

Report of the Directors



The Directors of China Wireless Technologies Limited (the "Company") are pleased to present their report and the audited financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The Group is a wireless solution and equipment provider in Mainland China. The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 17 to the financial statements. There were no significant changes to the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2006 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 31 to 90.

A final dividend of HK\$0.02 per ordinary share for the year ended 31 December 2005 and an interim dividend of HK\$0.01 per ordinary share for the six months ended 30 June 2006 were paid in 2006. The Directors recommend the payment of a final dividend of HK\$0.03 per ordinary share for the year ended 31 December 2006 to shareholders on the register of members as at 21 May 2007. A resolution regarding the payment of such dividend will be proposed at the forthcoming annual general meeting (the "AGM") of the Company. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section of the balance sheet.

For the purpose of the forthcoming AGM and the entitlement to the proposed dividend, the register of members of the Company will be closed from 22 May 2007 to 25 May 2007 (both dates inclusive).

USE OF PROCEEDS

The Share of the Company was listed on The Hong Kong Stock Exchange Limited (the "Stock Exchange") on 9 December 2004. As at 31 December 2006, the Company had used up the listing proceeds as set out in the Company's listing prospectus except for the HK\$5 million intended for strategic investments.

In December 2005, the Company issued and placed 40,000,000 new shares, at a price of HK\$1.05 per share. The net proceeds from the placement of the Company were approximately HK\$40.5 million, of which HK\$35 million was utilised for the purchase of materials and components, and HK\$5.5 million for the marketing and promotion of new smartphone products in the year ended 31 December 2006.

In January 2006, the Company issued and placed 40,000,000 new shares, at a price of HK\$1.22 per share. The net proceeds from the placement of the Company were approximately HK\$47.6 million, of which HK\$40 million had been utilised for the purchase of materials and components, and HK\$7.6 million for the marketing and promotion of new smartphone products in the year ended 31 December 2006.

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SUMMARY FINANCIAL INFORMATION

The following is a summary of the consolidated/combined financial results and of the consolidated/combined assets and liabilities of the Group for the last five financial years, prepared on the basis set out in note 2.1 below:

	Year ended 31 December				
	2006*	2005*	2004*	2003*	2002**
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
RESULTS					
Revenue	640,855	353,995	245,545	151,808	95,243
Profit before tax	53,684	60,318	51,195	39,966	33,005
Tax	—	(9,442)	(7,528)	(3,103)	(2,299)
Profit for the year	53,684	50,876	43,667	36,863	30,706
Attributable to:					
Equity holders of the Company	53,684	50,876	43,667	36,863	30,706
	2006*	2005*	2004*	2003*	2002**
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
ASSETS AND LIABILITIES					
Non-current assets	168,586	64,468	39,485	30,660	26,695
Current assets	854,087	527,554	341,813	175,478	71,126
Non-current liabilities	102,939	2,035	1,191	—	—
Current liabilities	488,070	276,291	165,097	111,016	69,370
Net assets	431,664	313,696	215,010	95,122	28,451

* Extracted from the published audited financial statements

** Extracted from the published prospectus of the Company dated 30 November 2004

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 14 to the financial statements.

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SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year are set out in notes 29 and 30, respectively, to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's existing articles of association (the "Articles") or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries, purchased, redeemed or sold any of the Company's listed securities during the year and up to the date of this report.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 31 to the financial statements and in the consolidated summary statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2006, the Company's reserves available for distribution, calculated in accordance with the Companies Law (2001 Second Revision) of the Cayman Islands, amounted to HK\$213,372,000 of which HK\$14,957,000 has been proposed as a final dividend for the year. The distributable reserves include the Company's share premium account and contributed surplus, amounting to HK\$241,613,000 as at 31 December 2006, which may be distributed provided that immediately following the date on which such reserves are proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 77% of the total sales for the year and sales to the largest customer included therein amounted to 67%. Purchases from the Group's five largest suppliers accounted for approximately 73% of the total purchases for the year, and purchase from the Group's largest supplier accounted for approximately 36% of the total purchases for the year.

None of the Directors or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and/or suppliers.

Report of the Directors



DIRECTORS

The Directors of the Company during the year and up to the date of this report were:

Executive Directors:

Mr. Guo Deying (*Chairman and Chief Executive Officer*)

Mr. Jiang Chao

Non-executive Directors:

Ms. Yang Xiao

Ms. Ma Dehui

Independent non-executive Directors:

Dr. Huang Dazhan

Mr. Xie Weixin

Mr. Chan King Chung

Mr. Yang Xianzu

Under the provisions of the Articles, all of the Directors of the Company are subject to retirement by rotation and re-election.

In accordance with Article 86(3) of the Articles, Mr. Yang Xianzu, an independent non-executive Director, will retire and, being eligible, will offer himself for re-election at the forthcoming AGM of the Company.

In accordance with Article 87(1) of the Articles, Mr. Huang Dazhan, an independent non-executive Director, Mr. Xie Weixin, an independent non-executive Director and Mr. Chan King Chung, an independent non-executive Director, will retire and, being eligible, will offer themselves for re-election at the forthcoming AGM of the Company.

The Company has received from each of the independent non-executive Directors an annual confirmation pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and the Board still considers each of the independent non-executive Directors to be independent from the Company.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 18 to 20 of the annual report.

DIRECTORS' SERVICE CONTRACTS

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

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

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DIRECTORS' SERVICE CONTRACTS (CONTINUED)

Except for Mr. Yang Xianzu, who has entered into a service agreement with the Company dated 26 May 2006 for an initial term of one year commencing from 26 May 2006, each of the remaining independent non-executive Directors have entered into a service agreement with the Company for an initial term of one year commencing from 21 November 2006.

None of the Directors has entered into any service agreement with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

The Directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's Board with reference to Directors' duties, responsibilities and performance and the results of the Group.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in notes 22 and 34 to the financial statements, no Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during or at the end of the year.

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

At 31 December 2006, the interests and short positions of the Directors, the chief executive or their associates in the share capital, underlying shares and debentures of the Company or its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance, chapter 571 of the Laws of Hong Kong (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

Long positions in shares of the Company:

Name of Director	Notes	Number of shares held, capacity and nature of interest					Percentage of the Company's issued share capital
		Directly beneficially owned	Through spouse or minor children	Through controlled corporation	Beneficiary of a trust	Founder of a discretionary trust	
Mr. Guo Deying	I & 2	—	207,792,812	7,916,000	—	207,792,812	43.27
Ms. Yang Xiao	I	—	207,792,812	—	—	207,792,812	41.68
Mr. Jiang Chao	3	—	—	—	7,916,000	—	1.59

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DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (CONTINUED)

Long positions in shares of an associated corporation:

Name of Director	Note	Number of shares held, capacity and nature of interest			
		Name of associated corporation	Through spouse or minor children	Founder of a discretionary trust	Percentage of issued share capital of the associated corporation
Mr. Guo Deying	I	Data Dreamland Holding Limited	1,000	1,000	100
Ms. Yang Xiao	I	Data Dreamland Holding Limited	1,000	1,000	100

Notes:

- The entire issued share capital of Data Dreamland Holding Limited ("Data Dreamland") is held by Barrie Bay Limited ("Barrie Bay"), which is acting as the trustee of the Barrie Bay Unit Trust. The Barrie Bay Unit Trust is a unit trust of which 9,999 units are held by HSBC International Trustee Limited ("HSBC Trustee") acting as the trustee of the Barrie Bay Unit Trust and the remaining 1 unit is held by Ms. Yang Xiao. The Barrie Bay Unit Trust is a discretionary trust set up by Mr. Guo Deying ("Mr. Guo"), an executive Director, and his spouse, Ms. Yang Xiao ("Ms. Yang"), a non-executive Director, the beneficiary objects of which include the minor children of Mr. Guo and Ms. Yang. Each of Mr. Guo and Ms. Yang is taken to be interested in the 207,792,812 shares held by Data Dreamland as each of them is a settlor of the Barrie Bay Unit Trust and by virtue of the interests of their minor children under the Barrie Bay Unit Trust. The long positions of each of Mr. Guo and Ms. Yang under the column "Through spouse or minor children" and the column "Founder of a discretionary trust" in the table headed "Long positions in shares of the Company" above refers to the same 207,792,812 shares.

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

- Mr. Guo is interested in the 7,916,000 shares held by Wintech Consultants Limited as he is interested in the entire issued share capital of Wintech Consultants Limited.
- Mr. Jiang Chao, an executive Director, is interested in the 7,916,000 shares held by Wintech Consultants Limited as he is one of the discretionary objects under the China Wireless Employee Benefit Trust, a discretionary trust established for the benefit of the employees of the Group.

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

As at 31 December 2006, the following interests and short positions of 5% or more in the issued share capital and share options of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions in shares of the Company:

Name	Notes	Number of shares in which interested	Number of shares interested under equity derivatives	Nature of interest	Total number of shares	Percentage of the Company's issued share capital
Data Dreamland Holding Limited	1	207,792,812	—	Beneficial owner	207,792,812	41.68
Barrie Bay Limited	2	207,792,812	—	Interest of controlled corporation	207,792,812	41.68
HSBC International Trustee Limited	2	207,792,812	—	Trustee	207,792,812	41.68

Notes:

- The entire issued share capital of Data Dreamland is held by Barrie Bay. Barrie Bay is acting as the trustee of the Barrie Bay Unit Trust. The Barrie Bay Unit Trust is a unit trust of which 9,999 units are held by HSBC Trustee, which is acting as the trustee of the Barrie Bay Trust and the remaining 1 unit is held by Ms. Yang Xiao. The Barrie Bay Unit Trust is a discretionary trust set up by Mr. Guo and Ms. Yang and the discretionary objects of which include the minor children of Mr. Guo and Ms. Yang.
- The 207,792,812 shares are held by Data Dreamland, the entire share capital of which is held by Barrie Bay, which is acting as the trustee of the Barrie Bay Unit Trust and the entire issued share capital of which is held by HSBC Trustee.

Save as disclosed above, as at 31 December 2006, so far as the Directors are aware, there are no other persons, other than the Directors and chief executive of the Company, who had interests or short positions in the shares, underlying shares or debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and are required to be recorded in the register required to be kept pursuant to Section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the sub-section entitled "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or his/her spouse or minor children, or were any such rights exercised by them; or was the Company, or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

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SHARE OPTIONS

The fair value of the Group's share options was calculated by an external professionally qualified valuer, LCH (Asia-Pacific) Surveyors Limited, at HK\$9,528,000 using the binomial option pricing model as at the date of grant of the options:

Grantee	Number of share options granted during the year	Theoretical value of share options HK\$
Employees in aggregate	14,752,000	9,528,000

The binomial option pricing model is a generally accepted method of valuing options, using certain key determinants to calculate the theoretical value of share options. The significant assumptions used in the calculation of the values of the share options included the risk-free interest rate, expected life, expected volatility and expected dividend. The measurement dates used in the valuation calculations were the dates on which the options were granted. For details of the assumptions, please refer to note 30 to the financial statements.

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

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

AUDIT COMMITTEE

The audit committee ("Audit Committee") of the Company comprising the four independent non-executive Directors, has reviewed the accounting principles and practices adopted by the Company and has discussed auditing, internal control and financial reporting matters. The Audit Committee has reviewed the Group's audited financial statements for the year ended 31 December 2006.

DIRECTORS' INTEREST IN A COMPETING BUSINESS

None of the Directors or the substantial shareholders of the Company and their respective associates (as defined in the Listing Rules) had any interest in a business which competes or may compete with the business of the Group.

MATERIAL LEGAL PROCEEDINGS

During the year, the Company was not involved in any material litigation or arbitration and no material litigation or claim was pending or threatened or made against the Company as far as the Board was aware of.

SUFFICIENCY OF PUBLIC FLOAT

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

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FOREIGN EXCHANGE EXPOSURE

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

EMPLOYEES AND REMUNERATION POLICY

During the year, the staff cost amounted to HK\$70,496,000. The remuneration of the Group's employees is commensurate with their responsibilities and the market levels, with discretionary bonuses and training given on a merit basis.

SIGNIFICANT INVESTMENTS

There were no significant investments held by the Group as at 31 December 2006.

MATERIAL ACQUISITIONS AND DISPOSALS DURING THE YEAR

There were no material acquisitions and disposals by of the Company and its subsidiaries as at 31 December 2006.

EVENT AFTER THE BALANCE SHEET DATE

Details of the significant event after the balance sheet date of the Group are set out in note 36 to the financial statements.

AUDITORS

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

On behalf of the Board

Guo Deying

Chairman

Hong Kong

11 April 2007

