Notes to Financial Statements

31 December 2005

1. CORPORATE INFORMATION

China Wireless Technologies Limited is a limited liability company incorporated in the Cayman Islands. 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.

During the year, the Group was involved in providing wireless solutions and equipment for the wireless telecommunication market in Mainland China.

In the opinion of the directors, the parent company and the ultimate holding company of the Group is Data Dreamland Holding Limited ("Data Dreamland"), which was incorporated in the British Virgin Islands (the "BVI").

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, 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 investment properties and certain buildings, which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2005. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The following new and revised HKFRSs affect the Group and are adopted for the first time for the current year's financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 11	Construction Contracts
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Properties, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 20	Accounting for Government Grants and Disclosure of Government Assistance
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKAS 40	Investment Property
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HKFRS 5	Non-current Assets Held for Sale and Discontinued Operations
HK(SIC)-Int 21	Income Taxes — Recovery of Revalued Non-depreciable Assets
HK-Int 4	Leases — Determination of the Length of Lease Term in respect of Hong Kong Land Leases

Except for HKFRS 2, none of the above new and revised HKFRSs has had material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

HKFRS 2 — Share-based Payment

In prior years, no recognition and measurement of share-based payment transactions in which employees (including directors) were granted share options over shares in the Company were 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 employees is measured by reference to the fair value at the date at which the instruments are granted.

The main impact of HKFRS 2 on the Group is the recognition of the cost of these transactions and a corresponding entry to equity for employee share options. The revised accounting policy for share-based payment transactions is described in more detail in note 2.4 "Summary of significant accounting policies" below.

The Group has adopted the transitional provisions of HKFRS 2 under which the new measurement policies have not been applied to (i) options granted to employees on or before 7 November 2002; and (ii) options granted to employees after 7 November 2002 but which had vested before 1 January 2005.

As the Group did not have any employee share options which were granted during the period from 7 November 2002 to 31 December 2004 but had not yet vested as at 1 January 2005, the adoption of HKFRS 2 has had no impact on the retained profits as at 31 December 2003 and at 31 December 2004. The Group has recognised the cost of options which were granted during the year in the current year's income statement in accordance with the revised accounting policy.

Upon the adoption of HKFRS 2, the consolidated current year's profits decreased by HK$3,741,000 (note 29) as a result of an increase in the employee compensation expense included in administrative expenses while also resulted in an increase in equity.

The effects on basic and diluted earnings per share are as follows:

— basic earnings per share decreased by 0.93 cent.

— diluted earnings per share decreased by 0.92 cent.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, which have been issued but are not yet effective, in these financial statements. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1 January 2006:

HKAS 1 Amendment	Capital Disclosures
HKAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKFRSs 1 & 6 Amendments	First time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease
HK(IFRIC)-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market Waste Electrical and Electronic Equipment

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 will replace HKAS 32 and has modified the disclosure requirements of HKAS 32 relating to financial instruments. This HKFRS shall be applied for annual periods beginning on or after 1 January 2007.

In accordance with the amendments to HKAS 39 regarding financial guarantee contracts, financial guarantee contracts are initially recognised at fair value and are subsequently measured at the higher of (i) the amount determined in accordance with HKAS 37 and (ii) the amount initially recognised, less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18.

The HKAS 19 Amendment, HKAS 39 Amendment regarding cash flow hedge accounting of forecast intragroup transactions, HKFRSs 1 and 6 Amendments, HKFRS 6, HK (IFRIC)-Int 5 and HK (IFRIC)-Int 6 do not apply to the activities of the Group. HK (IFRIC)-Int 6 shall be applied for annual periods beginning on or after 1 December 2005.

Except as stated above, the Group expects that the adoption of the pronouncements listed above will not have any significant impact on the Group's financial statements in the period of initial application.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity 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 income statement 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 an entity, not being a subsidiary or a jointly-controlled entity, 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.

The results of associates are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in associates are treated as non-current assets and are stated at cost less any impairment losses.

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost or valuation less accumulated depreciation and any impairment losses. When an item of property, plant and machinery is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5. The cost of an item of property, plant and equipment 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 items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement 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 an item of property, plant and equipment and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment 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 income statement. Any subsequent revaluation surplus is credited to the income statement to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised 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 item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

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

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Investment properties

Investment properties are interest in buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date.

Gain or loss arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

For a transfer from investment properties to owner-occupied properties or inventories, the deemed cost of property for subsequent accounting is its fair value at the date of change in use.

Intangible assets

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

Patents and licences

Purchased patents and licences are stated at cost less impairment losses and are amortised on the straight-line basis over their estimated useful lives of two to five years.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (continued)

Research and development costs
All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Product 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 five years, commencing from the date when the products are put into commercial production.

Leases
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 property, plant and equipment, 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 income statement 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 income statement 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 income statement 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 sheets, cash and cash equivalents comprise cash on hand and at banks, including time deposits which are not restricted as to use.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

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 income statement.

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 income statement or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax liabilities are recognised for all taxable temporary differences except:

- except where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination 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, 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 credits 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 credits 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 in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- 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 reassessed at each balance sheet date and 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.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government grants and subsidies

Government grants and subsidies from the government authorities 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 from the carrying amount of the asset and released to the income statement by way of a reduced depreciation charge.

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 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;

(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 an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset;

(vi) government grants and subsidies, on receipt of such grants and subsidies; and

(vii) dividends, revenue is recognised when the shareholders' right to receive payment has been established.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits

Share-based payment transactions
The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external professionally qualified valuer using a binomial option pricing model, further details of which are given in note 28. 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 ("market conditions"), if applicable.

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 the 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.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Share-based payment transactions (continued)
The Group has adopted the transitional provisions of HKFRS 2 in respect of equity-settled awards and has applied HKFRS 2 only to equity-settled awards granted after 7 November 2002 that had not vested on 1 January 2005 and to those granted on or after 1 January 2005.

Retirement benefits scheme
The Company, Yulong Infotech Inc. ("YII") and Digital Tech Inc. ("DTI") have not participated in any retirement benefits scheme since the dates of their incorporation.

The employees of Yulong Computer Telecommunication Scientific (Shenzhen) Co., Ltd. ("Shenzhen Yulong"), 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 income statement as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs
Borrowing costs are recognised as expenses in the income statement in the period in which they are incurred.

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

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiary are currencies other than the Hong Kong dollars. As at the balance sheet date, the assets and liabilities of the entity is translated into the presentation currency of the Company at exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in a separate component of equity — the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of subsidiary are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of the subsidiary which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements
In the process of applying the Group's accounting policies, management has made the following judgement, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Classification between investment properties and owner-occupied properties
The Group determines whether a proper qualifies as an investment property and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property dose not qualify as an investment property.

Estimation uncertainty
The key assumption concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year is discussed below.

Fair value of share options
During the year, the Company granted options to subscribe for an aggregate of 40,000,000 shares pursuant to the terms of its share option scheme. The fair value of the share options was calculated by an external professional valuer, LCH (Asia-Pacific) Surveyors Limited at HK$4,508,236 using a binomial option pricing model as at the date of grant of the options, taking into account the terms and conditions upon which the options were granted.

3. 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 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; and

(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 smartphones which integrate a mobile phone and a PDA with wireless applications like e-mail and internet browsing.

3. SEGMENT INFORMATION (continued)

Business segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2005 and 2004.

	2005 **HK$'000**	2004 HK$'000
Segment revenue:		
Wireless system solutions	**28,405**	36,465
Wireless terminals	**325,590**	209,080
Consolidated revenue	**353,995**	245,545
Segment net profit:		
Wireless system solutions	**12,335**	10,944
Wireless terminals	**76,058**	53,198
	88,393	64,142
Unallocated corporate expenses	**(25,096)**	(10,899)
Finance costs, net	**(2,979)**	(2,048)
Profit before tax	**60,318**	51,195
Tax	**(9,442)**	(7,528)
Profit for the year	**50,876**	43,667

3. SEGMENT INFORMATION (continued)

Business segments (continued)

	2005 HK$'000	2004 HK$'000
Segment assets:		
Wireless system solutions	**50,881**	21,344
Wireless terminals	**324,097**	201,267
Unallocated corporate assets	**217,044**	158,687
Total assets	**592,022**	381,298
Segment liabilities:		
Wireless system solutions	**8,574**	11,820
Wireless terminals	**123,060**	71,748
Unallocated corporate liabilities	**146,692**	82,720
Total liabilities	**278,326**	166,288
Capital expenditure:		
Wireless system solutions	**—**	184
Wireless terminals	**25,956**	5,537
Others	**909**	634
	26,865	6,355
Depreciation:		
Wireless system solutions	**544**	278
Wireless terminals	**622**	876
Others	**1,697**	1,546
	2,863	2,700
Amortisation:		
Wireless system solutions	**—**	—
Wireless terminals	**5,179**	2,239
Others	**—**	—
	5,179	2,239
Surplus on revaluation recognised directly in equity:		
Wireless system solutions	**—**	—
Wireless terminals	**—**	—
Others	**5,447**	7,940
	5,447	7,940

4. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods 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 gains is as follows:

	2005 HK$'000	2004 HK$'000
Revenue		
Sale of wireless system solutions and wireless terminals	**353,995**	245,545
Other income and gains		
Gain on disposal of an associate	—	1,011
Rental income	**233**	341
Bank interest income	**713**	87
Government grants and subsidies *	**11,191**	869
Maintenance income	**1,206**	166
Sundry income	**458**	492
	13,801	2,966
	367,796	248,511

* The amount mainly represented value added tax ("VAT") refund from a tax bureau and government grants received from a finance bureau to support the Group in research and development.

Notes to Financial Statements
31 December 2005

5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	2005 HK$'000	2004 HK$'000
Cost of inventories sold		**228,534**	146,137
Depreciation	13	**2,863**	2,700
Amortisation of patents and licences *	14	**3,408**	—
Research and development costs:			
Product development costs amortised *	14	**1,771**	2,239
Current year expenditure		**9,915**	7,503
		11,686	9,742
Operating lease rental		**175**	487
Write-back of provision for trade receivables		**(2,027)**	—
Provision for other receivables		**—**	561
Loss on disposal of items of property, plant and equipment		**85**	132
Auditors' remuneration		**1,500**	1,200
Staff costs (including directors' and senior executives' emoluments — notes 7 and 8):			
Salaries and wages		**21,793**	19,789
Staff welfare expenses		**1,146**	1,041
Pension scheme contributions		**1,473**	1,338
Equity-settled share option expense		**3,741**	—
Total staff costs		**28,153**	22,168
Foreign exchange differences, net		**(227)**	—
Rental income		**(233)**	(341)
Bank interest income		**(713)**	(87)
Gain on disposal of an associate		**—**	(1,011)

* The amortisation of patents and licenses and deferred development costs for the year are included in "Administrative expenses" on the face of the consolidated income statement.

6. FINANCE COSTS

	Group	
	2005	2004
	HK$'000	HK$'000
Interest expense on:		
Bank loans wholly repayable within one year	**2,979**	1,700
Discounted notes receivable	**—**	348
	2,979	2,048

7. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Fees:	**220**	332
Other emoluments of executive directors:		
Salaries, allowances and benefits in kind	**661**	346
Pension scheme contributions	**4**	4
	665	350
	885	682

7. DIRECTORS' REMUNERATION (continued)

(a) Independent non-executive directors

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

	2005 HK$'000	2004 HK$'000
Mr. Xie Weixin	—	—
Dr. Huang Dazhan	120	13
Mr. Chan King Chung	100	11
	220	24

There were no other emoluments payable to the independent non-executive directors during the year. (2004: Nil)

(b) Executive directors and non-executive directors

2005	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Performance related bonuses HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
Executive directors:					
Mr. Guo Deying	—	466	—	—	466
Mr. Jiang Chao	—	117	—	4	121
Non-executive directors:					
Ms. Ma Dehui	—	—	—	—	—
Ms. Yang Xiao	—	78	—	—	78
	—	661	—	4	665

7. DIRECTORS' REMUNERATION (continued)

(b) Executive directors and non-executive directors (continued)

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

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one (2004:one) director, details of whose remuneration are set out in note 7 above. Details of the remuneration of the remaining four (2004:four) non-director, highest paid employees for the year are as follows:

	Group 2005 HK$'000	Group 2004 HK$'000
Salaries, allowances and benefits in kind	**546**	535
Employee share option benefits	**19**	—
Pension scheme contributions	**15**	12
	580	547

The remuneration of the four (2004: four) non-director, highest paid employees fell within the band of Nil to HK$1,000,000.

8. FIVE HIGHEST PAID EMPLOYEES (continued)

During the year, share options were granted to a non-director, highest paid employee in respect of her services to the Group, further details of which are included in the disclosures in note 28 to the financial statements. The fair value of such options, which has been charged to the income statement, was determined as at the date of grant and was included in the above non-director, highest paid employees' remuneration disclosures.

9. TAX

No provision for Hong Kong profits tax has been made (2004: 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	
	2005	2004
	HK$'000	HK$'000
Current year provision:		
Hong Kong	**—**	—
Mainland China	**9,442**	7,528
Total tax charge for the year	**9,442**	7,528

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 the 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 2005.

9. TAX (continued)

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

	2005	2004
	HK$'000	HK$'000
Profit before tax	**60,318**	51,195
Tax at the applicable tax rate (2005: 15%, 2004: 15%)	**9,069**	7,679
Expenses not deductible for tax	**1,418**	—
Income not subject to tax	**(1,045)**	(151)
Tax charge at the Group's effective rate (2005: 15.6%, 2004: 14.7%)	**9,442**	7,528

10. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY

The net loss from ordinary activities attributable to equity holders of the parent company for the year ended 31 December 2005 dealt with in the financial statements of the Company was HK$7,244,000 (2004: HK$310,000) (note 29).

11. DIVIDENDS

	Group	
	2005	2004
	HK$'000	HK$'000
Interim		
— HK$0.01 per ordinary share (2004: Nil)	**4,000**	—
Proposed final dividend		
— HK$0.02 (2004: HK$0.02) per ordinary share	**9,964**	8,000
	13,964	8,000

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

11. DIVIDENDS (continued)

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.

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT COMPANY

The calculation of basic earnings per share is based on the net profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue during the year, as adjusted to reflect the rights issue during the year.

The calculation of diluted earnings per share is based on the net profit for the year attributable to ordinary equity holders of the parent company. The weighted average number of ordinary shares used in the calculation is the ordinary shares in issue during the year, as used in the basic earnings per share calculation and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all the dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted earnings per share are based on:

	2005	2004
	HK$'000	HK$'000
Earnings		
Net profit attributable to ordinary equity holders of the parent company, used in the basic earnings per share calculation:	**50,876**	43,667

	Number of shares	
	2005	2004
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**401,745,205**	306,301,370
Effect of dilution — Weighted average number of ordinary shares:		
Share options	**3,616,624**	—
	405,361,829	306,301,370

13. PROPERTY, PLANT AND EQUIPMENT

Group
31 December 2005

	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	26,336	16,133	3,059	47,665
Transfers	(2,185)	2,185	—	—	—
Additions	—	—	2,797	909	3,706
Surplus on revaluation (note 29)	—	5,447	—	—	5,447
Written back on revaluation	—	(3,448)	—	—	(3,448)
Disposals	—	—	(351)	(274)	(625)
Exchange realignment	48	501	363	69	981
At 31 December 2005	—	31,021	18,942	3,763	53,726
Accumulated depreciation:					
At beginning of year	—	3,143	9,578	2,688	15,409
Addition	—	1,020	1,716	127	2,863
Written back on revaluation	—	(3,448)	—	—	(3,448)
Disposal	—	—	(293)	(247)	(540)
Exchange realignment	—	71	215	61	347
At 31 December 2005	—	786	11,216	2,629	14,631
Net book value:					
At 31 December 2005	—	30,235	7,726	1,134	39,095
At 31 December 2004	2,137	23,193	6,555	371	32,256

13. PROPERTY, PLANT AND EQUIPMENT (continued)

Group
31 December 2004

	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 29)	—	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

13. PROPERTY, PLANT AND EQUIPMENT (continued)

The office building of the Group is located in Shenzhen, the PRC. The Group's office building was valued on an open market, existing use basis at 31 December 2005 by Debenham Tie Leung, an independent firm of professionally qualified valuers, at HK$28,871,000 (30 September 2004: HK$22,088,000). A surplus of HK$5,447,000 (2004: 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 29).

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$13,509,000 (2004: 13,965,000).

The dormitory of the Group is located in Taoyuan Village, Longzhu Avenue, Nansan District, Shenzhen, the PRC, with a historical net book value of HK$1.3 million as at 31 December 2005.

The Group's investment property, which represents an office apartment located in Shenzhen, the PRC, has been used by the Group as an office building since September 2005.

The furniture, fixture and office equipment and motor vehicles were stated at cost less accumulated depreciation.

The Group's office building with a net book value of approximately HK$28,871,000 (2004:HK$21,762,000) was pledged to secure a short term bank loan granted to the Group. For details of the group's interest-bearing bank borrowings, please refer to note 25.

14. INTANGIBLE ASSETS

Group
31 December 2005

	Product development costs HK$'000	**Patents and licences** HK$'000	**Total** HK$'000
Cost:			
At beginning of year	9,870	—	9,870
Additions	5,616	17,543	23,159
Exchange realignment	222	—	222
At 31 December 2005	15,708	17,543	33,251
Accumulated amortisation:			
At beginning of year	2,641	—	2,641
Provided during the year	1,771	3,408	5,179
Exchange realignment	58	—	58
At 31 December 2005	4,470	3,408	7,878
Net book value:			
At 31 December 2005	11,238	14,135	25,373
At 31 December 2004	7,229	—	7,229

14. INTANGIBLE ASSETS (continued)

31 December 2004

	Product development costs 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

14. INTANGIBLE ASSETS (continued)

Company
31 December 2005

	Patents and licences HK$'000
Cost:	
At beginning of year	—
Additions	7,780
At 31 December 2005	7,780
Accumulated amortisation:	
At beginning of year	—
Provided during the year	1,167
At 31 December 2005	1,167
Net book value:	
At 31 December 2005	6,613
At 31 December 2004	—

15. INTERESTS IN SUBSIDIARIES

	Company	
	2005 HK$'000	2004 HK$'000
Unlisted shares, at cost	**44,991**	44,991
Due from subsidiaries	**117,442**	26,703
	162,433	71,694

The amounts due from subsidiaries are approximate to their fair value.

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

15. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the subsidiaries are as follows:

Company	Place of incorporation/ registration and operations	Nominal value of issued and fully paid-up registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
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 RMB111,588,000	—	100	Wireless solutions and equipment provider for the wireless telecommunication market in Mainland China

16. INVENTORIES

	Group 2005 HK$'000	2004 HK$'000
Raw materials	**30,022**	17,347
Work in progress	**8,524**	6,738
Finished goods	**26,053**	4,474
	64,599	28,559

17. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. 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. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. Trade receivables are non-interest-bearing.

17. TRADE RECEIVABLES (continued)

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

	Group	
	2005	2004
	HK$'000	HK$'000
Within 3 months	**93,346**	100,264
4 to 6 months	**14,648**	4,192
7 to 12 months	**2,824**	3,815
1 to 2 years	**1,180**	1,253
More than 2 years	**1,237**	—
	113,235	109,524
Provision	**(2,583)**	(4,508)
	110,652	105,016

18. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group	
	2005	2004
	HK$'000	HK$'000
Prepayments	**171,667**	80,189
Deposits and other receivables	**21,752**	16,455
	193,419	96,644

The balance of prepayments mainly represented prepayments to suppliers for the purchase of raw materials.

19. DUE FROM/TO A RELATED COMPANY

The balance due to a related company mainly represented a rental charge payable for warehouse facilities, which is unsecured, interest-free and has no fixed terms of repayment. The amount due to a related company was fully settled in March 2006.

20. AMOUNTS DUE FROM/TO 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

	31 December 2005	Maximum amount outstanding during 2005	1 January 2005
	HK$'000	HK$'000	HK$'000
Mr. Guo Deying	201	2,183	28
Mr. Ma Dehui	—	594	594
Ms Yang Xiao	—	472	472
Total	201		1,094

The amounts due from directors mainly represented advances granted to directors for business trips. The amounts were unsecured, interest-free and were fully settled in March 2006.

The amounts due to directors were unsecured, interest-free and were fully settled in March 2006.

21. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2005	2004	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000
Cash and bank balances	99,995	53,883	8,507	44,432
Time deposits	58,688	56,359	—	29,890
Less: Pledged time deposits:				
Pledged for notes payable	(49,077)	—	—	—
Pledged for a short term bank loan	—	(29,890)	—	(29,890)
	(49,077)	(29,890)	—	(29,890)
Cash and cash equivalents	109,606	80,352	8,507	44,432

21. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS (continued)

As at 31 December 2005, the cash and cash equivalents of the Group denominated in Renminbi ("RMB") amounted to HK$150,102,000 (2004: HK$35,843,000). 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.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposit are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The carrying amounts of the cash and cash equivalents and the pledged deposits approximate to their fair values.

22. TRADE PAYABLES

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

	Group	
	2005	2004
	HK$'000	HK$'000
Within 3 months	**24,994**	5,898
4 to 6 months	**349**	3,494
7 to 12 months	**540**	4,968
More than 1 year	**1,380**	1,762
	27,263	16,122

23. NOTES PAYABLE

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

24. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Other payables	**99,635**	64,775	**—**	—
Accruals	**5,000**	3,162	**42**	361
	104,635	67,937	**42**	361

The balance of other payables mainly represented value-added tax payable amounting to HK$77 million. These payables are non-interest-bearing and have an average term of three months.

25. INTEREST-BEARING BANK AND OTHER BORROWINGS

		Group	
		2005	2004
	Notes	**HK$'000**	HK$'000
Analysed into:			
Bank loans, wholly repayable within one year:			
Secured	(a)	**28,832**	37,597
Unsecured	(b)	**—**	18,799
		28,832	56,396
Other borrowings, wholly repayable within one year	(c)	**2,884**	—
		31,716	56,396

25. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

Notes:

(a) Secured bank loans as at 31 December 2005 represented borrowings of:

(1) HK$28,832,000 which are secured by the office buildings of Shenzhen Yulong with a net book value of approximately HK$28,871,000 as at 31 December 2005, bear interest at an annual rate of 5.22% and are repayable within one year.

(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 value of approximately HK$21,762,000 and HK$2,137,000, respectively, as at 31 December 2004, bore interest at an annual 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 interest at an average annual rate of 4.69% and were repayable within one year (note 21).

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

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

(c) Other borrowings as at 31 December 2005 represented borrowings of:

(1) HK$2,884,000 from the Shenzhen Futian Scientific Technology Bureau for supporting the Group in the research and development of its smartphone projects. Such borrowings are guaranteed by Shenzhen High-tech Investment Guarantee Co. Ltd., which is responsible for verifying whether the Group's smartphone projects qualified for applying for such borrowings. The borrowings are interest free and are repayable within one year.

26. DEFERRED TAX

The movements in deferred tax liabilities during the year were as follows:

Group

	Revaluation of buildings HK$'000
At 1 January 2005	1,191
Deferred tax debited to equity during the year (note 29)	817
Exchange differences	27
At 31 December 2005	2,035

27. SHARE CAPITAL

	2005 HK$'000	2004 HK$'000
Authorised:		
1,000,000,000 (2004: 1,000,000,000) ordinary shares of HK$0.01 each	**10,000**	10,000
Issued and fully paid:		
449,000,000 (2004: 400,000,000) ordinary shares of HK$0.01 each	**4,490**	4,000

During the year, the movements in share capital were as follows:

(a) The subscription rights attaching to 9,000,000 share options were exercised at the subscription price of HK$0.7 per share (note 28), resulting in the issue of 9,000,000 shares of HK$0.7 each for a total cash consideration, before expenses, of HK$6,300,000.

(b) 40,000,000 shares were issued for cash at a subscription price of HK$1.05 per share for a total cash consideration, before expenses, of HK$42,000,000.

27. SHARE CAPITAL (continued)

A summary of the transactions during the year with reference to the above movements in the Company's issued ordinary share capital is as follows:

	Number of shares in issue	Issue share capital HK$'000	Share premium account HK$'000	Total HK$'000
As at 1 January 2004	4,000,000	40	29,770	29,810
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	18,000,000	180	—	180
Capitalisation issue	278,000,000	2,780	—	2,780
New shares (net off share issue expenses)	100,000,000	1,000	65,512	66,512
At 31 December 2004 and 1 January 2005	400,000,000	4,000	95,282	99,282
Share options exercised (a)	9,000,000	90	6,210	6,300
New issue (b) (net off share issue expenses)	40,000,000	400	40,266	40,666
As at 31 December 2005	449,000,000	4,490	141,758	146,248

Details of the Company's share option scheme and the share options issued under the scheme are included in note 28 to the financial statements.

28. SHARE OPTION SCHEME

Pursuant to the share option scheme (the "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.

28. SHARE OPTION SCHEME (continued)

During the year, the Company granted options for the subscription of 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 at 1 June 2005, being the date immediately before the date the options were granted, was HK$0.69;

(b) on 6 June 2005, options to subscribe 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.

(c) on 20 June 2005, options to subscribe 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 to subscribe 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 to subscribe 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 to subscribe 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 to subscribe 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 to subscribe 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;

28. SHARE OPTION SCHEME (continued)

(ii) as for options to subscribe 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 to subscribe 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 to subscribe 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 to subscribe 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 to subscribe 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 to subscribe 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.

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

28. SHARE OPTION SCHEME (continued)

The following share options were outstanding under the Scheme during the year:

	Number of share options									Price of Company's shares***		
Name or category of participant	At 1 January 2005	Granted during the year	Exercised during the year	Expired during the year	Forfeited during the year	At 31 December 2005	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK$	At grant date of options HK$	Immediately before the exercise date HK$	At exercise date of options HK$
Employees												
In aggregate — granted on 2 June 2005	—	1,000,000	(1,000,000)	—	—	—	2-06-05	7-06-05 to 6-06-07	0.7	0.69	1.11	1.13
		7,000,000	(6,000,000)	—	—	1,000,000	2-06-05	7-06-05 to 6-06-07	0.7	0.69	1.26	1.3
In aggregate — granted on 6 June 2005	—	16,000,000	—	—	—	16,000,000	6-06-05	7-06-05 to 6-06-08	0.7	0.7	—	—
In aggregate — granted on 20 June 2005	—	10,000,000	—	—	—	10,000,000	20-06-05	28-06-05 to 27-06-09	0.87	0.87	—	—
Sub-total	—	34,000,000	(7,000,000)	—	—	27,000,000						
Business consultants												
Business consulting firm	—	2,000,000	(2,000,000)	—	—	—	2-06-05	7-06-05 to 6-06-07	0.7	0.69	1.26	1.3
Individual consultant	—	4,000,000	—	—	—	4,000,000	6-06-05	7-06-05 to 6-06-08	0.7	0.7	—	—
Sub-total	—	6,000,000	(2,000,000)	—	—	4,000,000						
Total	—	40,000,000	(9,000,000)	—	—	31,000,000						

Notes to the reconciliation of share options outstanding during the year:

* The vesting period of the share options is from the date of grant until the commencement of the exercise period.

** The exercise price of the share options is the amount the employee is required to pay to obtain each share under the option.

*** The price of the Company's shares disclosed as at the date of grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of grant of the options. The price of the Company's shares disclosed immediately before the exercise date of the share options is the weighted average of the Stock Exchange closing prices immediately before the dates on which the options were exercised over all of the exercises of options within the disclosure line.

28. SHARE OPTION SCHEME (continued)

The fair value of the share options granted during the year was HK$4,508,236.

The fair value of the equity-settled share options granted during the year 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 grant of the options, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the year ended 31 December 2005:

Dividend yield (%)	3.45–4.35
Expected volatility (%)	34.5
Historical volatility (%)	34.5
Risk-free interest rate (%)	2.91–3.272
Expected life of option (year)	1.5–4
Exercise price (HK$)	0.7–0.87
Share price at grant date (HK$)	0.69–0.87

The expected life of the options is based on the historical data and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

The 9,000,000 share options exercised during the year resulted in the issue of 9,000,000 ordinary shares of the Company and new share capital of HK$90,000 and share premium of HK$6,210,000 (before issue expenses), as further detailed in note 27 to the financial statements.

At the balance sheet date, the Company had 31,000,000 share options outstanding under the Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 31,000,000 additional ordinary shares of the Company and additional share capital of HK$310,000 and share premium of HK$23,090,000 (before issue expenses).

Subsequent to the balance sheet date, a total of 9,180,000 share options were exercised resulting in the issued of 9,180,000 ordinary shares of the Company and new share capital of HK$91,800 and share premium of HK$6,364,800 (before issue expenses).

At the date of approval of these financial statements, the Company had 21,820,000 share options outstanding under the Scheme, which represented approximately 4.4% of the Company's shares in issue as at that date.

Notes to Financial Statements

31 December 2005

29. 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	Share option reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Total HK$'000
As at 1 January 2004		29,770	390	—	2,214	—	—	62,708	95,082
Capitalisation issue	27	82,040	—	—	—	—	—	—	82,040
Share issue expenses	27	(16,528)	—	—	—	—	—	—	(16,528)
Surplus on revaluation of buildings	13	—	—	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	11	—	—	—	—	—	—	(8,000)	(8,000)
At 31 December 2004 and 1 January 2005		95,282	390	6,749	2,214	—	—	98,375	203,010
Issue of shares	27	47,810	—	—	—	—	—	—	47,810
Share issue expenses	27	(1,334)	—	—	—	—	—	—	(1,334)
Surplus on revaluation of buildings	13	—	—	5,447	—	—	—	—	5,447
Deferred tax on revaluation reserve	26	—	—	(817)	—	—	—	—	(817)
Equity-settled share option arrangements	2.2	—	—	—	—	3,741	—	—	3,741
Net profit for the year		—	—	—	—	—	—	50,876	50,876
Exchange realignment		—	—	—	—	—	4,473	—	4,473
Statutory reserves		—	—	—	762	—	—	(762)	—
Interim 2005 dividend		—	—	—	—	—	—	(4,000)	(4,000)
Proposed final 2005 dividend	11	—	—	—	—	—	—	(9,964)	(9,964)
At 31 December 2005		141,758	390	11,379	2,976	3,741	4,473	134,525	299,242

Notes to Financial Statements
31 December 2005

29. RESERVES (continued)

Company

	Notes	Share premium account (Note (a)) HK$'000	Contributed surplus (Notes (a)&(b)) HK$'000	Share option reserve HK$'000	Exchange fluctuation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2004		29,770	44,992	—	—	(3)	74,759
Capitalisation of share premium for issue of shares	27	82,040	—	—	—	—	82,040
Share issue expenses	27	(16,528)	—	—	—	—	(16,528)
Net loss for the year		—	—	—	—	(310)	(310)
Proposed final dividend	11	—	—	—	—	(8,000)	(8,000)
At 31 December 2004		95,282	44,992	—	—	(8,313)	131,961
Issue of shares	27	47,810	—	—	—	—	47,810
Share issue expenses	27	(1,334)	—	—	—	—	(1,334)
Equity-settled share option arrangements	2.2	—	—	3,741	—	—	3,741
Net loss for the year		—	—	—	—	(7,244)	(7,244)
Exchange realignment		—	—	—	388	—	388
Interim 2005 dividend		—	—	—	—	(4,000)	(4,000)
Proposed final 2005 dividend	11	—	—	—	—	(9,964)	(9,964)
At 31 December 2005		141,758	44,992	3,741	388	(29,521)	161,358

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 contributed 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 contributed 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.

30. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its warehouse premises and office building premises under operating lease arrangements for lease terms of 39 months. 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:

	2005 HK$'000	2004 HK$'000
Within one year	**106**	115
In the second to fifth years, inclusive	**26**	128
Over five years	**—**	—
	132	243

31. COMMITMENTS

In addition to the operating lease commitments detailed in note 30 above, the Group had the following capital commitments at the balance sheet date:

	Group	
	2005 HK$'000	2004 HK$'000
Contracted, but not provided for:		
Patents and licences	**77,536**	—
	77,536	—

As at the balance sheet date, the Company had no significant lease and capital commitments.

32. CONTINGENT LIABILITIES

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

		Group	
		2005	2004
		HK$'000	HK$'000
Trade receivables discounted with recourse	Note	**—**	705

Note:

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

As at the balance sheet date, the Company had no significant contingent liabilities.

33. RELATED PARTY TRANSACTIONS AND BALANCES

(a) In addition to the transactions detailed elsewhere in the financial statements, the Group had the following transaction with a related party during the year:

		2005	2004
		HK$'000	HK$'000
Rental expense to a related company	Note	**106**	103

Note:

During the year, Shenzhen Yulong used the warehouse facilities of Shenzhen Space Star Network Company Limited ("Space Star"), at an annual charge of HK$106,000. The rental charge was made according to the market rates.

(b) Outstanding balance with a related party:

As disclosed in the consolidated balance sheet and in note 19, the Group had an outstanding payable to Space Star of HK$106,000 (2004: Nil). The payable is unsecured, interest-free and has no fixed terms of repayment.

33. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(c) Compensation of key management personnel of the Group:

	2005 **HK$'000**	2004 HK$'000
Salaries, allowances and benefits in kind	**1,544**	1,012
Pension scheme contributions	**23**	19
Employee share option benefits	**19**	—
Total compensation paid to key management personnel	**1,586**	1,031

Further details of directors' emoluments are included in note 7 to the financial statements.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank and other borrowings, cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

It is, and has been, throughout the year, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are foreign currency risk and credit risk. The board reviews and agrees policies for managing these risks and they are summarised below.

Foreign currency risk

As the Group's investment operations are located in Mainland China, the Group's balance sheet can be affected significantly by movements in the HK$/RMB exchange rates. Since the exchange rates did not fluctuate significantly in prior years, the Group did not seek to hedge this exposure.

The Group has no transactional currency exposure as all sales and purchases are denominated in RMB, the functional currency of Shenzhen Yulong, which is the sales making unit of the Group.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

35. POST BALANCE SHEET EVENTS

(a) As disclosed in the announcement of the Group dated 23 February 2006, Shenzhou Yulong had successfully acquired a property located in North District, Hi-New Technology Industrial Park, Shenzhen with a total construction area of 64,607 square metres at a public auction for RMB74,250,000 (approximately HK$71,360,000) plus an auction service charge payable to the auctioneer of RMB1,117,500 (approximately HK$1,074,000). It is intended that this property will be occupied by the Group for office use.

(b) On 4 January 2006, the Company issued 40,000,000 ordinary shares at a price of HK$1.22 per share to not less than six placees who were independent individual, corporate and/or institutional investors. The proceeds raised would be used for purchase of materials and components of smartphone products and for the promotion of the Company's overall corporate and brand image.

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 12 April 2006.