were applied during the year ended 31 December 2005 in accordance with the proposed applications set out in the Company’s listing prospectus, as follows:

- approximately HK\$25 million was used for strengthening research and development capabilities, including the 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;
- approximately HK\$25 million was used for the manufacturing and marketing of smartphones;
- approximately HK\$9 million was used for the promotion of the Company’s overall corporate image, including television advertising, newspaper and out door media advertising, and other promotion;

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- approximately HK\$5 million was used for enhancing the Group's network for sales and provision of customer support services; and
- approximately HK\$1 million was 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.

The remaining HK\$5 million intended for strategic investments in wireless technologies companies as stated in the prospectus has not yet been used as at 31 December 2005 as the Company has not yet identify its suitable target.

### 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 five financial years, prepared on the basis set out in note 1 below:

	Year ended 31 December				
	2005* HK\$'000	2004* HK\$'000	2003* HK\$'000	2002** HK\$'000	2001** HK\$'000
RESULTS					
Revenue	<b>353,995</b>	245,545	151,808	95,243	79,676
Profit before tax	<b>60,318</b>	51,195	39,966	33,005	13,755
Tax	<b>(9,442)</b>	(7,528)	(3,103)	(2,299)	(1,337)
Profit for the year	<b>50,876</b>	43,667	36,863	30,706	12,418
Attributable to:					
Equity holders of the parent company	<b>50,876</b>	43,667	36,863	30,706	12,740
Minority interests	—	—	—	—	322

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	Year ended 31 December				
	2005*	2004*	2003*	2002**	2001**
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
ASSETS AND LIABILITIES					
Non-current assets	<b>64,468</b>	39,485	30,660	26,695	10,011
Current assets	<b>527,554</b>	341,813	175,478	71,126	89,817
Current liabilities	<b>276,291</b>	165,097	111,016	69,370	83,488
Net assets	<b>313,696</b>	215,010	95,122	28,451	16,340

\* Extracted from the audited financial statements

\*\* Extracted from the prospectus of the Company

### PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group for the year ended 31 December 2005 are set out in note 13 to the financial statements.

### SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options for the year ended 31 December 2005 are set out in notes 27 and 28, respectively, to the financial statements.

### 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.

### RESERVES

Details of movements of reserves of the Company and the Group during the year are set out in note 29 to the financial statements and in the consolidated summary statement of changes in equity.

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### DISTRIBUTABLE RESERVES

As at 31 December 2005, the Company's reserves available for distribution, calculated in accordance with the Companies Law (2001 Second Revision) of the Cayman Islands, amounted to HK\$171,322,000, of which HK\$9,964,000 has been proposed as a final dividend for the year. The distributable reserves include the Company's share premium account and contributed surplus, amounting to HK\$186,750,000 as at 31 December 2005, which may be distributed provided that immediately following the date on which such reserves are proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

### MAJOR CUSTOMERS AND SUPPLIERS

Sales to the Group's five largest customers accounted for approximately 85% of the Group's turnover for the year, and sales to the Group's largest customer included therein amounted to 72%. Purchases from the Group's five largest suppliers accounted for approximately 75% of the total purchases for the year, and purchases from the Group's largest supplier included therein amounted to 46%.

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 King Chung

Under the current articles of association (the "Articles") of the Company, all of the directors 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, Mr. Guo Deying, the Chairman and an executive director, Mr. Jiang Chao, an executive director and Ms. Yang Xiao, a non-executive director, will retire at the forthcoming annual general meeting of the Company and, being eligible, will offer themselves for re-election.

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The Company has received from each of the independent non-executive directors an annual confirmation pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) and the board of directors (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 21 to 23 of the annual report.

### **DIRECTORS’ SERVICE CONTRACTS**

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

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

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 2005.

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 notes 20 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.

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

At 31 December 2005, the interests and short positions of the directors, the chief executive or their associates in the share capital, underlying shares and debentures of the Company or its associated 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	—	207,792,812	18,000,000	—	207,792,812	50.29
Ms. Yang Xiao	1	—	207,792,812	—	—	207,792,812	46.28
Mr. Jiang Chao	3	—	—	—	18,000,000	—	4.01

#### Long positions in shares of an associated corporation:

Name of director	Note	Name of associated corporation	Number of shares held, capacity and nature of interest			Percentage of issued share capital of the 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, an executive director, and his spouse, Ms. Yang Xiao, a non-executive director, the beneficiary objects of which include the minor children of Mr. Guo and Ms. Yang. Each of Mr. Guo and Ms. Yang is taken to be interested in the 207,792,812 shares held by Data Dreamland as each of them is a settlor of the Barrie Bay Trust and by virtue of the interests of their minor 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 a discretionary trust" in the table headed "Long positions in shares of the Company" above refers to the same 207,792,812 shares.

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

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2. 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 Wintech Consultants Limited.
3. 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.

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

As at 31 December 2005, the following interests and short positions of 5% or more in the issued share capital and share options of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

### Long positions in shares of the Company:

Name	Notes	Number of shares in which interested	Number of shares interested under equity derivatives	Nature of interest	Total number of shares	Percentage of the Company's issued share capital
Data Dreamland Holding Limited	1	207,792,812	—	Beneficial owner	207,792,812	46.28
Barrie Bay Limited	2	207,792,812	—	Interest of controlled corporation	207,792,812	46.28
HSBC International Trustee Limited	2	207,792,812	—	Trustee	207,792,812	46.28
JAFco Asia Technology Fund		39,079,188	—	Beneficial owner	39,079,188	8.7
JAFco Asia Technology Fund L.P.	3	39,079,188	—	Interest of controlled corporation	39,079,188	8.7
JAFco Asia Technology Holdings Limited	3	39,079,188	—	Interest of controlled corporation	39,079,188	8.7
JAFco Investment (Asia Pacific) Limited	3	39,079,188	—	Interest of controlled corporation	39,079,188	8.7
JAFco Co., Ltd.	3	39,079,188	—	Interest of controlled corporation	39,079,188	8.7
Nomura Holdings, Inc.	3	39,079,188	—	Interest of controlled corporation	39,079,188	8.7

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### Notes:

1. The entire issued share capital of Data Dreamland is held by Barrie Bay. Barrie Bay is acting as the trustee of the Barrie Bay Unit Trust. The Barrie Bay Unit Trust is a unit trust of which 9,999 units are held by HSBC Trustee, which is acting as the trustee of the Barrie Bay Trust and the remaining 1 unit is held by Ms. Yang Hua. The Barrie Bay Trust is a discretionary trust set up by Mr. Guo and Ms. Yang and the discretionary objects of which include the minor children of Mr. Guo and Ms. Yang.
2. The 207,792,812 shares are held by Data Dreamland, the entire share capital of which is held by Barrie Bay, which is acting as the trustee of the Barrie Bay Unit Trust and the entire issued share capital of which is held by HSBC Trustee.
3. The 39,079,188 shares are held by JAFCO Asia Technology Fund ("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) Limited.

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.

Each of JAFCO Asia Technology Fund L.P., JAFCO Asia Technology Holdings Limited, JAFCO Investment (Asia Pacific) Limited. and JAFCO Co., Ltd. and Nomura Holdings, Inc. is taken to be interested in the 39,079,188 shares held by JATF.

Save as disclosed above, as at 31 December 2005, so far as the directors are aware, there are no other persons, other than the directors and chief executive of the Company, who had interests or short positions in the shares, underlying shares or debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and are required to be recorded in the register required to be kept pursuant to Section 336 of the SFO.

### DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed under the headings "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in 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.



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### SHARE OPTIONS

The fair value of the Group's share options was calculated by an external professionally qualified valuer, LCH (Asia-Pacific) Surveyors Limited, at HK\$4,508,236 using the binomial option pricing model as at the date of the grant of the options:

Grantee	Number of share options granted during the year	Theoretical value of share options HK\$
Employees in aggregate	34,000,000	3,924,236
Business consultants		
— Business consulting firm	2,000,000	164,000
— Individual consultant	4,000,000	420,000
	40,000,000	4,508,236

The binomial model is a generally accepted method of valuing options, using certain key determinants to calculate the theoretical value of share options. The significant assumptions used in the calculation of the values of the share options included the risk-free interest rate, expected life, expected volatility and expected dividend. The measurement dates used in the valuation calculations were the dates on which the options were granted. For details of the assumptions, please refer to note 28 to the financial statements.

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

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

### AUDIT COMMITTEE

The audit committee (the "Audit Committee") of the Company, comprises the three independent non-executive directors of the Company, namely Dr. Huang Dazhan, Mr. Xie Weixin and Mr. Chan King Chung. The primary duties of the Committee are to review and supervise the financial reporting process and internal control systems of the Group. During the year 2005, the Audit Committee held two meetings and reviewed the accounting principles and practices adopted by the Company and discussed the auditing, internal control and financial reporting matters. The Group's audited financial statements for the year ended 31 December 2005 have been reviewed by the members of the Audit Committee who are of the opinion that such statements comply with applicable accounting standards and that adequate disclosures have been made therein.

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### 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.

### SUFFICIENCY OF PUBLIC FLOAT

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

### FOREIGN EXCHANGE EXPOSURE

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

### EMPLOYEES AND REMUNERATION POLICY

During the year, the staff cost amounted to HK\$28,153,000. The remuneration of the Group's employees is commensurate with their responsibilities and market levels, with discretionary bonuses and training given on a merit basis.

### SIGNIFICANT INVESTMENTS

There were no significant investments held by the Group as at 31 December 2005.

### MATERIAL ACQUISITION AND DISPOSALS DURING THE YEAR

There were no material acquisitions and disposals of the Company, its subsidiaries and associated companies as at 31 December 2005.

### POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 35 to the financial statements.

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### AUDITORS

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

on behalf of the Board

**Guo Deying**

*Chairman*

Hong Kong

12 April 2006