

Edgar Filing: CHINA WIRELESS COMMUNICATIONS INC - Form 10QSB

CHINA WIRELESS COMMUNICATIONS INC  
Form 10QSB  
November 19, 2004

U.S. SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-QSB

(Mark One)

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(D) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended: September 30, 2004

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE  
EXCHANGE ACT  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 333-49388

CHINA WIRELESS COMMUNICATIONS, INC.  
(Exact name of small business issuer as specified in its charter)

NEVADA 91-1966948  
(State or other jurisdiction of (IRS Employer  
incorporation or organization) Identification No.)

1746 COLE BOULEVARD, SUITE 225, GOLDEN, COLORADO 80401-3208  
(Address of principal executive offices)

(303) 277-9968  
(Issuer's telephone number)

(Former name, former address and former fiscal year, if changed  
since last report)

Check whether the issuer: 1) has filed all reports required to be filed by  
Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12  
months (or for such shorter period that the registrant was required to file such  
reports, and (2) has been subject to such filing requirements for the past 90  
days. Yes X No  
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State the number of shares outstanding of each of the issuer's classes of  
common equity, as of the latest practicable date:

38,648,442 SHARES OF COMMON STOCK, \$0.001 PAR VALUE,  
AS OF SEPTEMBER 30, 2004

Transitional Small Business Disclosure Format (check one); Yes No X  
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CHINA WIRELESS COMMUNICATIONS, INC.

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SPECIAL NOTE: Our independent accountants, Moores Rowland Mazars, have not performed any review procedures at the time of filing this quarterly report on Form 10QSB for the three and nine month periods ended September 30, 2004 as required under Item 310(b) of Regulation S-B.

CHINA WIRELESS COMMUNICATIONS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

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|                               |       |
|-------------------------------|-------|
| FOR NINE MONTHS ENDED SEP 30, | FOR T |
| -----                         | ----- |
| 2004                          | 2003  |

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|                                      | NOTE | US\$        | US\$        |       |
|--------------------------------------|------|-------------|-------------|-------|
| OPERATING REVENUE                    |      |             |             |       |
| Service revenue                      |      | 239,124     | 17,341      | 11    |
| Cost of services                     |      | 168,463     | 13,572      | 7     |
| -----                                |      |             |             |       |
| GROSS PROFIT                         |      | 70,661      | 3,769       | 4     |
| -----                                |      |             |             |       |
| OPERATING EXPENSES                   |      |             |             |       |
| Depreciation expense                 |      | 25,044      | 6,707       |       |
| General and administrative expenses  |      | 4,051,506   | 2,420,558   | 62    |
| -----                                |      |             |             |       |
| Total operating expenses             |      | 4,076,550   | 2,427,265   | 63    |
| -----                                |      |             |             |       |
| LOSS FROM OPERATIONS                 |      | (4,005,889) | (2,423,496) | (59)  |
| NON-OPERATING INCOME (EXPENSES)      |      |             |             |       |
| Interest income                      |      | 186         | -           |       |
| Interest income (expense)            |      | (85)        | (427)       |       |
| Other income (expense)               |      | (1,542)     | 207         |       |
| -----                                |      |             |             |       |
| LOSS BEFORE INCOME TAXES             |      | (4,007,330) | (2,423,716) | (58)  |
| Income taxes                         |      | -           | -           |       |
| -----                                |      |             |             |       |
| NET LOSS                             |      | (4,007,330) | (2,423,716) | (58)  |
| =====                                |      |             |             |       |
| NET LOSS PER SHARE OF COMMON STOCK:  |      |             |             |       |
| Basic                                | 5    | (0.1234)    | (0.1118)    |       |
| =====                                |      |             |             |       |
| Diluted                              |      | N/A         | N/A         |       |
| =====                                |      |             |             |       |
| WEIGHTED AVERAGE NUMBER OF SHARES OF |      |             |             |       |
| COMMON STOCK OUTSTANDING             |      | 32,454,856  | 21,679,034  | 37,20 |
| =====                                |      |             |             |       |

The financial statements should be read in conjunction with the accompanying notes

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|   |             |
|---|-------------|
| CURRENT ASSETS                                    |             |
| Cash and cash equivalents                         | 65,448      |
| Prepayments and other receivables                 | 200,082     |
|   | -----       |
| Total current assets                              | 265,530     |
| Property, plant and equipment, net                | 866,723     |
|   | -----       |
| TOTAL ASSETS                                      | 1,132,253   |
|   | =====       |
| LIABILITIES AND STOCKHOLDERS' DEFICIT             |             |
| CURRENT LIABILITIES                               |             |
| Trade and other payables                          | 970,409     |
| Loans   | 126,308     |
| Notes payable                                     | 173,600     |
|   | -----       |
| TOTAL LIABILITIES                                 | 1,270,317   |
|   | -----       |
| COMMITMENTS AND CONTINGENCIES                     |             |
| STOCKHOLDERS' DEFICIT                             |             |
| Preferred stock, par value US\$0.01 each          |             |
| 1,000,000 shares of stock authorized,             |             |
| None issued and outstanding                       |             |
| Common stock, par value US\$0.001 each            |             |
| 50,000,000 shares of stock authorized,            |             |
| 38,648,442 shares of stock issued and outstanding | 38,648      |
| Additional paid-in capital                        | 8,381,683   |
| Accumulated deficit                               | (8,558,395) |
|   | -----       |
| TOTAL STOCKHOLDERS' DEFICIT                       | (138,064)   |
|   | -----       |
| TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT       | 1,132,253   |
|   | =====       |

The financial statements should be read in conjunction with the accompanying notes

CHINA WIRELESS COMMUNICATIONS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

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FOR NINE MO

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|  | 2004        |
|--|-------------|
|  | US\$        |
| CASH FLOWS FROM OPERATING ACTIVITIES   |             |
| Net loss   | (4,007,330) |
| Adjustments to reconcile net loss to net cash used<br>in operating activities: |             |
| Depreciation   | 25,044      |
| Write off of property, plant and equipment                                     | 7,281       |
| Common stocks issued for compensation  | 3,238,103   |
| Changes in working capital:  |             |
| Prepayments and other receivables  | 1,549       |
| Trade and other payables   | 644,626     |
|  | -----       |
| NET CASH USED IN OPERATING ACTIVITIES  | (90,727)    |
|  | -----       |
| CASH FLOWS FROM INVESTING ACTIVITIES   |             |
| Acquisition of property, plant and equipment                                   | (498,808)   |
| i-Track and Strategic Communications Partners, Inc merger                      | -           |
| Advances to a related party  | -           |
| Decrease in pledged deposits   | 22,197      |
|  | -----       |
| NET CASH USED IN INVESTING ACTIVITIES  | (476,611)   |
|  | -----       |
| NET CASH PROVIDED BY FINANCING ACTIVITIES                                      |             |
| Net proceeds from issuance of common stock                                     | 924,202     |
| Proceeds from additions of loans   |             |
| Repayment of loans   | (241,613)   |
| Proceeds from issuance of notes payable  | -           |
| Temporary receipt  | -           |
| Repayment of notes payable   | (61,000)    |
| Proceeds from issuance of convertible debts                                    | 25,000      |
| Repayment of convertible debts   | (11,000)    |
|  | -----       |
| NET CASH PROVIDED BY FINANCING ACTIVITIES                                      | 635,589     |
|  | -----       |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS                           | 68,251      |
| CASH AND CASH EQUIVALENTS, AS OF BEGINNING<br>OF THE PERIOD                    | (2,803)     |
|  | -----       |
| CASH AND CASH EQUIVALENTS, AS OF END OF THE PERIOD                             | 65,448      |
|  | =====       |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS                              |             |
| Bank balances  | 65,448      |
|  | =====       |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION                               |             |
| Interest paid  | 2,817       |
|  | =====       |
| NON-CASH OPERATING, INVESTING AND FINANCING ACTIVITIES                         |             |
| Common stocks issued for compensation by SCP*                                  | -           |
| Common stocks issued for compensation<br>by the Company                        | 3,238,103   |
|  | -----       |
|  | 3,238,103   |
|  | =====       |

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\* SCP is defined in the Condensed Consolidated Statements of Stockholders' Equity

The financial statements should be read in conjunction with the accompanying notes

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CHINA WIRELESS COMMUNICATIONS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (UNAUDITED)

|   | COMMON STOCK |        | ADDITIONAL<br>PAID-IN CAPITAL | ACCUMULATED<br>DEFICIT |
|---|--------------|--------|-------------------------------|------------------------|
|   | NUMBER       | AMOUNT |                               |                        |
|   |              | US\$   | US\$                          |                        |
| As of August 13, 2002 -<br>inception (NOTE)   | 21,500,000   | 21,500 | 2,353,850                     |                        |
| Net loss for the period   | -            | -      | -                             | (1,014)                |
| As of December 31, 2002   | 21,500,000   | 21,500 | 2,353,850                     | (1,014)                |
| Common stock issued for services<br>at prices ranging from \$0.25<br>to \$0.72 per share                                    | 3,293,751    | 3,294  | 1,456,878                     |                        |
| Common stock issued for cash at<br>prices ranging from \$0.50 to<br>\$0.80 per share, net of<br>issuance costs of \$491,949 | 1,420,202    | 1,420  | 421,084                       |                        |
| Net loss for the year   | -            | -      | -                             | (3,536)                |
| AS OF DECEMBER<br>31, 2003  | 26,213,953   | 26,214 | 4,231,812                     | (4,551)                |
| Common stock issued for services<br>at prices ranging from \$0.35 to<br>\$0.65 per share                                    | 688,634      | 688    | 365,812                       |                        |
| Common stock issued for cash at<br>prices ranging from \$0.55 to \$0.74<br>per share, net of issuance costs<br>of \$559,983 | 1,588,870    | 1,589  | 435,979                       |                        |
| Net loss for the period   | -            | -      | -                             | (545)                  |
| AS OF MARCH 31, 2004  | 28,491,457   | 28,491 | 5,033,603                     | (5,096)                |
| Common stock issued for services<br>at prices ranging from \$0.19<br>to \$0.6 per share                                     | 5,347,907    | 5,348  | 2,440,935                     |                        |
| Common stock issued for cash at<br>prices ranging from \$0.5 to<br>\$0.64 per share, net of<br>issuance costs of \$274,286  | 898,000      | 898    | 223,236                       |                        |
| Net loss for the period   | -            | -      | -                             | (2,873)                |
| AS OF JUNE 30, 2004   | 34,737,364   | 34,737 | 7,697,774                     | (7,970)                |

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|  |            |        |           |         |
|--|------------|--------|-----------|---------|
| Common stock issued for services<br>at prices ranging from \$0.1 to<br>\$0.29 per share                                      | 3,388,854  | 3,389  | 564,431   |         |
| <hr style="border-top: 1px dashed black;"/>  |            |        |           |         |
| Common stock issued for cash at<br>prices ranging from \$0.225 to<br>\$0.25 per share, net of<br>issuance costs of \$120,000 | 522,224    | 522    | 119,478   |         |
| <hr style="border-top: 1px dashed black;"/>  |            |        |           |         |
| Net loss for the period  | -          | -      | -         | (587)   |
| AS OF SEP 30, 2004   | 38,648,442 | 38,648 | 8,381,683 | (8,558) |
| <hr style="border-top: 3px double black;"/>  |            |        |           |         |

Note: The common stock issued and outstanding at inception represents shares in issue immediately after the reverse acquisition of Strategic Communications Partners, Inc. ("SCP") on March 22, 2003, assuming that the capital structure had already been in existence since August 13, 2002.

The financial statements should be read in conjunction with the accompanying notes

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CHINA WIRELESS COMMUNICATIONS, INC.

NOTES TO AND FORMING PART OF THE CONDENSED FINANCIAL STATEMENTS (UNAUDITED)  
Nine Months Ended September 30, 2004

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1. BASIS OF PRESENTATION AND STOCK-BASED COMPENSATION

BASIS OF PRESENTATION

The accompanying financial data as of September 30, 2004 and for the three months and nine months ended September 30, 2004 have been prepared by China Wireless Communications, Inc. (the "Company"), without audit. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. However, the Company believes that the disclosures are adequate to make the information presented not misleading. These financial statements should be read in conjunction with the financial statements and the notes thereto of the Company, included in the Company's form 10-KSB for the fiscal year ended December 31, 2003.

In the opinion of the management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows of the Company have been made. The results of operations for the nine months ended September 30, 2004 are not necessarily indicative of the operating results for the full year.

Prior to April 1, 2004, the Company's planned principal operations were underway but had not yet generated any significant revenue. Accordingly, the Company's financial statements for all periods prior to April 1, 2004 were presented as a development stage enterprise, as

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prescribed by Statement of Financial Accounting Standards No. 7, "Accounting and Reporting by Development Stage Enterprises." In the second quarter of fiscal year 2004, the Company has started to generate a fair amount of revenue during the quarter. As a result, the Company exited the development stage in the quarter ended June 30, 2004.

STOCK-BASED COMPENSATION

The Company records compensation expense for stock-based employee compensation plans using the intrinsic value method in which compensation expense, if any, is measured as the excess of the market price of the stock over the exercise price of the award on the measurement date.

As the exercise prices of the Company's stock options are either the same as or approximate to the market prices of the underlying stock on the grant dates, no compensation expense has been recognized for the stock options.

Had compensation expenses for the same stock options been determined based on their fair values at the dates of grant and been amortized over the period from the date of grant to the date that the award is vested, consistent with the provisions of SFAS No. 123, the Company's net loss and loss per share would have been reported as follows:

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CHINA WIRELESS COMMUNICATIONS, INC.

NOTES TO AND FORMING PART OF THE CONDENSED FINANCIAL STATEMENTS (UNAUDITED)  
 Nine Months Ended September 30, 2004

1. BASIS OF PRESENTATION AND STOCK-BASED COMPENSATION (CONTINUED)

STOCK-BASED COMPENSATION (CONTINUED)

|   | FOR THREE MONTHS ENDED SEP 30, |           | FO  |
|---|--------------------------------|-----------|-----|
|   | 2004                           | 2003      |     |
|   | US\$                           | US\$      |     |
| Net loss                                |                                |           |     |
| As reported                             | (587,646)                      | (641,996) | (4, |
| Total stock-based compensation expenses | (4,296)                        | -         |     |
| Pro forma                               | (591,942)                      | (641,996) | (4, |
| Basic net loss per share                |                                |           |     |
| As reported                             | (0.0158)                       | (0.0222)  |     |
| Pro forma                               | (0.0159)                       | (0.0222)  |     |



2. ORGANIZATION

At the end of 2003, the Company made loans of US\$4,832 to certain staff of Beijing In-Touch Information System Company Limited ("In-Touch") for the purpose of acquiring a company, Beijing Pan-Asia Innovative Science and Technology Co. Ltd. ("Pan-Asia"). The reason for this arrangement was due to there are certain restrictions on the Company, as a foreign investor, to invest in telecommunication business in the PRC. Pan-Asia is a company incorporated in the PRC and is principally engaged in trading of telecommunication-related products. Pan-Asia is effectively financed by the Company and therefore, it is considered as a variable interest entity ("VIE") of the Company. In addition, the Company expects to absorb the losses incurred by Pan-Asia, if any. Accordingly, the Company is considered as the primary beneficiary under Financial Accounting Standard Board Interpretation No. 46 ("FIN 46"). The Company began to consolidate Pan-Asia during the three-month period ended June 30, 2004 because the financial effects were immaterial in prior periods.

3. CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. In applying the accounting principles, management must often make individual estimates and assumptions regarding expected outcomes or uncertainties. As a result, the actual results or outcomes might generally different than the estimated or assumed results or outcomes. These differences are usually minor (but they could be material) and are included in the consolidated financial statements as soon as they are known. Management's estimates, judgments and assumptions are continually evaluated based on available information and experience. Because of the use of estimates inherent in the financial reporting process, actual results could differ materially from those estimates.

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CHINA WIRELESS COMMUNICATIONS, INC.

NOTES TO AND FORMING PART OF THE CONDENSED FINANCIAL STATEMENTS (UNAUDITED)  
Nine Months Ended September 30, 2004

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3. CRITICAL ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the financial information of the Company and all of its subsidiaries, namely Strategic Communications Partners, Inc., Strategic Communications Partners Limited and In-Touch. All of which are wholly-owned subsidiaries. The consolidated financial statements also include the financial information of a VIE of the Company, Pan-Asia, for which the Company is

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deemed to be the primary beneficiary. All material inter-company balances and transactions have been eliminated on consolidation.

The application of the consolidation provisions of FIN 46 resulted in an increase in assets, liabilities and net loss for the nine-month period ended September 30, 2004 by US\$12,071, US\$30,796 and US\$83,315 respectively.

### FOREIGN CURRENCIES

Transactions involving foreign currencies are translated at the rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated at the rates of exchange ruling at that date. Translation differences are included in the statements of operations.

On consolidation, the balance sheets of overseas subsidiaries denominated in foreign currencies are translated at the rates of exchange ruling at the balance sheet date while the statements of operations are translated at average rates for the period. All exchange differences arising on consolidation are included in other comprehensive income.

### REVENUE RECOGNITION

Revenue is recognized when it is probable that the economic benefits will flow to the Company and when the revenue and cost, if applicable, can be measured reliably and on the following bases.

Service revenue is recognized in the period when services are rendered.

Sale of goods is recognized on transfer of risks and rewards of ownership, which generally coincides with time when goods are delivered to customers and title has passed.

## 4. PREPARATION OF FINANCIAL STATEMENTS

The Company has incurred losses of US\$587,646 and US\$4,007,330 for the three months and nine months ended September 30, 2004. The Company also experienced negative working capital of US\$1,004,787 as of September 30, 2004. These conditions raise substantial doubt about the Company's ability to continue as a going concern. The continuation of the Company as a going concern is dependent upon the successful implementation of its business plan and ultimately achieving profitable operations. However, there can be no assurance that the business plan will be successfully implemented. The inability of the Company to implement the business plan successfully could adversely impact the Company's business and prospects. Details of the plans of operations of the Company are set out in Item 2 of this Form 10-QSB under the heading "Plan of Operation".

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CHINA WIRELESS COMMUNICATIONS, INC.

NOTES TO AND FORMING PART OF THE CONDENSED FINANCIAL STATEMENTS (UNAUDITED)  
Nine Months Ended September 30, 2004

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### 5. LOSS PER COMMON STOCK

Weighted average number of shares of common stock outstanding used in the calculation of basic loss per share for the nine months ended September 30, 2004 and three month ended September 30, 2004 are 34,454,856 shares and 37,203,446 shares respectively.

### 6. PROPERTY, PLANT AND EQUIPMENT

#### NETWORK INFRASTRUCTURE AND TRANSPORTATION EQUIPMENT

The Company, through its Beijing, China subsidiary, has acquired a 66-kilometer twin fiber ring network in central Beijing. The network will allow the Company to provide its international and domestic customers with high-speed transport private line circuits.

Through September 30, 2004, the Company has completed the installation of four fiber multiplexers (nodes) along the fiber ring and is in the process of installing four additional node sites. Additionally, each node location is equipped with base station radios to serve customers in radio transport sectors in outlying areas.

The following is a summary of network infrastructure and transportation equipment owned by the Company at September 30, 2004:

|                                  |           |
|----------------------------------|-----------|
| Fiber ring network               | \$231,869 |
| Fiber multiplexer equipment      | 469,734   |
| Leasehold improvements           | 76,626    |
| Furniture and fixtures           | 24,144    |
| Office furnishings and equipment | 109,227   |
|                                  | -----     |
| Sub-total                        | 911,610   |
| Less: accumulated depreciation   | (44,887)  |
|                                  | -----     |
| Total                            | \$866,723 |
|                                  | =====     |

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CHINA WIRELESS COMMUNICATIONS, INC.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

### FORWARD-LOOKING STATEMENTS

Included in this report are various forward-looking statements, which can be identified by the use of forward looking terminology such as "may", "will", "expect," "anticipate," "estimate," "continue," "believe," or similar words. We have made forward-looking statements with respect to the following, among others: our goals and strategies; our expectations related to growth of our broadband internet, content and wireless access and transport in China and the performance under our agreements; our ability to obtain and operate licenses and permits to operate in China; our ability to earn sufficient revenues in China;

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the importance and expected growth of satellite communications, broadband internet, content and wireless access and transport in China and the demand for these services in China; our ability to continue as a going concern; and our future performance and our results of operations. These statements are forward looking and reflect our current expectations. We are subject to a number of risks and uncertainties, including but not limited to, changes in the economic and political environments in China, economic and political uncertainties affecting the capital markets, changes in technology, changes in satellite communications, broadband internet, content and wireless access and transport in the marketplace in China, competitive factors and other risks described in our annual report on Form 10-KSB which has been filed with the United States Securities and Exchange Commission. In light of the many risks and uncertainties surrounding the Company, China, and the satellite communications, broadband internet, content and wireless access and the transport marketplace in China, you should keep in mind that we cannot guarantee that the forward-looking statements described in this report will transpire and you should not place undue reliance on forward-looking statements.

### OVERVIEW

On March 22, 2003, I-Track Inc., a company quoted on the primary exchange of the US OTC ("Over the Counter Bulletin Board") acquired Strategic Communications Partners, Inc., a Wyoming corporation ("SCP"), through a Share Exchange Agreement, resulting in the shareholders and management of SCP having actual and effective control of I-Track Inc. On March 24, 2003, I-Track Inc. changed its name to China Wireless Communications, Inc ("CWC") to better reflect the business activities of the Company.

We are a facilities-based provider of broadband data, video and voice communications services to customers that are not served by existing landline based fiber networks. We typically deliver our services over fixed wireless networks that we design, construct, own and operate. Over this infrastructure, we offer ultra high-speed Internet access, and other broadband data services. Other value added services being offered by us include systems integration and other telecom services.

### STRATEGIC COMMUNICATIONS PARTNERS, INC.

SCP was incorporated in the State of Wyoming on August 13, 2002 and was a wholly owned subsidiary of CWC until July 31, 2004. Effective July 31, 2004, SCP was merged into CWC. Strategic Communications Partners Limited ("SCPL") was a subsidiary of SCP and became a direct subsidiary of CWC as a result of the merger. SCPL was incorporated in Hong Kong on December 9, 2002. CWC's and SCPL's operations to date consist solely of supporting the operations in Beijing, People's Republic of China ("PRC").

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### CHINA WIRELESS COMMUNICATIONS, INC.

### BEIJING IN-TOUCH INFORMATION SYSTEM COMPANY LIMITED

On March 4, 2003, SCPL set up a wholly owned foreign enterprise, Beijing In-Touch Information System Co. Ltd ("In-Touch") in the PRC. In-Touch has commenced operations in Beijing, through cooperation agreements with local telecommunications operators.

In-Touch deployed a high-speed broadband fiber network as the backbone to construct its fixed wireless broadband network system in Beijing, starting in

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December 2003. That company is now selling its services over that network. This network will make available 2.5 Gbps of capacity on a fiber network that surrounds the 66 kilometer-long fourth ring road in Beijing. The new additional capacity will support over 100,000 business-class broadband business customers on its Beijing network.

The first phase of the fixed wireless broadband network system in Beijing was completed April 2004, at which time In-Touch began full-service operations. In-Touch will be providing high-speed wireless services, Virtual Private Network's and other wireless access, transport and enhanced data services.

We continue to build innovative partnership and acquisition strategies to maximize the coverage of our network in Beijing. We plan to replicate our Beijing model in other strategic cities in China during late 2004 and 2005.

### BEIJING PAN-ASIA INNOVATIVE SCIENCE AND TECHNOLOGY COMPANY LIMITED

At the end of 2003, the Company made loans of US\$4,832 to certain staff of In-Touch for the purpose of acquiring a company, Beijing Pan-Asia Innovative Science and Technology Co. Ltd. ("Pan-Asia"). The reason for this arrangement was due to there are certain restrictions on the Company, as a foreign investor, to invest in telecommunication business in the PRC. Pan-Asia is a company incorporated in the PRC and is principally engaged in trading of telecommunication products. Pan-Asia is effectively financed by the Company and therefore, it is considered as a variable interest entity ("VIE") of the Company. As of September 30, 2004, we have three employees, all of whom are full-time in the United States. As of September 30, 2004, SCPL has no full-time employees in Hong Kong and In-Touch has 62 full-time employees all of whom are located in Beijing. None of our employees is covered by a collective bargaining agreement.

### ALLIANCES AND PARTNERSHIPS

We are in the midst of developing a technologically advanced wireless network to serve areas of business concentration in Beijing, China. In order to effectively deploy the broadband wireless network, we need to partner with companies whose business and products are complimentary to those of the Company. However, there is no guarantee that we can find suitable partner and we will be able to come to mutually agreeable terms if suitable partner could be found.

On August 14, 2003, we signed a cooperative agreement with P-Com, Inc. ("P-Com") to develop a broadband wireless network within China. P-Com will provide equipment and support for their line of wireless products to assist us in building a wireless broadband network in China. We will use our marketing resources and sales platform to recommend and popularize the products of P-Com.

On August 15, 2003, we signed a contract with MCI International Ltd. Co. ("MCI"). This contract enables China Wireless Communications to extend our Broadband Wireless Access Network outside of Beijing, China. We will be adding MCI International ATM (Asynchronous Transport Mode) services to reach North America, South Pacific, Asian and European markets to our existing suite of broadband products and services.

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In addition, alliances and partnerships with Tier One Telecom Carriers are critical to our growth strategy. We believe the current broadband access providers in China are searching for a direct economically transport connection

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to their backbones thus connecting a greater number of end users to their underutilized networks. We provide the "last mile" transport connection services to meet this growing demand in a cost effective manner. Over the last few months we have entered into an agreement with China Netcom Group Beijing Company to partner in building out a broadband transport network to serve their growing number of customers. We expect this and other such partnerships to enable entry and development in China's highly regulated telecom sector as a successful foreign investment enterprise. There are, however, no guarantees that these partnerships will be successful, or that they will enable entry into the Chinese telecom sector.

### CHINESE TAX HOLIDAY

In-Touch is registered in the Beijing Zhong Guan Cun High Tech Park and also recognized as a High Tech company. In-Touch will receive a tax holiday from 2003 to 2005 followed by a 50% reduction for the next three years.

Pan-Asia is registered in the Beijing Zhong Guan Cun High Tech Park and also recognized as a High Tech company. Pan-Asia is now applying the preferential tax treatment of tax holiday and reduction of tax rate.

### MANAGEMENT STATUS

We are continuing the process of identifying a permanent Chief Executive Officer & President and Chief Financial Officer with experience in the telecommunications industry, as we believe that having qualified management is critical in this phase of our development. This effort will require additional funding to attract the kind leadership required to manage and develop an international telecommunications company. We are discussing this requirement with potential investors. For the present, Pedro E. Racelis III will remain as the interim President and CEO until a suitable candidate has been identified. There has been a candidate identified for the Chief Financial Officer position, but the company is still negotiating terms with this candidate.

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RESULTS OF OPERATIONS. During the third quarter of 2004, CWC continued its work of expanding its network in Beijing and reviewing the opportunities in the local market. CWC has also put a great deal of effort into establishing and testing a variety of equipment to provide its services from different vendors in Beijing, China. Service revenues in the third quarter of 2004 soared to \$119,240, an increase of over 270 percent from first quarter 2004. This explosive growth is a direct result from China Wireless effectively bringing more customers and services onto the Beijing broadband network.

Operational expenses totaled \$634,710 and \$4,076,550 for the three months and nine months ended September 30, 2004, respectively. Of this amount, \$567,820 and

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\$3,380,603, respectively, are costs recorded for common stock issued for compensation for these same periods. Our focus is three fold: (a) raising capital, (b) providing and establishing long-term relationships with equipment providers, and (c) finalizing operational procedures for the Beijing office. Details of the stock issued for compensation have been included in Form S-8.

In comparison, operational expenses for the three months and nine months ended September 30, 2003 were \$648,163 and \$2,427,265, respectively. Of this amount, \$390,176 and \$1,413,076 were recorded for common stock issued for compensation for these same periods. The increase in operational expenses is due primarily to design and implementation of the fiber network nodes and the engineering support necessary to design, operate and maintain the network. Details of the stock issued for compensation have been included in Form S-8.

LIQUIDITY AND CAPITAL RESOURCES. For the nine-month period ended September 30, 2004, CWC used cash of \$90,727 for operating activities, a decrease of 77% compared to the nine months ended September 30, 2003. The decrease is due mainly to decreases in legal fees and accounting agency expenses. The most significant adjustment to reconcile the net loss to net cash used in operations was common stock issued as compensation amounting to \$3,238,103, as compared to \$1,413,076 in the nine-month period ended September 30, 2003. Investing activities also used cash of \$476,611 and \$287,032 during nine-month periods ended September 30, 2004 and 2003. The Company has \$65,448 of cash and cash equivalents at September 30, 2004.

As reflected in the statement of cash flows, the Company is still dependent upon issuance of its common stock for cash utilized in its operations. For the nine months ended September 30, 2004, net proceeds from the issuance of common stock provided cash of \$924,202.

At September 30, 2004, the Company had a working capital deficit of \$1,004,787, as compared to a deficit of \$693,279 at December 31, 2003.

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### PLAN OF OPERATION

The management and Board of Directors have evaluated the Company's revenue performance versus the operating expenses incurred for the previous three months and concluded that significant changes must be made to correct the financial health of the Company. The Company's operating expenses far exceeded its ability to cover these expenses with the existing revenues and margins. The Company has initiated a reorganization to reduce operating expenses significantly and to focus the sales efforts to generate revenues and margins from the fiber optic network in Beijing, China. We are reducing our expenses to provide a higher return on investment as well as greater revenue generation.

The following actions are being implemented:

1. Reduction of the office facilities from three offices to one office.
2. Implementing a reduction in Beijing staff by 50% or more, but retaining the key operations and sales staff.
3. Focusing sales efforts on customers served by the Company's fiber network

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- to generate higher revenues/margins per capital dollars invested.
4. Nonprofit able contracts to expire at the end of their term and equipment redeployed to profitable customer locations. In addition, we are re-evaluating all proposed customer contracts to ensure profitability before implementation.
  5. Implementing new pricing models to focus on higher margin revenue generation within the core business of the company.
  6. Re-engineering of the fiber optic network to focus on multiple customer locations and increase cash flow through efficient utilization of existing network facilities.
  7. Verification of equipment inventory insuring that asset tags are affixed and visible at all installed locations.
  8. Verification of equipment inventory in storage insuring that asset tags are affixed and visible.
  9. Validating the asset tag numbers against a master list with any missing numbers added to list.

### Objectives:

1. Increase revenue for the Company.
2. Attract new institutional investment.
3. Increase shareholder value through increased investor relation activities.
4. Reduce operating costs
5. Stronger controls on operations and operating costs
6. Improve the accountability of the Beijing staff

We have been focusing our efforts on finishing the design and construction of our fiber and fixed wireless broadband network system in Beijing. This system has successfully opened and commenced operations in the second quarter of 2004. We are focus our primary marketing efforts on providing high-speed transport leased line circuits in both international and domestic markets, server hosting and other broadband services. We are also in the midst of building partnership(s) with major telecom carriers within China. These partnerships will provide the telecom carriers' access to a greater number of customers wishing to connect to their backbone networks. We are in the process of reviewing cooperative agreements similar to the agreement signed with China Netcom Beijing Company on September 1, 2003. However, there is no guarantee that we will enter into agreements with other telecom carriers and that the terms and conditions of

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such agreements would be favorable to the telecom carrier or China Wireless Communications and their customers.

During 2004 we began development of a fiber fixed wireless infrastructure which will allow us to expand our transport coverage area in Beijing. The fiber fixed wireless infrastructure consists of a twin fiber ring with fiber multiplexers at eight locations (nodes) on the ring operating at a maximum capacity at 2.5Gbps (Gigabits per second). This initial capacity of 2.5Gbps (Gigabits per second) can be increased at a later date to 10Gbps (Gigabits per second) as required providing greater capacity and increasing coverage for a higher number of customers and more complex applications.

The eight locations (nodes) on the fiber ring provide the drop off points for 2.5 Gbps (Gigabits per second) or lower speed connections 622 Mbps (Megabits per



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second) to the China Wireless Communications base locations (base nodes) via fiber. The equipment at both locations provides a wide variety of interfaces including high-order/low-order (high speed 2Mbps (Megabits per second) up or low speed 2Mbps (Megabits per second) down) service access capabilities. These capabilities enable China Wireless Communications to provide varied transport speeds and services to our customers at a reasonable cost.

China Wireless Communications MAN (Metropolitan Area Network) utilizes MSTP (Multi-Service Transport Platform) technology deployed through out the network which is a new metro network technology based on the traditional SDH (SONET Digital Hierarchy) optical technology. SDH (SONET Digital Hierarchy) optical technology provides TDM (Time Division Multiplexing), ATM (Asynchronous Transfer Mode), Ethernet, IP access and transport within the network backbone. MSTP (Multi-Service Transport Platform) includes integrated NMS (Network Management System) and new features such as LCAS (Link Capacity Adjust Scheme), GFP (Generic Frame Protocol), VC (Virtual Concatenation), RPR (Resilient Packet Ring), etc., allowing the network to adapt to existing and future service evolvments. MSTP's (Multi-Service Transport Platform) ability to add data-centric protocols to the network without disturbing the ongoing, high-margin voice or TDM (Time Division Multiplexing) circuits provides the best mode to provision carrier-class metropolitan area networks. China Wireless Communications can by utilizing the MSTP's (Multi-Service Transport Platform) transport a great variety of customer's data and guarantee "up time" enabling customer's to conduct business without fear of outages or lost data. In addition MSTP's (Multi-Service Transport Platform) is an economical transport technology capable of connecting a wide variety of protocols and transport schemes.

The six China Wireless Communications base location (nodes) includes basic transport equipment and a optical fiber ring operating at 2.5 Gbps (Gigabits per second) connecting each of the base locations (nodes) utilizing fiber multiplexers. Each of the nodes are placed in the following buildings, Qinghua Tongfang, Changning, Shuanglong, Huatang and are equipped with a fiber multiplexer, LAN (Local Area Network) switch or router, and base station radios and an ATM (Asynchronous Transfer Mode) switch at the Qinghua Tongfong location. There are multiple base station radios installed at the all base locations (nodes) which provide radio transport "sectors" connecting outlying customer buildings to the base location (node) buildings for access to the transport fiber optical ring. Customers within the base location (node) building will connect to the China Wireless Communications network through a LAN (Local Area Network) switch or router and the fiber multiplexer.

Using this model, we plan to replicate our fiber fixed wireless broadband network in a dozen selected major metropolitan areas in China. In each city, we will deploy multi-advanced technologies, including MSTP (Multi-Service Transport Platform), ATM (Asynchronous Transfer Mode), Ethernet, and IP providing high-speed transport leased line both international and domestic and including other value added services.

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We plan to expand network systems beyond Beijing starting in mid 2005. Our ability to do this will be limited by our ability to raise capital, there is no guarantee that we will be successful in raising funds or that the terms would be favorable to China Wireless Communications and our shareholders.

We have positioned ourselves as a high quality service provider, offering

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reliable high-speed transport complemented by quality customer support. The continuation of our business is dependent upon the successful implementation of our business plan, raising capital, and ultimately achieving profitable operations. However, there can be no assurance that the business plan will be successfully implemented and this could adversely impact our business and prospects.

### ITEM 3. CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including our Chief Executive Officer / Chief Financial Officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures as defined in Rule 13a-14(c) promulgated under the Securities Exchange Act of 1934 as of September 30, 2004. Based on his evaluation, our Chief Executive Officer / Chief Financial Officer concluded that the design and operation of our disclosure controls and procedures were effective as of the date of the evaluation.

There have been no significant changes (including corrective actions with regard to significant deficiencies or material weaknesses) in our internal controls or in other factors that could significantly affect these controls subsequent to the date of the evaluation referenced in the preceding paragraph.

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### PART II - OTHER INFORMATION

#### Item 1. Legal Proceedings

Not Applicable.

#### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

During the third quarter of 2004, the Company raised \$120,000, from selling 522,224 shares of common stock to four existing shareholders through a private placement. In connection with this transaction, there were no underwriting discounts or commissions paid or incurred.

#### Item 3. Defaults Upon Senior Securities

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Not Applicable.

Item 4. Submission of Matters to a Vote of Security Holders

Not Applicable.

Item 5. Other Information

Not Applicable.

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a) Item 6. Exhibits

| Regulation<br>S-B Number | Exhibit  |
|--------------------------|--|
| 2.1                      | Share Exchange Agreement dated as of March 17, 2003 by and between i-Track, Inc. and Strategic Communications Partners, Inc. (1) |
| 3.1                      | Articles of Incorporation (2)  |
| 3.2                      | Bylaws (2)   |
| 3.3                      | Certificate of Amendment to Articles of Incorporation (3)  |
| 10.1                     | Promissory Note, dated June 27, 2003 in the amount of \$50,000, payable to Henry Zaks (4)  |
| 10.2                     | Promissory Note, dated July 31, 2003 in the amount of \$30,000, payable to Henry Zaks (4)  |
| 10.3                     | Investment Contract between Goldvision Technologies Ltd and SCP dated December 18, 2002 (5)                                      |
| 10.4                     | Extension Agreement to Investment Contract between Goldvision Technologies Ltd. And the Company dated August 5, 2003 (4)         |
| 10.5                     | Employment Agreement dated March 25, 2003 with Phillip Allen (5)   |
| 10.6                     | Employment Agreement dated March 25, 2003 with Brad A. Woods (5)   |
| 10.7                     | Separation & Voting Trust Agreement with Philip Allen (4).   |
| 10.8                     | Agreement between the Company and Bellador Advisory Services, Ltd. dated October 22, 2003 (4)                                    |
| 10.9                     | Agreement between the Company and China Netcom Group Beijing Company dated September 1, 2003 (4)                                 |
| 21                       | Subsidiaries of the registrant (4)   |
| 31.1                     | Certification of Chief Executive/Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (6)                 |
| 32.1                     | Certification of Chief Executive/Financial Officer Pursuant to   |

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Section 906 of the Sarbanes-Oxley Act of 2002 (6)

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- (1) Incorporated by reference to the exhibits to the registrant's current report on Form 8-K dated March 17, 2003.
  - (2) Incorporated by reference from the exhibits to the Registration Statement on Form SB-1 filed on November 6, 2000, File No. 333-49388.
  - (3) Incorporated by reference to the exhibits to the registrant's current report on Form 8-K dated March 22, 2003.
  - (4) Incorporated by reference to the exhibits to the registrant's annual report on Form 10-KSB for the year ended December 31, 2003.
  - (5) Incorporated by reference to the exhibits to the registrant's annual report on Form 10-KSB for the year ended December 31, 2002.
  - (6) To be filed by amendment.

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SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CHINA WIRELESS COMMUNICATIONS, INC.  
(Registrant)

Date: November 19, 2004

By: /s/ PEDRO E. RACELIS III

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Pedro E. Racelis III,  
Interim President and Chief Financial Officer

