

HISTORY AND DEVELOPMENT**Shareholding**

The Group's history can be traced back to 1993 when Yulong Shenzhen was established in Shenzhen Special Economic Zone, the PRC as a sino-foreign equity joint venture with registered capital of RMB3.1 million. The registered capital was paid up in accordance with the laws and regulations of the PRC. Yulong Shenzhen was then owned as to 52% by 深圳大學文化科技服務有限公司 (Shenzhen University Culture Technology Services Company Limited), a limited liability company established in the PRC; and 48% by Dickman Enterprises Company Limited ("Dickman Enterprises"), a limited liability company incorporated in Hong Kong. Shenzhen University Culture Technology Services Company Limited was a State owned enterprise. Dickman Enterprises was then owned by three individuals, who are Independent Third Parties. Mr. Guo has been the chairman, the legal representative and the general manager of Yulong Shenzhen since its establishment.

In December 1999, Shenzhen University Culture Technology Services Company Limited disposed of its 52% interest in Yulong Shenzhen to Space Star, which is owned as to 90% by Ms. Yang and 10% by Ms. Ma, at a consideration of approximately RMB3.81 million. The consideration was determined based on the net asset value of Yulong Shenzhen of approximately RMB7.32 million as at 30 June 1999.

In January 2001, Shenzhen Yi Wei Digital Technologies Co., Ltd ("Shenzhen Yi Wei") was established with Yulong Infotech holding 30% interest and the remaining interests were held by Space Star and an Independent Third Party as to 50% and 20% respectively. Shenzhen Yi Wei was engaged in the development and design of website and online gaming software, and the Directors confirm that it was mainly set up with the purpose of capturing opportunities expected to be brought by booming Internet market. The Independent Third Party was the general manager and a director of Shenzhen Yi Wei, responsible for the daily management and operation of Shenzhen Yi Wei. Shenzhen Yi Wei has become dormant since June 2002, as the business did not perform as well as the shareholders had expected.

In June 2001, Dickman Enterprises disposed of its 48% interest in Yulong Shenzhen to Yulong Infotech, which was then owned as to 90% by Ms. Yang and 10% by Mr. Guo, at a consideration of approximately RMB1.488 million which was equal to Dickman Enterprises' investment in the registered capital of Yulong Shenzhen.

In May 2002, for the purpose of streamlining the shareholding and group structure of the Group, Space Star transferred its 52% interest in Yulong Shenzhen to DTI through a corporate restructuring at a consideration of approximately RMB6.2 million. The consideration was determined with reference to the net asset value of Yulong Shenzhen of approximately RMB11.9 million as at 22 April 2002. DTI was then owned as to 90% by Ms. Yang and 10% by Ms. Ma. Subsequent to the share transfer between Space Star and DTI, Yulong Shenzhen became a WFOE in the PRC.

In July 2003, the Group underwent a reorganisation, pursuant to which the Company became the holding company of the Group. Details of the corporate reorganisation are set forth in the paragraphs headed "Corporate reorganisation" in Appendix VI to this prospectus.

In August 2003, in order to raise capital and to diversify the shareholder base of the Company, 4,000,000 Preference Shares were allotted and issued to JATF for cash at the subscription price of US\$1.00 each. Immediately following such allotment and issue, the Company became owned as to approximately 81.82% by Data Dreamland and approximately 18.18% by JATF.

In December 2003, the 4,000,000 Preference Shares held by JATF were converted into 4,000,000 Ordinary Shares by redesignating and reclassifying the Preference Shares as Ordinary Shares. No additional consideration was paid by JATF to the Company upon the conversion.

In February 2004, Yulong Infotech disposed of its 30% interest in Shenzhen Yi Wei to an Independent Third Party.

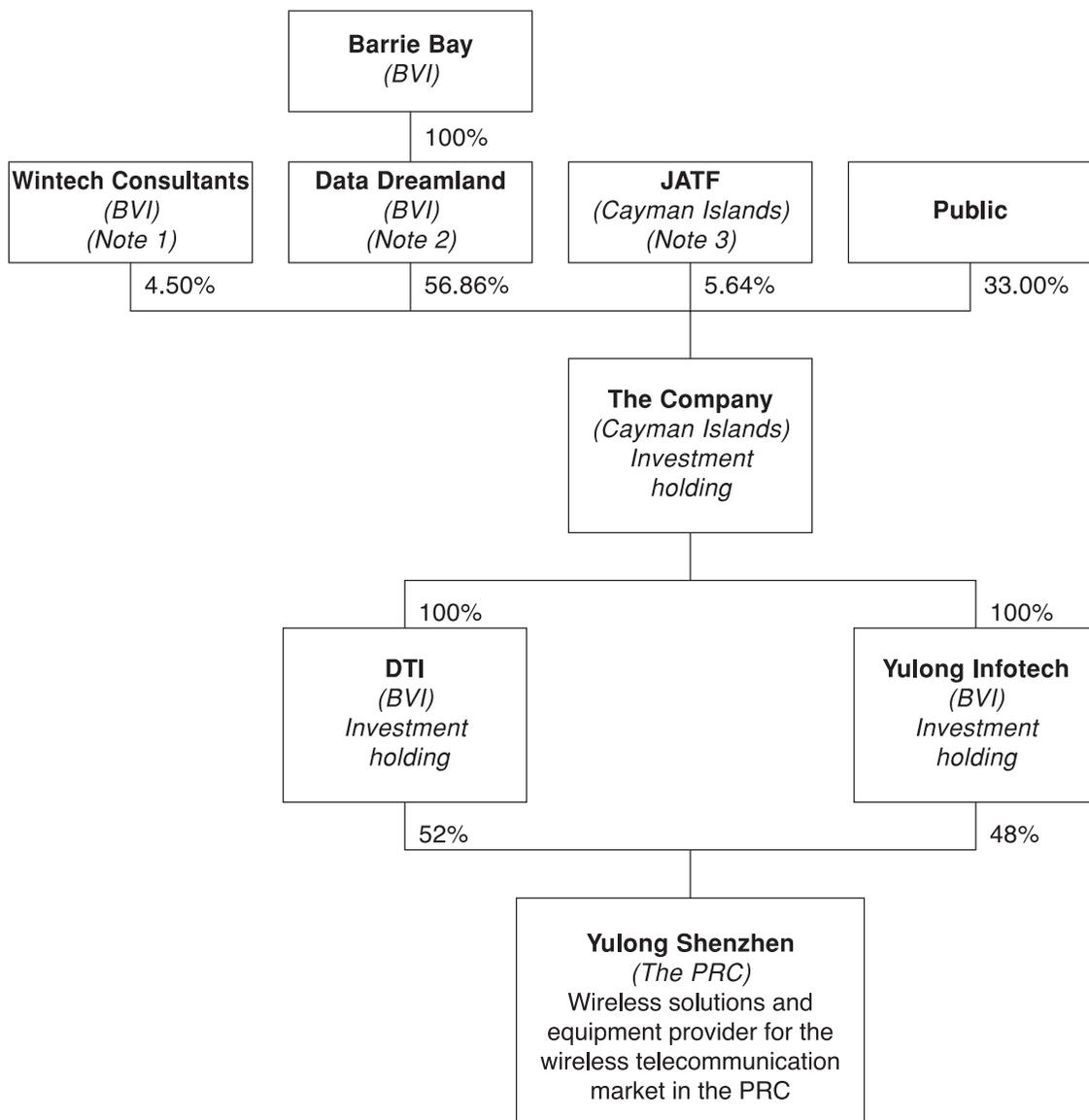
On 30 March 2004, for the purpose of providing additional incentives to the key management who, in the opinion of the trustee of the China Wireless Employee Benefit Trust, has made exceptional contribution to the development of the Group, Data Dreamland transferred 1,320,000 Shares, representing approximately 6% of the then issued share capital of the Company, at a nominal consideration of HK\$1.00, to Wintech Consultants for the setting up of the China Wireless Employee Benefit Trust. Wintech Consultants is the trustee of the China Wireless Employee Benefit Trust. As Data Dreamland and Wintech Consultants were wholly and beneficially owned by Mr. Guo and his associates at the time of transfer, a nominal consideration was paid for the transfer. According to the trust deed dated 30 March 2004 as amended by a supplemental deed dated 21 November 2004 (the employee trust deed, as amended, shall be referred to as the “Employee Trust Deed”), the trust fund of the China Wireless Employee Benefit Trust consists of (i) trust property as specified under the Employee Trust Deed; (ii) all money, investments or other property paid or transferred by any person to or so as to be put under the control of the trustee to be held upon the China Wireless Employee Benefit Trust and, in either case, accepted by the trustee as additions; (iii) all accumulations of income added to the trust fund; and (iv) the money, investments and property from time to time representing the above. The Employee Trust Deed does not specify a maximum limit of the trust fund under the China Wireless Employee Benefit Trust (except for the Capitalisation Issue pursuant to the Share Offer). As at the Latest Practicable Date, the trust fund of the China Wireless Employee Benefit Trust consists solely of 1,320,000 Shares. The Directors confirmed that the trustee has no present intention to acquire any additional Shares for the benefit of China Wireless Employee Benefit Trust. The trustee holds the entire trust fund upon trust for the beneficiaries who are the employees of the Group as at the date of the Employee Trust Deed and from time to time and which does not exclude connected persons (as defined in the Listing Rules) of the Company (except Mr. Guo, Ms. Yang and Ms. Ma). The China Wireless Employee Benefit Trust is of duration of 80 years from the date of the Employee Trust Deed or shall end on such date as the trustee shall specify (whichever is the earlier). The China Wireless Employee Benefit Trust is a discretionary trust. The trustee shall hold the capital and income of the trust fund upon trust for or for the benefit of such beneficiaries, at such ages or times, in such shares upon trust, on such terms and conditions and in such manner generally as the trustee shall in its discretion think fit. The trustee shall have powers and discretions to appoint or apply capital monies to grant options over the Shares (at the expense of trust fund), upon such terms as the trustee may think fit, to the beneficiaries. The trustee may enter into any agreement or contract, on such terms as the trustee may think fit, with the Company and the beneficiaries to enable any beneficiary to acquire and take up the Shares or options over the Shares. The Directors believe that the China Wireless Employee Benefit Trust is a more flexible

mechanism in providing incentive to employees of the Group in view of the discretions the trustee of the China Wireless Employee Benefit Trust enjoys in granting incentives to the employees of the Group. The Directors confirmed that as at the Latest Practicable Date, none of the beneficiaries of the China Wireless Employee Benefit Trust has been granted any forms of incentives out of the trust fund by the trustee. The Directors also confirmed that the trustee has no present intention to grant any incentives to any of the beneficiaries prior to the Listing Date.

On 22 November 2004, Mr. Guo and Ms. Yang set up a discretionary trust, namely the Barrie Bay Trust. On 23 November 2004, Data Dreamland became wholly owned by Barrie Bay, which is acting as the trustee of the Barrie Bay Unit Trust. The Barrie Bay Unit Trust is a unit trust, of which 9,999 units are held by HSBC Trustee acting as the trustee of the Barrie Bay Trust and the remaining 1 unit is held by Ms. Yang Hua. The Barrie Bay Trust is a discretionary trust, the beneficiary objects of which include the children of Mr. Guo and Ms. Yang who are under 18 years old. Each of Mr. Guo and Ms. Yang is a settlor of the Barrie Bay Trust and is taken to be interested in the 227,454,545 Shares held by Data Dreamland immediately upon completion of the Share Offer and the Capitalisation Issue pursuant to Part XV of the SFO.

Group Structure

The following chart sets out the members of the Group, their places of incorporation and shareholding structure of the Group immediately upon completion of the Share Offer and the Capitalisation Issue and assuming the Over-allotment Option is not exercised, no option is granted under the Share Option Scheme and not taking into account any Shares which will be transferred to JATF from Data Dreamland upon exercise of the Option (which is subject to Rule 10.07(1) of the Listing Rules) by JATF under the Option Agreement:—



Notes:—

1. On 30 March 2004, Data Dreamland transferred 1,320,000 Shares, representing approximately 6% of the then issued share capital of the Company to Wintech Consultants to hold as trustee of the China Wireless Employee Benefit Trust, a discretionary trust set up by Data Dreamland and the discretionary objects of which are employees of the Group (excluding Mr. Guo, Ms. Yang and Ms. Ma). Immediately upon completion of the Share Offer and the Capitalisation Issue, Wintech Consultants will hold an aggregate of 18,000,000 Shares as trustee of the China Wireless Employee Benefit Trust.
2. The entire issued share capital Data Dreamland is held by Barrie Bay, which is acting as the trustee of the Barrie Bay Unit Trust. The Barrie Bay Unit Trust is a unit trust, of which 9,999 units are held by HSBC Trustee acting as the trustee of the Barrie Bay Trust and the remaining 1 unit is held by Ms. Yang Hua. The Barrie Bay Trust is a discretionary trust set up by Mr. Guo and Ms. Yang on 22 November 2004, the beneficiary objects of which include the children of Mr. Guo and Ms. Yang who are under 18 years old. Each of Mr. Guo and Ms. Yang is a settlor of the Barrie Bay Trust and is taken to be interested in the 227,454,545 Shares held by Data Dreamland immediately upon completion of the Share Offer and the Capitalisation Issue pursuant to Part XV of the SFO.
3. JATF is 100% beneficially owned by a limited partnership, JAFCO Asia Technology Fund L.P.

Business development

The Group was established in 1993 and has been engaged in providing wireless communication system solutions principally to major telecommunication operators and other customers in the PRC.

In 1995, the Group launched its low speed paging transceiver for supporting paging services. The product was used by telecommunication operators in the PRC. The principal function of the transceiver was for converting data signal to wireless signal, which is received by a pager. With its solid foundation in the paging industry, the Group commenced R&D in high speed paging transceiver solution and paging software solution.

In 1997, the Group launched its FLEX-enabled high speed paging transceivers.

In May 1999, the Group started to provide wireless terminals in the form of paging information receivers together with its PPS high speed wireless data transmission system. The products were sold to telecommunication operators in the PRC.

Also in 1999, the Group completed the development of its core module for enabling telecommunication services and the related database management. The module was called “*Uniswitch*”. *Uniswitch* was designed as a central data processing unit to enable automatic multi-dimensional data transmission based on pre-determined criteria. *Uniswitch* can be used as part of a management information system for telecommunication operators and be connected to different gateway or services platform, such as those for SMS, Internet paging and wireless gaming.

In August 1999, in view of the increasing data transmission capabilities of telecommunication networks, the Group decided to capitalise on market opportunities by launching its wireless terminal products and started R&D on the operating system of wireless terminals.

In January 2000, the Group started R&D on a wireless system solution to provide value-added services.

In March 2000, the Group's principal operating subsidiary, Yulong Shenzhen was awarded the ISO9001:1994 management process quality certificate.

In June 2001, the Group launched its *Wireless Value-added Services Platform*.

In July 2001, the Group further improved its wireless terminal products by incorporating PDA functions into its paging information receivers, which operated on the Group's proprietary operating system.

In September 2001, the Group started R&D on a call centre solution.

In November 2001, the Group started R&D on the hardware components of the fixed wireless terminals.

In March 2002, the Group established a team to commence R&D on the hardware components of smartphones.

In April 2002, the Group started R&D on a PHS network coverage solution.

In June 2002, the Group was selected by the China Unicom Group as the system solution provider to implement its first WAN IP call centre in Beijing, for which the Group was responsible for the design and installation. In the same year, the Group's call centre solution for telecommunication operators and other corporations was developed based on the routing functions of *Uniswitch*. The solution was named *Callnet*.

In December 2002 and January 2003, the Group launched its 2.5G fixed wireless terminals for GSM/GPRS and CDMA networks respectively. The products are marketed under the brand name *Coolpad* and were sold to local branches of telecommunication operators and other distributors. The products are generally being used in offices or retail outlets.

In May 2003, Yulong Shenzhen was awarded the ISO9001:2000 management process quality certificate.

In December 2003, the Group launched its wireless coverage system solutions for a PHS network (or "*Xiaolingtong*" as known in the PRC). The solution was named *Realink PHS Intelligent Coverage System*. This wireless coverage system solution was designed to extend the coverage of a PHS network and for enhancing voice quality.

In December 2003, the Group launched its first CDMA1X smartphone. The smartphone is also marketed under the brand name "*Coolpad*" and is mainly sold to local branches of major telecommunication operators and other distributors in the PRC. The Group has also developed various industry applications for its smartphones.

In September 2004, the Group launched its *Coolpad* smartphone for GSM/GPRS network.

Implication of adjustment of the Group's portfolio of products and solutions

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 adjustments are reflected in change in customer composition,

and also the change in contribution to overall sales and profit margin earned by different product and solution. During the Track Record Period, the sales contribution of telecommunication operators and wireless system solutions decreased, whilst that from wireless terminals, in particular smartphones, increased significantly. 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 intends 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.

The Group's management

The Group's management control is vested with the executive Directors. Between the two executive Directors, Mr. Guo is one of the founding members of the Group and has been the chairman, legal representative and general manager of Yulong Shenzhen during the Track Record Period. Mr. JIANG Chao joined the Group in June 2002. He is responsible for the finance and administrative functions of the Group and at the same time provides assistance to Mr. Guo in respect of business development of the Group.

Yulong Shenzhen was the only major operating entity of the Group during the Track Record Period. In addition to Mr. Guo, the majority number of directors of Yulong Shenzhen were appointed by Ms. Yang and Ms. Ma (being Mr. Guo's spouse and mother-in-law respectively), who effectively held the controlling stake of Yulong Shenzhen through Space Star (before May 2002) and DTI (after May 2002) ("Controlling Shareholders"). Ms. Yang has been and is still a director of Yulong Shenzhen since 30 July 2001. Mr. ZENG Dimen, Ms. LI Li and Mr. DU Jianguo were non-executive directors of Yulong Shenzhen. Mr. ZENG was elected by Dickman Enterprises and was not affiliated with the Company in any other capacity. He resigned in July 2001 following the disposal of Dickman Enterprises' entire interest in Yulong Shenzhen to Yulong Infotech in June 2001. On the other hand, Ms. LI and Mr. DU were elected by the Controlling Shareholders and did not participate in the day-to-day management of Yulong Shenzhen and only acted as board representatives subject to the directions of the Controlling Shareholders. Mr. DU resigned in July 2001.

Taking into consideration of the above, the Directors consider that the Group has been operated under substantially the same management throughout the Track Record Period.

For information about other senior management of the Group, please refer to the section headed "Directors, audit committee, senior management and staff" of this prospectus.

ACCREDITATION AND OFFICIAL RECOGNITIONS

The Group has received a number of awards and official recognitions from the relevant PRC authorities and professional bodies in relation to its technological capability, product quality and operations. The following table sets out the details:—

Date	Awards and honours
July 1998	The Group's US-P4 尋呼系統 (paging system) passed the technology evaluation conducted by 深圳市科學技術局 (Shenzhen Science and Technology Council) and was accredited as 深圳市科技進步獎三等獎 (Shenzhen Technology Advancement Award — Third Class) by 深圳市人民政府 (Shenzhen Municipal People's Government).
May 1999	The Group's YL6400B 高速尋呼發射機 (Wireless Paging Transceiver) passed the technology evaluation conducted by 深圳市科學技術局 (Shenzhen Science and Technology Council).
July 1999	Yulong Shenzhen was accredited as the 深圳市高新技術企業 (Shenzhen Hi-tech Enterprise) by the 深圳市科學技術局 (Shenzhen Science and Technology Council).
August 2000	The Group's PPS 高速尋呼系統 (High Speed Paging System) passed the technology evaluation conducted by 深圳市科學技術局 (Shenzhen Science and Technology Council).
September 2000	The Group's YL6400B 高速尋呼發射機 (Highspeed Paging Transceiver) was accredited as 深圳市科技進步獎三等獎 (Shenzhen Technology Advancement Award — Third Class) by 深圳市人民政府 (Shenzhen Municipal People's Government).
May 2001	The Group's PPS 高速尋呼系統 (High Speed Transmission System) was accredited as 深圳市重大推廣新產品 (Key Product of Shenzhen) by 深圳市科學技術局 (Shenzhen Science and Technology Council).
August 2001	The Group was granted research fund of RMB1,000,000 for further development of its PPS 高速尋呼系統 (High Speed Paging System) by 深圳市財政局 (Shenzhen Financial Bureau).
	The Group's PPS 高速尋呼系統 (High Speed Paging System) was awarded the 深圳市科學技術進步獎二等獎 (Shenzhen Technology Advancement Award — Second Class) by the 深圳市人民政府 (Shenzhen Municipal People's Government).
	Yulong Shenzhen was certified as 軟件企業 (Software Enterprise) by 深圳市信息化辦公室 (Shenzhen Informatisation Office).

Date	Awards and honours
September 2001	Yulong Shenzhen was accredited as 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).
May 2002	The Group's PPS 高速尋呼系統 (High Speed Paging System) was accredited as 廣東省科技獎三等獎 (Guangdong Technology Award — Third Class) by 廣東省人民政府 (Guangdong Provincial People's Government)
July 2002	<p>The Group's 尋呼管業管理系統 (Paging Business Management System) passed the technology evaluation conducted by and was accredited as 深圳市科學技術進步獎三等獎 (Shenzhen Technology Advancement Award — Third Class) by 深圳市人民政府 (Shenzhen Municipal People's Government).</p> <p>The Group's 無線分組數據網 (Wireless Categorized Data System) was accredited as 國家重點新產品 (State Key New Product) by 國家科學部 (State Science Bureau).</p>
September 2002	The Group's <i>Callnet</i> 廣域網 IP 呼叫中心 (WAN IP Call Centre) passed the technology evaluation conducted by 深圳市科學技術局 (Shenzhen Science and Technology Council).
December 2002	The Group was accredited as producer of 先進軟件產品 (Advanced Software Product) by 深圳軟件行業協會 (Shenzhen Software Industry Association).
January 2003	<p>The Group was certified as 深圳市計算機信息系統集成一級資質 (First Class Shenzhen Information Technology System Solution Provider) by 深圳市信息化辦公室 (Shenzhen Informatisation Office).</p> <p>The Group's <i>Coolpad</i> 智能終端嵌入式軟件 (Intelligent Terminal Embedded Software) was accredited as 2002 年度先進軟件產品獎 (2002 Shenzhen Technology Advanced Software Product) by 深圳軟件行業協會 (Shenzhen Software Industry Association). The software forms part of the Group's proprietary operating system for wireless terminals.</p>
March 2003	The Group's <i>Callnet</i> 廣域網 IP 呼叫中心 (WAN IP Call Centre Solution) was accredited as 深圳市重大推廣新產品 (Key Product of Shenzhen) by 深圳市科學技術局 (Shenzhen Science and Technology Council).
July 2003	The Group's <i>Callnet</i> system was praised by 深圳軟件行業協會 (Shenzhen Software Industry Association) as 先進軟件產品 (Advance Software Product).

Date	Awards and honours
July 2003	<p>The Group was awarded 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).</p> <p>The Group's 協同資信系統 (Synchronised Information System) was accredited as 廣東省重點新產品 (Guangdong Province Key New Product) by 廣東省科技廳 (Guangdong Province Science Board). The software forms part of the Group's proprietary operating system for wireless terminals.</p>
March 2004	<p>The technology level of the Group's <i>Coolpad</i> smartphone was evaluated as 「國內先進、國際水平」 (advanced in the PRC and of international standards) by 深圳市科學技術局 (Shenzhen Science and Technology Council).</p>
July 2004	<p>The Group's <i>Coolpad</i> 手機嵌入式軟件 V1.10 (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).</p>
October 2004	<p>Yulong Shenzhen was accredited as 中國優秀民營科技企業 (Excellent Private-owned Enterprise in the PRC) by 中華全國工商業聯合會 (China National Industrial and Commercial Association) and 中國民營科技實業家協會 (China Private-owned Technology Industrialists Association).</p> <p>Yulong Shenzhen was enlisted as one of the Deloitte Technology Fast 500 Asia Pacific as one of the 500 fastest-growing technology companies in Asia Pacific.</p>

PRODUCTS AND SOLUTIONS

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
Wireless system solutions										
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
Wireless terminals										
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
	<i>Unit</i>	<i>Unit</i>	<i>Unit</i>	<i>Unit</i>	<i>Unit</i>
Wireless system solutions					
Wireless transceivers for paging networks	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
Wireless terminals					
One-way wireless terminals	1,761	8,233	9,841	8,026	206
Fixed wireless terminals	—	1,025	52,265	8,595	30,321
Smartphones	—	—	5,002	—	12,023

Wireless coverage system solutions

The Group's wireless system solutions are generally used by telecommunication operators to extend and enhance transmission quality of their telecommunication networks. 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 networks

The Group's wireless transceivers are designed to provide outdoor coverage of a paging network. This product supports one-way transmission of wireless data and is used by telecommunication operators in the PRC. The principal function of this product 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 R&D or marketing of this product. Instead, the Group will only deliver wireless transceivers based on specific order from existing customers.

Realink PHS Intelligent Coverage System

The Group commenced R&D on a PHS network coverage solution in April 2002 and launched its coverage solution for PHS networks (or "Xiaolingtong" as called in the PRC) under the name of *Realink PHS Intelligent Coverage System* in December 2003, which is a multiple-channel PHS coverage system designed to extend the coverage of a PHS network for enhancing voice quality. *Realink PHS Intelligent Coverage System* is used to amplify and relay wireless signals so as to minimise blind spots and to enhance the effective transmission of radio frequency signals between transceivers and mobile

phones. In order to capitalise on the opportunities arising from the 3G system to be launched in the PRC, the Group's PHS coverage system is designed to be 3G compatible.

The Directors believe that as the competition between mobile telecommunication operators and fixed-line telecommunication operators continue to intensify, the fixed-line telecommunication operators are expected to continue to enlarge and enhance their PHS network coverage to attract more subscribers. Therefore, the Directors believe that demand for wireless coverage system solutions such as *Realink PHS Intelligent Coverage System Solution* will continue to increase.

The Group's wireless coverage system solutions have been sold to Beijing, Shanghai and 23 provinces in the PRC, namely Anhui, Fujian, Gansu, Guangdong, Guangxi, Guizhou, Hainan, Hebei, Heilongjiang, Henan, Hubei, Hunan, Jiangsu, Jiangxi, Inner Mongolia, Ningxia, Qinghai, Shaanxi, Shandong, Shanxi, Xinjiang, Yunnan and Zhejiang.

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 system is also able to automatically prioritise information flow and request. These solutions are sold on project basis and are modified in accordance with customers' specifications.

The core module of the Group's integrated telecommunication business platform is called "*Uniswitch*". It was designed by the Group and is used as a centralised data processing unit, where data received from communication platforms such as fixed line networks, wireless data or voice networks will go through the data switch platform and be re-routed to either a database management server, a different communication platform (e.g. the Internet) or other services platform (such as CTI, IVR, PBX, mobile networks). This is to enable automatic multi-dimensional data transmission based on pre-determined criteria. The Directors believe that the development of "*Uniswitch*" is an important milestone for the Group's ongoing development of integrated telecom business platform for telecommunication operators. "*Uniswitch*" is embedded in the Group's wireless system solutions such as *Callnet* and *Wireless Value-added Services Platform* but has not been sold separately.

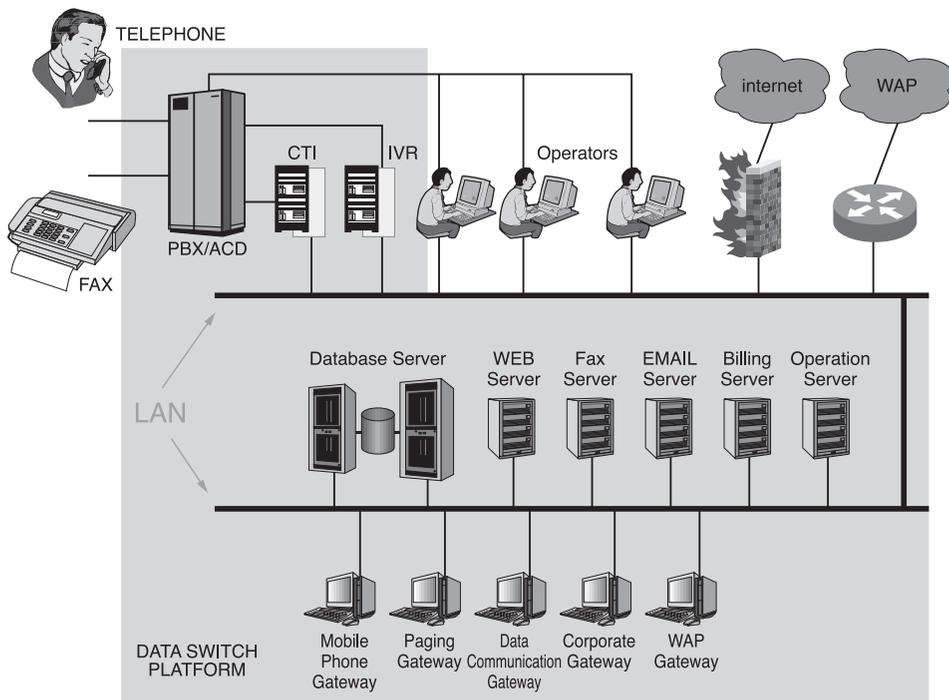
Currently, the Group's integrated telecom business platform comprises two solutions, namely *Callnet* and *Wireless Value-added Services Platform*.

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 has been recognised, the system will 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 solution 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.

The workflow of *Callnet* can be illustrated in the following diagram:—



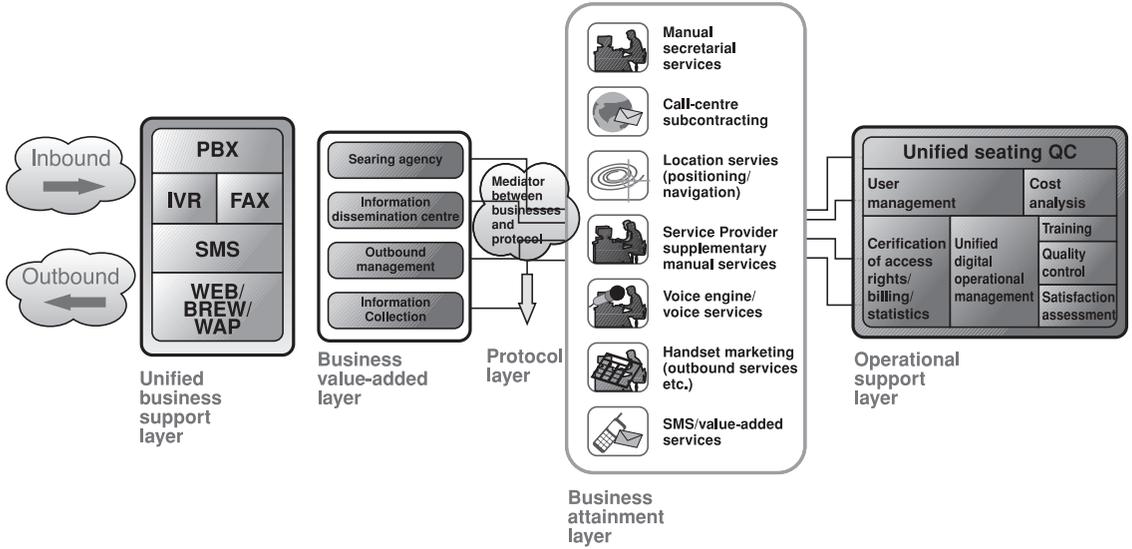
The Group's *Callnet* solutions have been delivered to Beijing and five provinces in the PRC, namely Guangdong, Guangxi, Jiangsu, Xinjiang and Zhejiang.

Wireless Value-added Services Platform

The Directors believe that as wide bandwidth wireless communication and sophisticated wireless terminal devices become more and more easily accessible and popular in the PRC, value-added voice and data services on wireless terminal devices are becoming essential factors to wireless subscribers when selecting a telecommunication operator. 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.

The services enabled by the *Wireless Value-added Services Platform* can be illustrated in the following diagram:—



The Group's *Wireless Value-added Services Platform* has been used in Beijing and 14 provinces in the PRC, namely Anhui, Gansu, Guangdong, Guangxi, Guizhou, Heilongjiang, Hubei, Hunan, Ningxia, Qinghai, Shaanxi, Shandong, Xinjiang and Yunnan.

Development plan for wireless system solution

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 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 investment in network solutions and the Group was then able to capitalise on the development by promoting new coverage solution.