

## OPERATIONAL REVIEW

### Market Overview

According to the statistics released by the Ministry of Information Industry, China recorded more than 363 million subscribers to mobile phone services as at the end of 30 June 2005, equivalent to a penetration rate of 28 users per 100 persons. Even though the growth was slow down from 5.4 million per month in 2004 to 4.7 million per month in the first six months of 2005, the number of mobile phone users in China still increased by approximately 28 million or 8.5% during the six months period up to 30 June 2005. The existing penetration rate is still low in comparison with other developed countries, which are normally over 50%. With an economic growth of more than 8% per annum in the PRC, it is expected that the PRC mobile phone market will continue to grow at a double digits figure per year especially with the growth in replacement market.

The Chinese government has not yet decided on when to issue 3G licenses and how many would be issued. Nevertheless, most mobile phone manufacturers, no matter domestic brands or foreign brands, are preparing to launch their 3G mobile phones once the market is ready. However, the 3G mobile phone market is quite different from that of 2G mobile phone market in that it requires a lot of supports from operators to provide different added value services while, at the same time, operators can also generate more revenue on providing such services. It is still not yet clear what the market will be but it is quite certain that it will be a highly potential market and will definitely increase the overall demand of mobile phones in the coming year.

The mobile phones market in the PRC remains very competitive with over 1,000 models at various price ranges. However, the aggregate market share of all domestic brands has dropped further down below 40% and it is still on a downward trend. Even though the top five foreign brands gradually capture the market shares of domestic brands, they are also facing the increasing competitions from South Korea and Taiwan brands. At the same time, China Government also lowers her restrictions on foreign manufacturers after entering the WTO and issued more mobile phone manufacturing licenses to both domestic and foreign manufacturers during the period. The competition thus remains keen. In view of that, a large mobile phone manufacturer normally needs to launch 20 to 30 models a year to maintain its market share. As a result, life cycles of handset models are getting short and handsets are getting more fashionable and differentiated.

## **Business Review**

Mobile phone distribution is still the Group's major core business during the period, accounting for over 90% of the Group's turnover and operation profit. The Nokia's lower end models 2600 and 2300 accounted for more than 50% of the Group's sales volume during the period even though the previous most popular models 3100 and 3200 still maintained the same momentum and accounted for almost 35% of the Group's sales volume. In dollar term, the performance of Nokia's models 3220 and 7610 were still promising in the mid to high end market segment. When Nokia's model 3220 accounted for more than 20% of the Group's turnover, the high end model Nokia's model 7610 accounted for almost 17% of the Group's turnover during the period.

The Group strengthened its distribution network further during the period and covered more than 8,000 customers by the end of June 2005. Nevertheless, the Group will still continue to enhance its distribution network and deepen its penetration in the market to position itself as one of the largest and leading mobile phone distributor in the PRC.

## **Prospect and Outlook**

With the national distribution rights for Nokia's handset models 7610, 3220, 2600, N-Gage QD and 6021 together with models from BenQ, NEC and other foreign brands, the management are confident that these will help the Group to push its turnover at a higher level in the coming half year.

Nevertheless, the Group will continue to seek for opportunities for further development, which includes expanding existing brands portfolio to cover most import brands of mobile phones in the PRC, providing added value services to customers to build up customer loyalty and setting up website to conduct Internet sales of mobile phones in the PRC. At the same time, the Group will continue reviewing its existing operating costs and pricing policy with a view to increase the Group's overall profitability.