

OPERATIONAL REVIEW

Market Overview

According to the statistics released by the Ministry of Information Industry, China recorded more than 426 million subscribers to mobile phone services as at the end of 30 June 2006, equivalent to a penetration rate of 33 users per 100 persons. With a strong economic growth in 2006, the growth in number of subscribers for the first six months of 2006 of 5.5 million per month was higher than that of 4.9 million per month for the year of 2005. The total number of mobile phone users in China increased by approximately 33 million or 8.4% during the six months period up to 30 June 2006. The existing penetration rate is still low in comparison with that of other developed countries of more than 50%. With an economic growth of more than 8% per annum in mainland China, it is expected that the mobile phone market in mainland China will continue to grow at a double digits figure per year especially with the fast growing replacement market and the upcoming 3G mobile phone market.

The Chinese government has not yet decided on when to issue 3G licenses but the management believes that it would probably roll out in the last quarter of 2006. Most mobile phone manufacturers, no matter domestic brands or foreign brands, are preparing to launch their 3G mobile phones once the market is ready. It is expected that the operators will play a more active role in selling 3G mobile phones especially when they can make a higher profit margin from the added value services they provided for 3G phone users. In view of this, the Group has already kept an eye on the recent development of the upcoming 3G mobile phone market and, at the same time, strengthened our relationships with the key mobile phone operators to explore any possible new business opportunities. It is believed that the upcoming 3G market will be a highly potential one and will definitely attract a lot of users and increase the overall demand of mobile phones in the coming year.

The mobile phone market in mainland China remains very competitive with over 1,000 models at various price ranges. While some of the domestic manufacturers were making losses in manufacturing and distributing their phones, the top three foreign brands, including Nokia and Samsung, continued to increase their market shares. Due to the keen competition in the market, life cycles of handset models are getting shorter and prices keep on dropping.

Business Review

Mobile phone distribution is still the Group's major core business during the period which accounts for more than 90% of the Group's turnover and operating profit. During the period, Nokia's three low end models, namely 2300, 2600 and 3220, together accounted for approximately 47% of the Group's sales volume while the total sales of the 2 high end models, namely 6708 and 7610 constituted approximately 33% of the Group's turnover. Samsung's models accounted for approximately 10% of the total sales turnover in the six months ended 30 June 2006.

After years of development, the Group has already established comprehensive coverage distribution network in most of the cities in mainland China. With the help of the self-developed real time web-based distribution resources planning system, the Group can keep track with every transaction and manage inventory and credit control effectively and efficiently. The Group will make use of this competitive advantage to develop other business models and create business opportunities for the Group. At the same time, the Group will also strengthen the relationships with the existing customers so as to build up a stronger customer base and a more efficient distribution network for the launch of any new models and products in the future.

Prospect and Outlook

With the commencement of seven new Samsung's handset models, namely E778, E788, D848, i858, X508, X638 and X688, together with the existing Nokia's handset models, namely 7610, 3220, 2600, N-Gage QD, 6021 and 6708, the management is confident that these will boost sales in the coming half year. Moreover, the Group keeps on negotiating with the vendors on the national distribution rights for other new models and some of the negotiations are at their final stages.

At the same time, the Group continues to seek for opportunities for further development, which includes developing new distribution modes to provide better supports and services to the vendors and the operators; expanding existing brand portfolio; and making use of our self-developed real-time web-based distribution resources planning system to provide added value services and supports to the vendors. The Group will also consider various M&A opportunities to diversify our business scopes. 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.

To capitalize on the business opportunities arising from the upcoming launch of 3G mobile phones, the Group is lining up the major foreign brand 3G mobile phone manufacturers and the local operators with a view to develop new distribution modes so as to enable the Group to become a leading 3G mobile phone distributor in the mainland China.

PURCHASE, SALE OR REDEMPTION OF SHARES AND COMPANY'S LISTED SECURITIES

During the six months ended 30 June 2006, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.