

# SUMMARY

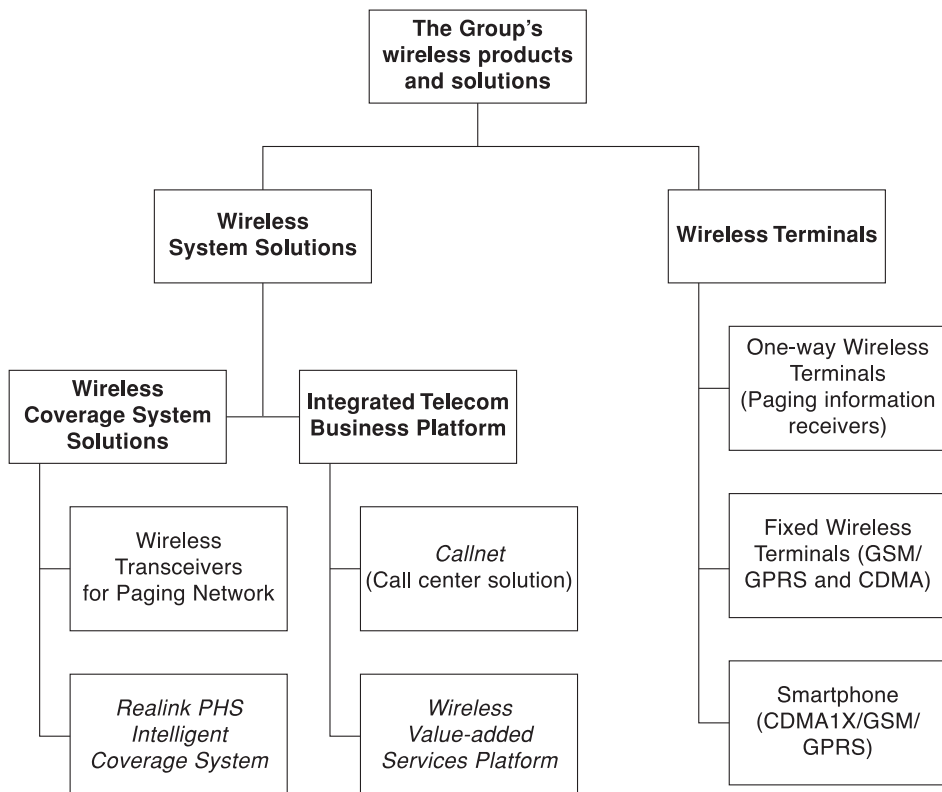
*This summary aims to give you an overview of the information contained in this prospectus. As it is a summary, it does not contain all the information that is important to you. You should read the whole prospectus before you decide to invest in the Offer Shares.*

*There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set forth in the section headed "Risk factors" in this prospectus. You should read that section carefully before making any decision to invest in the Offer Shares.*

## OVERVIEW

The Group is a wireless solution and equipment provider in the PRC. Capitalising on its technological know-how in wireless telecommunication across multiple wireless telecommunication network standards including paging, GSM, GPRS, CDMA1X, and PHS (or "Xiaolingtong" as called in the PRC), the Group has delivered solutions and equipment for wireless telecommunication from back-end system to front-end user level. To date, the Group's wireless system solutions are mainly used by telecommunication operators for enhancing network coverage and provision of value-added services and corporate user as part of in-house wireless communication platform. The Group also supplies wireless terminal products such as fixed wireless terminals and smartphones based on operating system developed by the Group's in-house R&D team. The Group's terminal products are promoted under its own "Coolpad" brand name.

The chart below illustrates the Group's current portfolio of products and solutions:—



## **Synergistic effects created by Group's products and solutions**

Combining its technological know-how and its portfolio of products and solutions, the Group is well positioned to provide innovative industry applications (comprising customised wireless system solutions and wireless terminal products) for enhancing internal and external communication of its customers, and thereby creating business opportunities.

For example, the Group provides industry application solution to China Galaxy Securities Limited (中國銀河證券有限責任公司) with an aim of enabling stock trading through wireless telecommunication network. The application comprises a back-end wireless system solution to support stock trading, and supply of smartphones for use of stock account customer. Based in Beijing, China Galaxy Securities Limited is one of the leading securities brokerages in the PRC. The group companies of China Galaxy Securities Limited are engaged in a wide range of financial services including securities brokerage, investment banking, asset management, fund management, and foreign exchange. As at the Latest Practicable Date, the Group had also provided industry application solutions to customers engaged in aviation, land transportation and public security. The Group has been in discussion with potential customers in relation to industry application for banking and insurance. The Group will also explore other industry applications in future.

The Group could either combine its portfolio of wireless system solutions and wireless terminal products for industry applications as stated above, or sell its products and solutions individually. Further information of the Group's products and solutions are set out below.

## **WIRELESS SYSTEM SOLUTION**

The Group's wireless system solution are mainly provided to telecommunication operators with the objective of increasing sources of revenue through enlarging their network coverage and scope of value added services. The wireless system solution can also be modified for use of corporate users.

## **Evolution of the Group's wireless system solution business**

During the past decade, telecommunication operators in the PRC concentrated on the development of GSM/GPRS network, and then value-added services (such as SMS and call centre services). The Group's provision of wireless system solutions was in line with such developments. In 1990s and early 2000s, the Group supplied to telecommunication operators wireless coverage system solution for paging network. As the paging network became mature, demand for such solution slowed down. It is the current policy of the Group to supply wireless transceivers for paging network only based on specific orders from earlier customers and will not actively market this product line. With the emergence of PHS technology in the PRC, the Group commenced R&D on PHS network coverage solution in April 2002 and launched its wireless coverage solution for PHS network (namely *Realink PHS Intelligent Coverage System*) in December 2003. On the other hand, the Group completed R&D on its core module for enabling telecommunication services and the related database management, namely "Uniswitch" in 1999 and based on "Uniswitch", launched *Wireless Value-added Services Platform* and *Callnet* in June 2001 and June 2002, respectively aiming to enable management functions of and provision of value-added service by telecommunication operators.

The Directors believe that the Group are among the preferred wireless system solution providers to major telecommunication operators in the PRC, which is evidenced by the fact that the Group was enlisted as one of the approved suppliers of various equipment to the China Unicom Group, with whom the Group has maintained more than seven years of business relationship. However, as the number of major telecommunication operators in the

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PRC is limited, the number of potential customers for the Group's wireless system solutions is also limited. Moreover, due to their substantial size and business coverage, telecommunication operators are typically in a stronger bargaining position.

During the Track Record Period, revenue from provision of wireless system solutions accounted for more than 90% of the turnover of the Group in 2001 and 2002; and dropped to approximately 30% and 18% in 2003 and the five months ended 31 May 2004, respectively. The Directors believe that the trend was in line with the development trend of the telecommunication industry in the PRC, whereby the telecommunication operators gradually shifted the bulk of their investments from building infrastructure of telecommunication networks to enhancing value-added services and user interface. Moreover, for the five months ended 31 May 2004, the Group did not deliver any wireless transceiver for paging network, and the average selling price of *Realink PHS Intelligent Coverage System*, *Callnet* and *Wireless Value-added Service Platform* declined compared to those in 2003, mainly as a result of the smaller size of projects delivered during the period.

Based on the Directors' observation on the development of the telecommunication industry in the PRC, the Directors expect that the financial contribution of wireless system solutions to the Group's turnover would either become stable or decrease gradually till the emergence of new technology or standard. For example, in the past, the emergence of the PHS standard in the PRC led to additional investments in network solutions by the telecommunication operators and the Group was then able to capitalise on the development by promoting new network coverage solution.

In the past, the Group has focused its R&D and marketing activities for the promotion of its wireless system solutions. The Directors believe that the Group's earlier investment and the experience accumulated in the R&D and marketing of wireless system solutions served as foundation for development of its wireless terminal business, and more importantly for the development of industry applications in the following ways:—

- (i) telecommunication operators, which are the major customers of the Group's wireless system solutions, are also important clientele for the Group's wireless terminal products;
- (ii) continuous provision of wireless system solutions to telecommunication operators would not only allow the Group to maintain relationship with telecommunication operators but also allow the Group to gain insight of technological development and system requirements of telecommunication operators. The Directors believe that such developments will likely shape the behavior of wireless service users and consider them as important considerations in designing wireless terminal products; and
- (iii) under one of the current business models of promoting industry applications, the Group would design an industry application, supply wireless system solution directly to corporate users, and at the same time supply the wireless terminals to telecommunication operators. The telecommunication operators would then resell the wireless terminals together with network usage packages to the corporate users to encourage higher network usage. This model has already been used by customers of the Group and the Group has been and is engaged in promotion of the industry application jointly with one of the major telecommunication operators in the PRC.

In view of the above, the Directors expect that the Group would continue to engage in the provision of wireless system solutions along with the provision of wireless terminals. Given the same core technologies for wireless telecommunication and the commercial considerations cited above, notwithstanding the change in contribution of different products and solutions to the turnover of the Group, the Directors consider that there was no significant change in key functional units of the Group, namely management, R&D, marketing and sales, during the Track Record Period.

### **Wireless coverage system solutions**

The Group's wireless coverage system solutions are generally used by telecommunication operators to extend and enhance transmission quality of their telecommunication network. These solutions are sold on project basis and can be modified in accordance with customers' specifications. Currently, the Group's wireless coverage system solutions can be used for paging or PHS networks.

#### *Wireless transceivers for paging network*

The Group's wireless transceivers are designed to provide outdoor coverage of a paging network. This solution supports one-way transmission of wireless data and is used by telecommunication operators in the PRC. The principal function of this solution is for converting data signal to wireless signal, which is received by a pager. In view of the shrinking paging market in the PRC, the Group intends not to put material resources in the R&D or marketing of this solution. Instead, the Group will only deliver wireless transceivers based on specific order from earlier customers.

#### *Realink PHS Intelligent Coverage System*

The Group launched its wireless coverage system solution for PHS networks under the name of *Realink PHS Intelligent Coverage System* in December 2003. *Realink PHS Intelligent Coverage System* is a multiple-channel PHS coverage system solution designed to extend the coverage of a PHS network and to enhance voice quality.

### **Integrated telecom business platform**

The Group's integrated telecom business platform is primarily used by telecommunication operators to support telecommunication services with centralised management functions and user interface that could provide value-added services to subscribers. The solution is able to automatically prioritise information flow and request. These solutions are sold on project basis and are modified in accordance with customers' specifications.

Currently, the Group's integrated telecom business platform comprises two solutions, namely *Callnet* and *Wireless Value-added Services Platform*.

#### *Callnet*

The Group's *Callnet* is a solution for supporting operation of a call centre, including those operated on WAN IP. The key function of a call centre is to receive and process audio and data requests via telephone, fax, computers or the Internet. The *Callnet's* PBX/ACD will decide whether the data received should be processed under an IVR system or a team of human operators. Once the request is recognised, the system will

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then retrieve the data through its database and transmit the content to the appropriate recipients via various gateway mediums, such as the mobile network, wireless data network or corporate network.

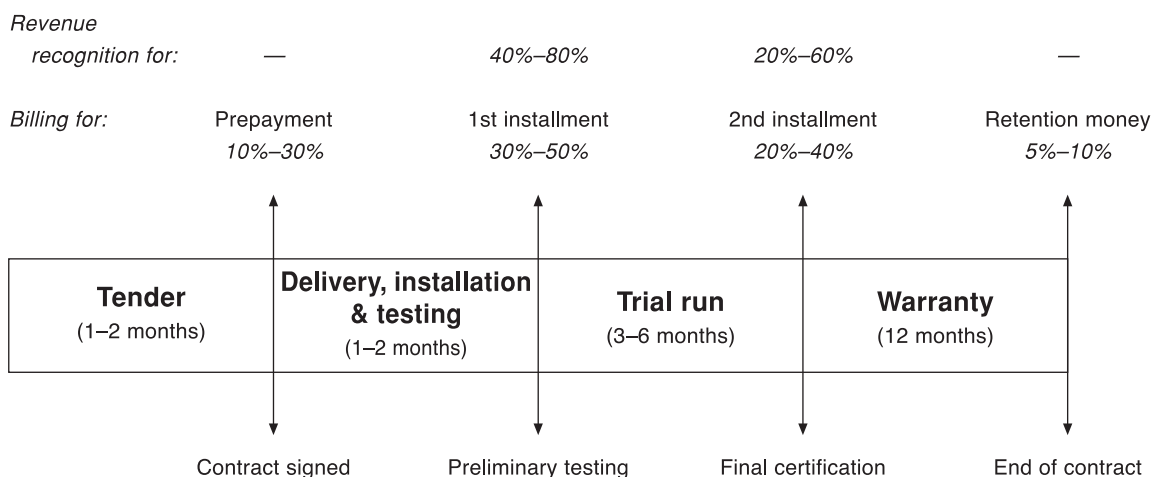
During the Track Record Period, the Group delivered its *Callnet* solutions to major telecommunication operators in the PRC for the establishment of their own in-house call centres or to enable the telecommunication operators to provide contracted call centre services to their own customers. The contracted call centre services are designed to enable the telecommunication operators to support call centre functions for their clients according to clients' specifications. Moreover, the Group also delivered *Callnet* as corporate solution to corporations such as TCL. The Directors believe that the system is able to assist corporations to provide a cohesive CRM interface and would be of great value to corporations that operate in competitive environment with large amount of customers.

### *Wireless Value-added Services Platform*

The Group's *Wireless Value-added Services Platform* is a solution designed to enable telecommunication operators to offer to subscribers interactive wireless data services, such as SMS, Internet paging and wireless game. The platform can also provide IVR services to various telecommunication media such as fixed line, mobile network, and Internet simultaneously. With the Group's *Wireless Value-added Services Platform*, telecommunication operators can offer various services such as real-time stock quotation, news, dating services, weather report and lottery results to their subscribers.

### **Business model for provision of wireless system solutions**

Under the current business model, the Group's wireless system solutions are mainly provided directly to telecommunication operators on project basis. The Group provides design, delivery and installation, testing and inspection, maintenance and after-sales services for its wireless system solution customers. Following the final certification, the customer would be responsible for the ongoing operation of the wireless system solution. A wireless system solution project could take about one to two years from the commencement of tender to the end of the warranty period, depending on the complexity and size of the project. The following chart illustrates the typical stages of a wireless system solution project:—



The Group normally requires prepayment for its wireless system solutions, although the percentage of prepayment decreased substantially during the Track Record Period from about 30% to 10% as a result of the increasing bargaining power of the telecommunication operators. Payments from the customers are normally made by installment upon completion of installation, testing and trial run, with retention money of about 5% to 10% paid to the Group at the end of the warranty period.

Some of the Group's *Realink PHS Intelligent Coverage Systems* are sold to telecommunication equipment or solution distributors, which then resell to telecommunication operators. The distributors are responsible for installation, testing and maintenance, with the Group providing technical and marketing support. The distributors are typically required to settle the purchase price upon delivery, while in some cases, the Group may offer credit terms up to three months to distributors with good payment record. Revenue is recognised by the Group upon delivery of the products.

## **WIRELESS TERMINAL**

The Group distributes wireless terminals under its own brand name *Coolpad*. The wireless terminals enable one-way or two-way transmission of wireless data. The Group's wireless terminals are mainly sold to branch companies of telecommunication operators and telecommunication equipment distributors in the PRC. The Group also promotes its wireless terminal products as part of its industry application.

### **Evolution of the Group's wireless terminal business**

The Group commenced its supply of wireless terminals as early as 1995 when the Group supplied mainly paging information receivers together with PPS high speed wireless data transmission system to telecommunication operators in the PRC. As the paging network became mature, demand for the paging information receivers slowed down. On the other hand, in view of the increasing data transmission capabilities of telecommunication network, the Group decided to capitalise on market opportunities by developing its own wireless terminal products and commenced R&D on the operating system of wireless terminals in August 1999. In December 2002 and January 2003, the Group explored the market of fixed wireless terminal by launching such products for GSM/GPRS and CDMA networks respectively. In March 2002, the Group started hardware design of its smartphone products. The Group's smartphone for CDMA1X and GSM/GPRS network was launched to market in December 2003 and September 2004 respectively. Combining its expertise and experience in wireless system solution, the Group promoted industry applications of its smartphone products together with back-end wireless system solution at the same time.

During the Track Record Period, wireless terminal products contributed less than 10% to the Group's turnover in 2001 and 2002. In 2003 and the five months ended 31 May 2004, revenue from wireless terminal products accounted for approximately 70% and 82% of the Group's turnover, mainly due to the launch of fixed wireless terminals and smartphone. For the five months ended 31 May 2004, the average selling price of one-way wireless terminal and fixed wireless terminals declined compared to those in 2003, mainly as a result of shrinking paging market in the PRC and the pricing pressure on the fixed wireless terminals due to increasing market competition; while the average price of the smartphone maintained at similar level as that in 2003.

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The Directors believe that the significant contribution of revenue from wireless terminal products was firstly due to the product quality and marketing activities undertaken by the Group, and secondly the promotion policy of telecommunication operators. Telecommunication operators are the Group's major customers of wireless terminals and typically resell the products to subscribers as part of incentive package for using their telecommunication networks. The Directors expect that the Group's fixed wireless terminals will continue to be sold mainly to telecommunication operators and telecommunication equipment distributors who usually resell such products to the telecommunication operators, and future sales of fixed wireless terminals will continue to depend on product quality and promotion policy of telecommunication operators. On the other hand, it is the policy of the Group to promote its smartphones not only to telecommunication operators and telecommunication equipment distributors but also to potential users of its industry applications. With a much diversified distribution channel, the Directors expect that the sales of its smartphone will principally depend on product quality and effectiveness of the Group's marketing activities. Given the huge size and population of the PRC, the increasing use of wireless services and requirement for more sophisticated data handling capability of wireless terminals, the Directors envisage the potential of the Group's wireless terminal products, particularly smartphone, to be substantial.

### **One-way wireless terminal**

The Group's one-way wireless terminals operate on the Group's proprietary operating system and are designed for paging network to transmit information such as stock quote, news and weather forecast. In view of the shrinking paging market in the PRC, the Directors expect that one-way wireless terminals would not represent main stream of revenue in future and do not intend to put substantial R&D or marketing resources in this product. Instead, the Group will only deliver this type of products based on specific order from existing customers.

### **Fixed wireless terminal**

The Group's fixed wireless terminal functions like a desktop phone but is designed to operate on a mobile network. The fixed wireless terminals are promoted mainly to operators of mobile telecommunication network in the PRC, as the fixed wireless terminal encourage usage of mobile network even in a stationary environment such as office and home.

The Group's CDMA fixed wireless terminal passed the field test conducted by the China Unicom Group and is enlisted by the China Unicom Group as one of its approved CDMA fixed wireless terminal providers. As at the Latest Practicable Date, the Directors understand that there were 15 CDMA fixed wireless terminal providers approved by the China Unicom Group in the PRC, including the Group.

### **Smartphone**

The Group's smartphone was developed based on the Group's self-developed operating system. The Group's smartphone integrates a mobile phone and a PDA with wireless applications such as email, Internet browsing, and instant messaging. As at the Latest Practicable Date, the Group offered smartphones that operate on the CDMA1X and GSM/GPRS networks in the PRC and has finished the field trialing of its CDMA-GSM dual-mode smartphone.

The Group aims to position its smartphone as a wireless communication device for high-end market. The Directors intend the target users of the Group's smartphone to be high-end users requiring sophisticated data functions or corporations using the Group's industry applications. The Directors believe that with the enhancement of wireless telecommunication network, more sophisticated wireless services will become available to the market. Smartphone with ability to support various data related functions such as email, database management, and multi-media functions such as video viewing and recording, Internet browsing, and camera function will be of demand. On the other hand, the Directors understand that the competition in this area is intense with various local and overseas competitors. Some of them have very strong market position and technical background.

With its expertise in wireless system solution for back-end operations, the Group has provided industry applications for stock trading businesses and customers engaged in land transportation, aviation and public security. The Group has been in discussion with potential customers in relation to industry application for banking and insurance. The Group will also explore other industry applications in the future.

**Business model for provision of wireless terminal product**

The Group provides design and after-sales services for its wireless terminals customers which are typically telecommunication equipment distributors and telecommunication operators. Sales are typically made on cash on delivery basis or credit term of up to three months in general. However, in some cases, wireless equipment distributors would make prepayment to the Group before delivery of products.



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## Breakdown of turnover

Breakdown of the Group's turnover by products and solutions during the Track Record Period is as follows:—

	For the year ended 31 December						For the five months ended 31 May			
	2001		2002		2003		2003 (unaudited)		2004	
	RMB'000	% of turnover	RMB'000	% of turnover	RMB'000	% of turnover	RMB'000	% of turnover	RMB'000	% of turnover
<b>Wireless system solutions</b>										
Wireless										
transceivers for paging network	83,363	98.3	73,431	72.5	20,608	12.8	18,029	38.3	—	—
<i>Realink PHS Intelligent Coverage System</i>	—	—	—	—	10,034	6.2	—	—	11,424	13.6
Sub-total for wireless coverage system	83,363	98.3	73,431	72.5	30,642	19.0	18,029	38.3	11,424	13.6
<i>Callnet</i>	—	—	13,343	13.1	11,967	7.4	8,121	17.3	2,448	2.9
<i>Wireless Value-added Service Platform</i>	836	1.0	8,176	8.1	6,190	3.8	5,721	12.2	1,488	1.8
Sub-total for integrated telecom business platform	836	1.0	21,519	21.2	18,157	11.2	13,842	29.5	3,936	4.7
Sub-total	84,199	99.3	94,950	93.7	48,799	30.2	31,871	67.8	15,360	18.3
<b>Wireless terminals</b>										
One-way wireless terminals	568	0.7	4,887	4.8	4,220	2.6	2,927	6.2	39	—
Fixed wireless terminals	—	—	1,492	1.5	89,248	55.3	12,230	26.0	22,538	26.8
Smartphone	—	—	—	—	19,241	11.9	—	—	46,252	54.9
Sub-total	568	0.7	6,379	6.3	112,709	69.8	15,157	32.2	68,829	81.7
Total	84,767	100.0	101,329	100.0	161,508	100.0	47,028	100.0	84,189	100.0

The number of projects delivered or units of wireless terminals sold by the Group during the Track Record Period are as follows:

	Year ended			Five months ended	
	2001	2002	2003	31 May	2004
	Unit	Unit	Unit	Unit	Unit
<b>Wireless system solutions</b>					
Wireless transceiver for paging network	107	58	15	9	—
<i>Realink PHS Intelligent Coverage System</i>	—	—	6	—	30
<i>Callnet</i>	—	3	3	2	1
<i>Wireless Value-added Services Platform</i>	2	11	9	6	5
<b>Wireless terminals</b>					
One-way wireless terminal	1,761	8,233	9,841	8,026	206
Fixed wireless terminal	—	1,025	52,265	8,595	30,321
Smartphone	—	—	5,002	—	12,023

#### IMPLICATION OF ADJUSTMENT OF THE GROUP'S PORTFOLIO OF PRODUCT AND SOLUTION

As evidenced by the evolution of the Group's businesses, the Group has been adjusting its business strategies in light of the changing market conditions by making use of its core technologies. The results of the adjustment are reflected in change in customer composition, and also the change in contribution to overall sales and profit margin by different product and solution. During the Track Record Period, the contribution of turnover from sales to the telecommunication operators and sales of wireless system solution decreased, whilst that from wireless terminals, in particular smartphones, increased significantly. Meanwhile, due to market competition, the average contract size or selling price of some of the Group's products and solutions, such as the *Callnet* and fixed wireless terminal also decreased during the period. Despite the decrease, the Group intended to continue the provision of wireless system solutions and products to telecommunication operators in order to gain in-depth understanding of system requirements of telecommunication operators. The Directors believe that such understanding to be of importance for shaping the overall telecommunication market and the development strategies of the Group. As such, the Directors expect that whilst the contribution of the wireless system solutions business would either be stable or decrease, the smartphone business would be the key growth area for the Group in the short to medium term.

The Directors expect that due to different business terms incidental to sales of smartphone, as compared to provision of wireless system solutions and other wireless terminals, the Group would enjoy benefit such as relatively shorter cash collection period due to relatively shorter settlement cycle. On the other hand, the Group would have to take a more proactive approach in launching new models of products to capture market interest, which would be reflected in the substantial input in R&D on smartphone products in the future.

## RESEARCH AND DEVELOPMENT

During the Track Record Period, the Group's products and solutions are designed and developed by the Group's R&D team. The Group places strong emphasis on the R&D for product and innovations in order to capture opportunities emerged from the rapid development and advancement in the telecommunication industry.

As at 31 December, 2001, 2002 and 2003, and as at the Latest Practicable Date, the Group had R&D staff of 191, 162, 202, and 231 respectively. Most of the Group's R&D professionals have obtained bachelor's degree or above, specialising in communications technology, electronics engineering and/or other wireless telecommunication related subjects. Currently, the Group's R&D is organised into four function groups, namely, hardware group, software group, testing group; and 3G/multi-media group. Mr. Guo is responsible for overseeing the overall strategic R&D direction; and Mr. LI Ming and Mr. DONG Yongquan are responsible for overseeing the daily R&D functions. All of them have over 10 year experience in R&D in telecommunication industry in the PRC and received relevant academic qualifications. Particularly, Mr. LI Ming and Mr. DONG Yongquan had prior experience in R&D of smartphone and fixed wireless terminal products.

## NATION-WIDE COVERAGE IN THE PRC

The following map shows the provinces and direct-controlled municipalities in the PRC which the Group's products and solutions have been sold to or deployed in.



- Key:
- # Wireless Coverage System installed
  - ★ Integrated Telecom Business Platform installed
  - △ Wireless Terminals sold

To provide timely and quality services, the Group has established a nation-wide services network with headquarters in Shenzhen, a representative office in Beijing, sales liaison points in Shanghai, Chongqing, Tianjin and 20 provinces in the PRC (namely Anhui, Fujian, Gansu, Guangdong, Guangxi, Guizhou, Hebei, Heilongjiang, Henan, Hubei, Jiangsu, Liaoning, Ningxia, Shaanxi, Shandong, Shanxi, Sichuan, Xinjiang, Yunnan and Zhejiang).

## ACCREDITATION

Since its establishment, the Group has positioned itself as a wireless solution and equipment developer and has been focusing on the development of innovative wireless communication technologies in the PRC. The Group is one of the earlier providers of ingenious wireless paging system solutions comprising wireless transceiver, back-end operation support system and front-end terminals in the PRC.

As a result of its efforts, the Group was accredited as 深圳市高新技術企業 (Shenzhen Hi-tech Enterprise) in July 1999, 軟件企業 (Software Enterprise) by 深圳市信息化辦公室 (Shenzhen Informatisation Office) in August 2001, 深圳市300最具成長性企業 (300 Fastest Growing Enterprise in Shenzhen) by 深圳市企業評價協會 (Shenzhen Enterprise Appraisal Association) in September 2001, and 深圳市青年科技創新(示範)基地 (Shenzhen Young Technology Innovation Organisation) by 深圳市人民政府 (Shenzhen Municipal People's Government) in July 2003. In July 2004, the Group's *Coolpad* 手機嵌入式軟件 VI.10 (mobile phone embedded software) was accredited gold medal in 第八屆中國國際軟件博覽會 (The 8th INT'L SOFT CHINA). Details of other awards and honours received by the Group are set in the paragraph headed "Accreditation and official recognitions" in the section headed "Business" in this prospectus. In May 2003, the Group was also awarded the ISO9001: 2000 management process quality certificate.

## COMPETITIVE STRENGTHS

The Directors consider the Group's competitive strengths to be as follows:—

- **Understanding of the PRC's wireless communication industry**

Founded in 1993, the Group has been providing wireless solutions and equipment to telecommunication operators in the PRC. During the years, PRC's wireless telecommunication industry witnesses quick advancement in technology and de-regulation. The Group has accumulated expertise and experience in multiple wireless networks, including paging, GSM, GPRS, CDMA and PHS. The Directors believe that such expertise and experience are not common attributes among wireless communication solution providers in the PRC and could offer the Group significant competitive edge over its competitors in the future.

- **Proximity to local market**

As a domestic enterprise with years of business relationships with PRC's major telecommunication operators, the Group has nurtured close relationships with its customers. This enables the Group to have a good understanding of the requirements of the telecommunication operators so as to provide timely responses to market changes.

- **Nimble and cost-effective R&D**

The Directors believe that the Group's R&D activities are both nimble and cost-effective, and the Group has a very strong R&D team. As at 31 December 2001, 2002, 2003 and the Latest Practicable Date, the Group had 191, 162, 202 and 231 staff respectively responsible for R&D with most of them obtained bachelor's degree or above. During the Track Record Periods, all of the Group's products and solutions are designed and developed by the Group's R&D team. During each of the three years ended 31 December 2003 and the five months ended 31 May 2004, the Group's R&D expenses were approximately RMB8.5 million (approximately HK\$8.0 million), RMB10.7 million (approximately HK\$10.0 million), RMB11.3 million (approximately HK\$10.7 million) and RMB6.3 million (approximately HK\$5.9 million) respectively, representing approximately 10%, 11%, 7% and 8% of the Group's turnover respectively. With such R&D expenditure, the Group has been able to develop and design its own products and solutions in line with the development trend of the wireless telecommunication industry in the PRC and have received a number of awards and official recognitions from a number of PRC authorities and professional bodies as set out in the paragraph headed "Accreditation and official recognitions" in the section headed "Business" in this prospectus. The Directors believe that this has enabled the Group to provide a variety of R&D intensive products and to launch innovative products and solutions at competitive costs.

- **Portfolio of core technologies**

Through years of experience of offering solutions ranging from back-end to front-end applications for wireless telecommunication, the Group has developed and accumulated core technologies in the areas of telecommunication protocol software development, RF system design, embedded real-time control and proprietary operating system for wireless terminals.

- **Recognition and reputation**

The Group has been providing products and solutions for wireless telecommunication and support services in the PRC for years. The Group's products and solutions have been recognised and accredited by various authorities. The Directors believe that the Group has gained a reputation for quality products and solutions among many of its customers.

- **Extensive sales, after sales support and technical support services**

The Group has delivered wireless telecommunication solutions covering extensive parts of the PRC. As at the Latest Practicable Date, the Group employed a sales team comprising 105 people, who stationed in the Group's headquarters in Shenzhen, representative office in Beijing and sales liaison points in Shanghai, Chongqing, Tianjin and 20 provinces in the PRC. The team provides installation and maintenance services, and after sales support services to the Group's customers.

## MARKET OPPORTUNITIES

The Directors believe that the Group is well positioned to capitalise on the opportunities arising from telecommunication industry de-regulation, technology advancement, as well as increasing popularity of wireless applications in the PRC.

1. **Industry de-regulation** — With the restructuring of the telecommunication sector in the PRC, mobile and fixed-line telecommunication operators are not only providing voice services. More value-added and data services and services based on network standard with both mobile and fixed-line features such as PHS have been launched in recent years. As a result, competition among telecommunication operators intensifies. To enhance competitiveness and to introduce additional revenue sources, telecommunication operators seek to provide more comprehensive value-added services and to develop innovative industry applications of wireless services on top of basic voice services. The Directors believe that these developments will continue to create opportunities for solution and equipment providers with technical expertise, track records and nation-wide services network.
2. **Technology advancement in wireless technologies** — As higher bandwidth digital mobile network (such as 2.5G and 3G) and particularly the CDMA1X (referred to as 2.5G or 2.8G) network are being or expected to be used in the PRC on a nationwide scale, telecommunication operators are able to offer more sophisticated services and would need to market such services to subscribers in the shortest possible time frame to recover the investment in network infrastructure. This and the need for the offering of more data centric services are expected to create substantially more demand for the Group's products and solutions.

The Directors believe that the emergence of 3G standards in the PRC signifies potential new markets for full range of the Group's products and solutions, including network coverage solutions, back-end system solutions for telecommunication operators and terminal products. All the designs of the Group's existing products have been developed with consideration of further upgrade to 3G standards.

The Directors understand that 3G testing was first carried out in the PRC in 2002. In November 2003, the second stage of 3G testing were conducted by six telecommunication operators and equipment providers on three major 3G standards, being WCDMA, CDMA2000 and TD-SCDMA. 3G inter-vendor equipment operability, network coverage and system capacity tests have been conducted in selected regions in 2004. In light of these developments, the Directors believe that 3G could be launched in the PRC no early than 2005, though no concrete timetable, rules or regulations have been issued by the State as at the Latest Practicable Date. The Directors believe that, with the deployment of 3G technology in the PRC, mobile operators in the PRC will increase their investment on wireless peripheral equipment so as to extend the functionality of their network coverage and terminal products to achieve 3G compatibility. Accordingly, in order to build up the Group's ability and readiness to provide 3G wireless coverage system solutions and 3G compatible wireless terminals, the Group has set up a 3G/multi-media project team in its R&D department. In order to follow 3G technologies development and study on application of 3G technologies, in March and October 2004, the Group entered into strategic partnership agreements with a 3G module developer which is engaged in the design and manufacturing of CDMA

wireless modules, and a wireless telecom component and system provider, respectively. The Group's 3G/multimedia team has also been in frequent contact with and is in negotiation with a core 3G technology developer in the PRC for collaboration in R&D of 3G technologies. The Group plans to upgrade its existing wireless system solutions and terminal products to be 3G compatible.

- 3. Unique requirements of the PRC market** — The Directors believe that the Group has acquired substantial knowledge on the requirements of customers in the PRC. Capitalising on its local expertise, the Group developed its own operating system for its smartphone products for the PRC market. Such operating system relieves the Group from paying licensing fee to third party technology provider. In addition, it allows the Group to have autonomy in designing and refining functions of the smartphone products and in developing industry applications so as to meet changing requirements of the market and technology innovations in a timely manner.

### GROWTH STRATEGY

During the Track Record Period, based on its know-how on core wireless telecommunication technologies, the Group was able to effectively adjust its product and solution portfolio in line with the investment focus of telecommunication industry in the PRC. During the Track Record Period, the Group's major source of turnover changed from sales of wireless system solutions to wireless terminals. The contribution from wireless system solutions decreased from approximately 99.3% in 2001 to approximately 18.3% in the five months ended 31 May 2004, while that from wireless terminals increased from approximately 0.7% in 2001 to approximately 81.7% in the five months ended 31 May 2004.

As basic infrastructure of the existing telecommunication networks in the PRC matures and the competition among telecommunication operators intensifies, the Directors expect that the telecommunication operators will continue to focus on enhancing user interface and promote more value-added services to reinforce customer loyalty. Under the current market condition, the Group expects to maintain the provision of wireless system solutions and to derive growth from wireless terminal products, particularly smartphone. In the long term, the Group will continue to generate growth by providing products and solutions in response to the emergence of new technology and the increasing requirements of the telecommunication operators and corporate clients by utilising its core wireless technologies. To achieve growth in such direction, the Group has formulated development plans as follows.

### DEVELOPMENT PLANS

#### **Further development of the smartphone business and development of the potential smartphone operating system licensing business**

The Directors believe that the Group is one of the leaders among the many technology companies in the PRC which have successfully developed their own operating system for wireless terminals. In July 2004, the Group's *Coolpad* 手機嵌入式軟件 VI.10 (mobile phone embedded software) was accredited gold medal in 第八屆中國國際軟件博覽會 (The 8th INT'L SOFT CHINA). With its self-developed operating system, the Group does not need to pay licence fee to third party technology provider and has the autonomy to enhance the functions

of its wireless terminal products. The Group has also been in discussions with certain major handset manufacturers in the PRC about licensing the Group's proprietary operating system with the aim of penetrating into the smartphone operating system market.

Coupled with its experience in wireless system solution development, the Group is well positioned to extend the application of its wireless terminals, particularly smartphone, to provide tailor made industry applications. The Group intends to promote industry applications either on its own or in partnership with other services/application providers or telecommunication operators. The Group has taken steps to market the industry applications for stock trading, aviation, banking, insurance, land transportation and public security industries. Details of the industry applications are set out in the paragraphs headed "Industry applications developed based on the Group's wireless terminal products" in the section headed "Business" in this prospectus.

### **Further empowering of R&D**

To support future expansion, the Directors consider it crucial to further strengthen the Group's R&D team. The Group plans to recruit additional professionals to join its R&D team, purchase more R&D equipment, and provide continuous training to improve the R&D team's technical know-how. The Group will also continue to participate in exhibitions and workshops in order to keep abreast of latest wireless technologies. In order to accommodate the growing R&D team, the Directors consider that it would be useful for the Group to build its own R&D centre in the future. However, the Directors further confirmed that as at the Latest Practicable Date, the Group has not committed to any third party for purchase of land for such purpose, nor the Group has any fixed timetable for doing so.

It is the Group's strategy to focus on a few core areas of wireless communication technologies related to its proprietary operating system for wireless terminal products and its industry applications, wireless coverage system for PHS network and applications of 3G technologies. Besides investing in research on the applications of core 3G technologies, the Group plans to upgrade its existing products and solutions to be 3G compatible. Details on the Group's R&D directions are set forth under the paragraph headed "Research and development" in the section headed "Business" in this prospectus.

### **Brand awareness and products/solutions promotion**

With its core technical competence in wireless technologies, the Group aims to position itself as a preferred partner for telecommunication operators and corporate subscribers. To this end, the Group aims to maintain close contact with major telecommunication operators in the PRC on both headquarters level and provincial branch level. The Group's technical staff will continue to liaise closely with the representatives of telecommunication operators to keep itself abreast of technical requirements as well as market development directions. The Directors expect that the Group would continue to partner with telecommunication operators, other telecommunication solution or equipment providers in promoting its wireless terminal products as core component of industry applications. The promotion is expected to be done primarily through direct marketing. The Group will participate in various trade shows and technical conferences in the PRC to enhance the publicity of its brandname. Advertisements will also be placed in selected professional and general magazines as well as outdoor media in major PRC cities such as Beijing, Shanghai, Guangzhou, Hangzhou and Shenzhen to enhance the awareness of products and solutions and the image of the Group.



## SUMMARY

### Expansion in sales, distribution and services network coverage

The Group is headquartered in Shenzhen of the PRC and has one representative office in Beijing and sales liaison points in Shanghai, Chongqing, Tianjin and 20 provinces in the PRC. In order to strengthen the Group's market position, the Group intends to upgrade some of its sale liaison points and the representative office in future. In doing so, the Group expects to enlarge the sales team, expand the office space and upgrade office facilities. In addition, the Group also intends to increase the number of experienced sales engineers in order to support the increasing volume of marketing activities and to provide better services to its customers.

### TRADING RECORD

The following table summarises the Group's audited combined results for the Track Record Period, which are prepared on the assumption that the Group's current corporate structure had been in existence throughout the periods under review and is extracted from, and has been prepared in accordance with the basis set forth in section I of the accountants' report, the text of which is set forth in Appendix I to this prospectus:—

	Year ended 31 December			Five months ended	
	2001 (audited) RMB'000	2002 (audited) RMB'000	2003 (audited) RMB'000	31 May 2003 (unaudited) RMB'000	2004 (audited) RMB'000
Turnover <sup>(1)</sup>	84,767	101,329	161,508	47,028	84,189
Cost of sales	(34,317)	(40,454)	(92,845)	(25,151)	(52,372)
Gross profit	50,450	60,875	68,663	21,877	31,817
Other revenues	1,063	3,551	3,271	1,540	1,885
Selling and distribution expenses	(15,716)	(10,155)	(11,818)	(4,620)	(7,503)
Administrative expenses	(18,295)	(16,825)	(15,110)	(5,068)	(7,367)
Net other operating expenses	(1,293)	(890)	(494)	(98)	(255)
Operating profit	16,209	36,556	44,512	13,631	18,577
Finance costs	(857)	(1,127)	(1,951)	(372)	(828)
Share of losses of an associate	(718)	(315)	(43)	(23)	—
PROFIT BEFORE TAX	14,634	35,114	42,518	13,236	17,749
Taxation	(1,422)	(2,446)	(3,301)	(895)	(2,316)
PROFIT BEFORE MINORITY INTEREST	13,212	32,668	39,217	12,341	15,433
Minority Interest	343	—	—	—	—
NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS	13,555	32,668	39,217	12,341	15,433
Dividends	—	(20,198)	—	—	—
Earnings per Share (RMB cent) <sup>(2)</sup>	4.52	10.89	13.07	4.11	5.14

Notes:—

1. Turnover represents the net invoiced value of goods sold and services rendered during the Track Record Period, after deducting allowances for returns and trade discounts and net of sales tax and value-added tax.
2. The computation of earnings per Share is based on the Group's combined net profit attributable to Shareholders for the Track Record Period and on the basis of a total of 300,000,000 Shares in issue and expected to be issued immediately following the completion of the Capitalisation Issue.

A detailed discussion of the results of the Group during the Track Record Period is set forth under the paragraph headed "Management's discussion and analysis of results" in the section headed "Financial information" in this prospectus.

### **PROFIT FORECAST FOR THE YEAR ENDING 31 DECEMBER 2004**

The following sets forth the profit forecast for the year ending 31 December 2004:—

Forecast consolidated profit after taxation but before extraordinary items <sup>(1)</sup> . . . . .	not less than RMB46.0 million (approximately HK\$43.4 million)
Forecast fully diluted earnings per Share <sup>(2)</sup> . . . . .	not less than 11.5 RMB cents (or 10.9 HK cents)

1. The profit forecast has been prepared based on the audited results of the Group for the five months ended 31 May 2004, the unaudited results of the Group for the five months ended 31 October 2004 and a forecast of the results of the Group for the remaining two months ending 31 December 2004 on the basis that the current Group structure had been in existence throughout the whole financial year ending 31 December 2004. For details, please refer to Appendix III to this prospectus.
2. The calculation of the forecast earnings per Share on a fully diluted basis is based on the forecast consolidated profit after taxation but before extraordinary items for the year ending 31 December 2004 and on the basis of a total of 400,000,000 Shares in issue and expected to be issued immediately following completion of the Share Offer and the Capitalisation Issue but does not take into account any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any options that may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandates for the allotment and issue or repurchase of the Shares referred to under "Written resolutions of all the shareholders of the Company passed on 21 November 2004" in Appendix VI to this prospectus.

### **STATISTICS OF THE SHARE OFFER**

	<b>Based on the Offer Price of HK\$0.79</b>	<b>Based on the Offer Price of HK\$0.87</b>
Market capitalisation ( <i>Note 1</i> ) . . . . .	approximately HK\$316 million	approximately HK\$348 million
Unaudited adjusted net tangible asset value per Share ( <i>Note 2</i> ) . . . . .	approximately 44.8 RMB cents (approximately 42.2 HK cents)	approximately 46.9 RMB cents (approximately 44.2 HK cents)
Prospective fully diluted price/ earnings multiple ( <i>Note 3</i> ) . . . . .	approximately 7.3 times	approximately 8.0 times

*Notes:—*

1. The market capitalisation does not take into account any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any options that may be granted under the Share Option Scheme.
2. The unaudited adjusted net tangible asset value per Share is arrived at after making the adjustments set forth under “Unaudited adjusted net tangible assets” in the section headed “Financial information” in this prospectus and on the basis of a total of 400,000,000 Shares in issue and expected to be issued immediately following completion of the Share Offer and the Capitalisation Issue but does not take into account any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any options that may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandates for the allotment and issue or repurchase of the Shares referred to under “Written resolutions of all the shareholders of the Company passed on 21 November 2004” in Appendix VI to this prospectus.
3. The prospective fully diluted price/earnings multiple is based on the forecast earnings per Share on a fully diluted basis of approximately 11.5 RMB cents (approximately 10.9 HK cents) for the financial year ending 31 December 2004 and the Offer Price.

If the Over-allotment Option is exercised in full or in part, the unaudited adjusted net tangible asset value per Share will increase, while earnings per Share will be diluted correspondingly. The Directors believe that such increase and dilution will not be material.

### **PROPOSED USE OF THE NET PROCEEDS FROM THE NEW ISSUE**

The Directors intend to use the net proceeds from the New Issue to implement the Group’s future development plans. Assuming that the Over-allotment Option is not exercised, and based on the Offer Price of HK\$0.83 (being the mid-point of the indicative Offer Price range between HK\$0.79 and HK\$0.87), the net proceeds from the New Issue, after deduction of underwriting commission and estimated expenses payable by the Company, are estimated to be approximately HK\$70.7 million. The Directors currently plan to use such net proceeds as follows:—

- as to approximately HK\$25 million for strengthening R&D capabilities, of which approximately HK\$16 million will be used in R&D of smartphone and related industry application, approximately HK\$2 million in R&D for enhancement of wireless coverage solution for PHS network, approximately HK\$2 million in R&D for enhancement of the Group’s integrated telecom business platform, approximately HK\$2 million for R&D on 3G technologies and upgrading of existing products and solutions to be 3G compatible, and approximately HK\$3 million in further R&D of core technologies of wireless telecommunication;
- as to approximately HK\$25 million for the manufacturing and marketing of smartphones, of which approximately HK\$18 million will be used for financing purchase of materials, approximately HK\$2 million for manufacturing activities, and approximately HK\$5 million for marketing activities;
- as to approximately HK\$9 million for promotion of overall corporate image, of which approximately HK\$4 million for television advertising, HK\$3 million for newspaper and out-door media advertising, and HK\$2 million for other promotion;

- as to approximately HK\$5 million for strategic investments in wireless technologies companies. It is intended that the target company should have strong technology development capability in wireless industry application in banking, stock brokerage or public security industry, as well as multi-media technology, which is synergistic with the Group's plan for devoting to wireless industry application and 3G solution. The Directors confirm that as at the Latest Practicable Date there was no specific target, negotiation, concrete plan in relation to the proposed strategic investments;
- as to approximately HK\$5 million for enhancing the Group's network for sales and provision of customer support services; and
- as to the remaining balance to be used as general working capital of the Group, mainly to finance the purchase of materials, manufacturing and marketing of the Group's products and solutions.

In the event that the Over-allotment Option is exercised in full, and based on the Offer Price of HK\$0.83 (being the mid-point of the indicative Offer Price range between HK\$0.79 and HK\$0.87), the Company will receive additional net proceeds of approximately HK\$16.0 million which the Directors intend to use as additional general working capital.

To the extent that the net proceeds from the New Issue and the issue of new Shares under the Over-allotment Option are not immediately applied for the above purposes, or if the Group is not able to effect any part of its future development plans as intended, it is the present intention of the Directors that such net proceeds be placed on short-term deposits.

## **RISK FACTORS**

The Directors consider that the Group's business and operations are subject to a number of risk factors that may be broadly categorised into: (i) risks associated with the Group's business; (ii) risks associated with the industry; (iii) risks associated with the PRC; (iv) risks relating to the Shares; and (v) reliability of statistics, which are summarised as follows:—

### **Risks associated with the Group's business**

- Reliance on senior management and key technical personnel
- Reliance on the PRC market
- Relationship with certain major customers
- Reliance on the cooperation with the Smartphone Manufacturing Partner for manufacturing of smartphone
- Reliance on certain major suppliers
- Long settlement cycle
- Recoverability of trade receivables
- Risks related to the Group's smartphone products

- Capital requirement
- Sustainability of gross profit margin
- Term of Yulong Shenzhen's business licence
- Renewal of Network Access Licence
- Risks related to newly launched products or solutions
- R&D risks
- Risks related to the use of the trade name "*Coolpad*"
- Intellectual property rights
- Dividends
- Limited insurance coverage
- Preferential tax treatments

### **Risks associated with the industry**

- Rapid technology change
- Competition
- Health risks associated with wireless telecommunication equipment

### **Risks associated with the PRC**

- Economic, social and legal considerations
- Currency conversion and foreign exchange control
- Institutional structure of the wireless communication sector in the PRC

### **Risks relating to the Shares**

- Protection of interests of minority shareholders under the laws of the Cayman Islands
- Liquidity and possible price volatility of the Shares

### **Reliability of statistics**