

NOTES TO FINANCIAL STATEMENTS

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 reporting period, the Group was involved in providing wireless solutions and smartphone 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").

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

In the month of March 2006 Coolpad Software Tech (Shenzhen) Co Ltd was registered in the People's Republic of China. Its principal activities are Research and development and sell of the mobile telecommunication, computer and multimedia tech. YII and DTI are the intermediate holding companies.

NOTES TO FINANCIAL STATEMENTS

2.1 BASIS OF PREPARATION

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

The interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to facilitate an understanding of the changes in financial position and performance of the Group since the 2005 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for the full financial statements prepared in accordance with Hong Kong Financial Reporting Standards.

The interim financial results report for the six months ended 30 June 2006 was unaudited, but has been reviewed by the Audit Committee of the Company.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The following new standards, amendments and interpretations to the existing standards have been published and are mandatory for the accounting periods on or after 1 January 2006.

IAS19 (Amendment)	Employee Benefits
IAS39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions
IAS39 (Amendment)	The fair value option
IAS 39 and IFRS4 (Amendment)	Financial guarantee contracts
IFRS1 (Amendment)	First-time adoption of international financial reporting standards
IFRIC4	Determining whether an arrangement contains a lease

NOTES TO FINANCIAL STATEMENTS

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

Management has assessed the relevance of these new standards, interpretations and amendments with respect to the Group's operations and their impact on the Group's accounting policies. In summary:

- i) IAS19 (Amendment), IAS39 (Amendment) Cash flow hedge accounting of forecast intragroup transactions, IAS 39 and IFRS4 (Amendment) Financial guarantee contracts and IFRS1 (Amendment) are not relevant to the Group's operations.
- ii) IAS39 (Amendment) The fair value option and IFRIC4 did not result in substantial changes to the Group's accounting policies.

The Group has adopted HKFRS2, which is applied to options granted to employees on or after 7 November 2002 and not vested on 1 January 2005. As the Group did not have any employee share options which were granted before June 2005, the adoption of HKFRS 2 has had no impact on the retained profits as at 1 January 2005 but an impact on the comparative six months' profits and earnings per share.

Upon the adoption of HKFRS 2, the consolidated current six months' profits decreased by HK\$244,199 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 0.049 cent.
- diluted earnings per share decreased by 0.048 cent.

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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 operations are principally 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 smartphone segment consists of the provision of dual-mode and single-mode smartphones which integrated the functions of a mobile phone and wireless data applications like e-mail and other industry specific applications.

NOTES TO FINANCIAL STATEMENTS

3. SEGMENT INFORMATION (Continued)

	The six months ended 30 June	
	2006 HK\$'000 Unaudited	2005 HK\$'000 Unaudited
Segment revenue:		
Wireless system solutions	5,364	12,012
smartphones	428,943	160,384
Consolidated revenue	434,307	172,396
Segment net profit:		
Wireless system solutions	1,165	4,762
smartphones	91,648	41,636
	92,813	46,398
Unallocated corporate expenses	(17,170)	(6,114)
Finance costs, net	(2,370)	(1,815)
Profit before tax	73,273	38,469
Tax	(10,988)	(5,843)
Profit for the year	62,285	32,626

NOTES TO FINANCIAL STATEMENTS

4. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods during the six months ended 30 June 2006, 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:

	The six months ended 30 June	
	2006 HK\$'000 Unaudited	2005 HK\$'000 Unaudited
Revenue		
Sale of wireless system solutions and smartphones	434,307	172,396
Other income and gains		
Rental income	—	146
Bank interest income	962	538
Government grants and subsidies*	3,070	3,235
Maintenance income	2,658	75
Sundry income	306	85
	6,996	4,079
	441,303	176,475

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

NOTES TO FINANCIAL STATEMENTS

5. PROFIT BEFORE TAX

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

	The six months ended 30 June	
	2006 HK\$'000 Unaudited	2005 HK\$'000 Unaudited
Cost of inventories sold	275,754	108,249
Depreciation	1,392	1,258
Amortisation of patents and licences*	3,066	—
Research and development costs:		
Product development costs amortised*	1,476	731
Current year expenditure	38,199	3,204
	39,675	3,935
Operating lease rental	52	52
Loss on disposal of items of property, plant and equipment	174	—
Staff costs (including directors' and senior executives' emoluments:		
Salaries and wages	18,858	10,610
Staff welfare expenses	580	639
Pension scheme contributions	1,081	746
Equity-settled share option expense	277	—
Total staff costs	20,796	11,995
Rental income	—	(146)
Bank interest income	(962)	(538)

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

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6. FINANCE COSTS

	The six months ended 30 June	
	2006 HK\$'000 Unaudited	2005 HK\$'000 Unaudited
Interest expense on:		
Bank loans repayable in full within one year	2,370	1,815
	2,370	1,815

7. DIRECTORS' REMUNERATION

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

	The six months ended 30 June	
	2006 HK\$'000	2005 HK\$'000
Fees:	436	115
Other emoluments of executive directors:		
Salaries, allowances and benefits in kind	426	228
Pension scheme contributions	2	2
	428	230
	864	345

NOTES TO FINANCIAL STATEMENTS

7. DIRECTORS' REMUNERATION (Continued)

(a) Independent non-executive directors

The fees should be paid to the Group's non-executive directors during the six months ended 30 June were as follows:

	2006 HK\$'000	2005 HK\$'000
Mr. Xie Weixin	—	—
Dr. Huang Dazhan	60	60
Mr. Chan King Chung	50	50
Mr Yang Xianzu	10	—
	120	110

There were no other emoluments payable to the independent non-executive directors during the reporting period.

(b) Executive directors and non-executive directors

Six months ended 30 June 2006	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	—	305	—	—	305
Mr. Jiang Chao	—	61	—	2	63
Non-executive directors:					
Ms. Ma Dehui	—	—	—	—	—
Ms. Yang Xiao	—	60	—	—	60
	—	426	—	2	428

NOTES TO FINANCIAL STATEMENTS

7. DIRECTORS' REMUNERATION (Continued)

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

Six months ended 30 June 2005	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	—	171	—	—	171
Mr. Jiang Chao	—	62	—	2	64
Non-executive directors:					
Ms. Ma Dehui	—	—	—	—	—
Ms. Yang Xiao	—	—	—	—	—
	—	233	—	2	235

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

8. TAX

No provision for Hong Kong profits tax has been made (2005: Nil) as the Group did not generate any assessable profits arising in Hong Kong during the reporting periods. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	The six months ended 30 June	
	2006 HK\$'000 Unaudited	2005 HK\$'000 Unaudited
Current year provision:		
Hong Kong	—	—
Mainland China	10,988	5,843
Total tax charge for the year	10,988	5,843

NOTES TO FINANCIAL STATEMENTS

8. TAX (Continued)

According to the Income Tax Law of the PRC for Foreign Investment Enterprises and Foreign Enterprises and as approved by relevant tax authorities, Yulong Computer Telecommunication Scientific Co., Ltd ("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 period ended 30 June 2006.

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:

	The six months ended 30 June	
	2006 HK\$'000 Unaudited	2005 HK\$'000 Unaudited
Profit before tax	76,305	38,469
Tax at the applicable tax rate (2006: 15%, 2005: 15%)	11,446	5,770
Expenses not deductible for tax	—	73
Income not subject to tax	(458)	—
Tax charge at the Group's effective rate (June 2006: 14.4%, June 2005: 15.2%)	10,988	5,843

NOTES TO FINANCIAL STATEMENTS

9. DIVIDENDS

The Directors resolved to declare interim dividend of HK\$0.01 per Share in respect of the six months ended 30 June 2006 to shareholders whose name appear on the register of members of the Company by close of business on 20 September 2006 (six months ended 30 June 2005: HK\$0.01 per Share) For this purpose the register of members of the Company will be closed from 18 to 20 September 2006 (both days inclusive) during which no transfer of Shares will be effected.

A final dividend of HK\$0.02 per Share for the year ended 31 December 2005 has been paid in 2006.

10. 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 six months ended 30 June attributable to ordinary equity holders of the parent Company of HK\$62,285,000, and the weighted average number of ordinary shares in issue during the six months ended 30 June 2006 of 496,533,701, as adjusted to reflect the rights issue during the period.

The calculation of diluted earnings per Share is based on the net profit for the six months ended 30 June 2006 attributable to ordinary equity holders of the parent company of HK\$62,285,000. The weighted average number of ordinary shares used in the calculation is the ordinary shares in issue during the period of 496,533,701, as used in the basic earnings per share calculation and the weighted average number of ordinary shares of 10,956,991 assumed to have been issued at no consideration on the deemed exercise or conversion of all the dilutive potential ordinary shares into ordinary shares.

NOTES TO FINANCIAL STATEMENTS

10. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT COMPANY (Continued)

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

	The six months ended	
	30 June	
	2006	2005
	HK\$'000	HK\$'000
Earnings		
Net profit attributable to ordinary equity holders of the parent company, used in the basic earnings per share calculation:	62,285	32,626
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	496,533,701	400,000,000
Effect of dilution-Weighted average number of ordinary shares:		
Share options	10,956,991	—
	507,490,692	400,000,000

11. INTERESTS IN SUBSIDIARIES

	Company	
	2006	2005
	HK\$'000	HK\$'000
Unlisted shares, at cost	44,991	44,991
Due from subsidiaries	174,784	117,442
	219,775	162,433

NOTES TO FINANCIAL STATEMENTS

11. INTERESTS IN SUBSIDIARIES (Continued)

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.

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		Principal activities
			Direct	Indirect	
Yulong Infotech Inc.	BVI/ Mainland China	Ordinary US\$50,000	100	—	Investment holding
Digital Tech Inc.	BVI/Mainland China	Ordinary US\$10	100	—	Investment holding
Yulong Computer Telecommunication Scientific (Shenzhen) Co., Ltd.	Mainland China	Paid-up and registered RMB200,000,000	—	100	Wireless solutions and equipment provider for the wireless telecommunication market in Mainland China
Coolpad Software Tech (Shenzhen) Co., Ltd	Mainland China	Paid-up HKD1,500,000 Registered HKD10,000,000		100	Research and development and sell of the mobile telecommunication, computer and multimedia tech

12. INVENTORIES

	30 June 2006 HK\$'000 (Unaudited)	31 December 2005 HK\$'000 (Audited)
Raw materials	47,953	30,022
Work in progress	23,950	8,524
Finished goods	23,839	26,053
	95,742	64,599

NOTES TO FINANCIAL STATEMENTS

13. 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.

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

	30 June 2006 HK\$'000 (Unaudited)	31 December 2005 HK\$'000 (Audited)
Within 3 months	210,941	93,346
4 to 6 months	20,007	14,648
7 to 12 months	640	2,824
1 to 2 years	836	1,180
More than 2 years	1,125	1,237
	233,549	113,235
Provision	(2,583)	(2,583)
Exchange realignment	(28)	—
	230,938	110,652

NOTES TO FINANCIAL STATEMENTS

14. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2006 HK\$'000 (Unaudited)	31 December 2005 HK\$'000 (Audited)
Prepayments	177,016	171,667
Deposits and other receivables	56,457	21,752
	233,473	193,419

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

15. 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 has been fully settled in July 2006.

16. TRADE PAYABLES

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

	30 June 2006 HK\$'000 (Unaudited)	31 December 2005 HK\$'000 (Audited)
Within 3 months	40,948	24,994
4 to 6 months	3,586	349
7 to 12 months	1,152	540
More than 1 year	880	1,380
	46,566	27,263

NOTES TO FINANCIAL STATEMENTS

17. 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.

18. SHARE CAPITAL

	2006 HK\$'000	2005 HK\$'000
Authorised:		
1,000,000,000 (2005: 1,000,000,000) ordinary shares of HK\$0.01 each	10,000	10,000
Issued and fully paid:		
498,180,000(2005: 449,000,000) ordinary shares of HK\$0.01 each	4,982	4,490

During the six months ended 30 June 2006 , the movements in share capital were as follows:

- (a) Options to subscribe for 5,000,000 Share were exercised at an exercise price of HK\$0.70 per Share (note 19), resulting in the issue of 5,000,000 Shares for a total cash consideration, before expenses, of HK\$3,500,000.
- (b) Options to subscribe for 4,180,000 Share were exercised at an exercise price of HK\$0.87 per Share (note 19) resulting in the issue of 4,180,000 Shares for a total cash consideration, before expenses, of HK\$3,636,600.
- (c) 40,000,000 Shares were issued for cash at a subscription price of HK\$1.22 per Share for a total cash consideration, before expenses, of HK\$48,800,000.

NOTES TO FINANCIAL STATEMENTS

20. 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:

	30 June 2006 HK\$'000 (Unaudited)	31 December 2005 HK\$'000 (Audited)
Within one year	79	106
In the second to fifth years, inclusive	—	26
	79	132

21. CONTINGENT LIABILITIES

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

	30 June 2006 HK\$'000 (Unaudited)	31 December 2005 HK\$'000 (Audited)
Trade receivables discounted with recourse	—	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.

NOTES TO FINANCIAL STATEMENTS

22. 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 six months:

	30 June 2006 HK\$'000 (Unaudited)	31 December 2005 HK\$'000 (Audited)
Rental expense to a related company	53	106

Note:

During the six months, 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 note20, the Group had an outstanding payable to Space Star of HK\$26,000(2005: 106,000). The payable is unsecured, interest-free and has no fixed terms of repayment.

23. 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 six months ended 30 June 2006, the Group's policy that no trading in financial instruments shall be undertaken.

NOTES TO FINANCIAL STATEMENTS

23. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(Continued)

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.

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.

24. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 8 September 2006.