

FINANCIAL REVIEW

Turnover

For the six months ended 30 June 2005, the Group accomplished a turnover of HK\$172,396,000, representing a growth of 68.9% over that of the same period of 2004. The increase was the result of a shift of business focus of the Group to smartphone products in response to market demand, which led to a large increase in smartphone sales from HK\$63,875,000 in 2004 to HK\$160,384,000 in 2005. During the period under review, over 45,000 units of smartphone have been sold, which number is comparable to the 2004 full year sales figures.

In terms of revenue mix, during the period under review, turnover from smartphones accounted for 93% of the Group's turnover, as compared with 63% for the corresponding period in 2004. Contribution from sales of wireless coverage system decreased from 11% for the six months ended 30 June 2004 to 4% over the corresponding period in 2005, and turnover from integrated telecom business platform increased by about HK\$1 million compared with that of the corresponding period of 2004, but representing a slight decrease of 1% in the revenue mix in 2005 in view of the strong growth in overall turnover of the Group. The Group ceased the sales of other terminal products for the six months ended 30 June 2005, which sales have accounted for 14% of the turnover for the same period in 2004, for the following reasons : (1) the fixed wireless terminal market in the PRC is vanishing; and (2) a shift of the Group's business focuses to the smartphone market.

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	The six months ended 30 June			
	2005		2004	
	HK\$000	% of turnover	HK\$000	% of turnover
Wireless System solutions				
PHS Intelligent Coverage System	7,488	4%	11,894	11%
Paging system	—	—	54	0%
Integrated Telecom Business Platform	4,524	3%	3,645	4%
Subtotal	12,012	7%	15,593	15%
Wireless terminals				
Smartphones	160,384	93%	63,875	63%
Fixed wireless terminals	—	—	22,500	22%
One-way wireless terminals	—	—	78	0%
Subtotal	160,384	93%	86,453	85%
Total	172,396		102,046	

Gross Profit

The Group's gross profit increased by 72.9% from HK\$37,091,000 for the six months ended 30 June 2004 to HK\$64,147,000 for the corresponding period in 2005. The gross profit margin for the period under review also increased to 37.2%, as compared to 36.3% in the corresponding period in 2004. The increase was mainly attributable to a greater proportion of revenue from smartphones, which offers a higher gross profit margin compared to the fixed wireless terminals products.

Selling and distribution costs

Selling and marketing expenses increased by 81% from HK\$9,165,000 for the six months ended 30 June 2004 to HK\$16,564,000 of the corresponding period in 2005. Such increase principally reflected the stepping up of promotional and advertising activities for the Group's smartphones products and the "Coolpad" brand name, the higher staff costs as the marketing staff force was enlarged, and the extended distribution network.

Administrative expenses

Administrative expenses increased by 15% from HK\$9,061,000 for the six months ended 30 June 2004 to HK\$10,518,000 for the same period in 2005. The increase was mainly attributable to higher research and development expenses as the Group enlarged the research and development staff force specialising in smartphones, PHS and 3G.

Tax

For the six months ended 30 June 2005, the Group's profit tax charge amounted to HK\$5,843,000, as compared to HK\$2,592,000 in the same period in 2004. According to the Income Tax Law of the PRC for Foreign Investment Enterprise and Foreign Enterprises and as approved by relevant tax authorities, an income tax rate of 15% was applied to the Group for the six months ended 30 June 2005, which is the same to that of the corresponding period of 2004.

Profit for the period

For the six months ended 30 June 2005, the Group recorded a net profit of HK\$32,626,000, representing an increase of 94% over the same period of 2004. The net profit margin raised from 16.5% in the first half of 2004 to 19.0% in the first half of 2005. The major reasons for such increase during the period under review include: (1) Due to the larger economy of scale, the cost of sales decreased and the gross profit margin of the Group increased; (2) the

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Group increased effort to raise administrative efficiency and control administrative cost. As a result, the proportion of administrative expenses in turnover decreased by 3% in the first half of 2005.

Liquidity and financial resources

For the six months ended June 30, 2005, the Group's operating capital was mainly generated from cash from its daily operation and bank borrowings.

As at 30 June 2005, the Group had cash and bank balances of HK\$47,595,000, as compared to HK\$80,352,000 as at 31 December 2004.

As at 30 June, 2005, the Group's total assets amounted to HK\$420,386,000 (2004: HK\$381,298,000) whereas the Group's current liabilities was HK\$179,559,000 (2004: HK\$165,097,000).

As at 30 June 2005, the Group had a gearing ratio of 43% (based on debt over total assets) (2004: 44%) and a current ratio of 2 (based on current assets over current liabilities) (2004: 2).

Contingent liabilities

As at June 30, 2005, the Group did not have any significant contingent liabilities.

Pledge of assets

As at 30 June 2005, approximately HK\$24,828,000 (2004: HK\$29,890,000) of the Group's bank deposits were pledged to secure general bank borrowings.

BUSINESS REVIEW

As a leading wireless data total solutions developer and provider in the PRC, the Group offers innovative and customized products and solutions from back-end system to wireless intelligent terminal products to satisfy demands of various industries and different clients.

During the period under review, as the only domestic smartphone supplier to provide China Unicom with dual-mode smartphones, the Group delivered 30,000 units of “Coolpad 858” dual-mode smartphone to China Unicom.

The Group is currently undergoing developing of new smartphone series with the Windows operating system and which are targeted to be launched to the market in October this year to satisfy customers’ demands. In addition, the Group is actively exploring the corporate market. During the period under review, the Group entered into a distribution agreement with China Electronic Appliance Corporation (“CEAC”), under the China Electronics Group (“CEC”), one of the key electronic information products distributors in the PRC, pursuant to which the Group will supply 20,000 units of “Coolpad 858C” single-mode smartphones to CEAC.

During the report period, the Group achieved outstanding performances in serving the public security, aviation, securities, industrial and commercial sectors. Early this year, the Group delivered 6,000 units of “Coolpad858C” smartphones to the Beijing Administration of Industry and Commerce (“BAIC”). The smartphone was connected with BAIC’s information system to form a real-time mobile information platform and provide real-time access to information relating to of counterfeit/illegal merchandise and offer mobile office and other functionalities, greatly enhancing the BAIC’s administrative efficiency. In addition, the Group has received a grant of RMB2 million from the Ministry of Information Industry (“MII”) for its contribution in promoting the advancement of the information system of the PRC, supporting the Group’s further research and development of proprietary operating systems.

OUTLOOK

The smartphone market in the PRC started to take shape in 2000. Its total sales volume grew substantially between then and 2004, with a compound annual growth rate of 240%. According to the forecast by the China Center of Information Industry Development (“CCID”), sales of smartphones in the PRC

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between 2005 and 2008 will grow rapidly at a compound annual growth rate of 45%. The demand for smartphones with proprietary operating systems capable of supporting personalised and integrated solutions that meet specific customer requirements in different industries is expected to increase further.

As the PRC government is expected to announce its policies on 3G in the foreseeable future, the Group also sees the promising imminent prospects for its 3G wireless data total solutions. The Group has invested considerable resources into strengthening its 3G wireless data solutions and 3G network coverage, and developing its 3G multi-media data platform. Its objective is to equip itself with the capacity be able to launch integrated 3G solutions tailored for 3G terminal products, network systems and back-end systems to capture the market demand in time when the PRC commences 3G network development.

In 2005, the Group will further consolidate its harmonious business relationship with telecom operators in the PRC, strengthen its marketing network, expand the PRC market and broaden its industry client base. Following the first and highly successful contract with China Unicom for the supply of the “Coolpad 858” dual-mode smartphones, the Group has entered into a second contract with China Unicom for the supply of “Coolpad 858” dual-mode smartphones and delivery is scheduled in the second half of the year.

During the period under review, the Group has successfully launched smartphones series with proprietary operating system, namely the Linuos operating system. In the second half of 2005, in addition to supplying such new smartphone series with Linuos operating system, the Group will market 2 new models of Windows-based smartphones to diversify its customers base, targeting customers with demand for mobile office to provide real-time and handy wireless data total solutions. In line with the progress of development of the 3G network in the PRC, the Group will also launch 3G smartphone and 3G integrated wireless data solutions at the appropriate time.

Looking ahead, the Group will seek to maintain a healthy financial position, boost its existing market, aggressively develop innovative products and new markets, and launch wireless data solutions to cater for the different needs of different industries and clients.

USE OF PROCEEDS

The net proceeds from the listing of the Company on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), as disclosed in the Company’s prospectus (“Prospectus”) dated 30 November 2004, after deducting estimated underwriting commission and issue expenses were approximately HK\$70 million (equivalent to approximately RMB74 million) and were used largely as set out in the Prospectus. Details of the use of proceeds as at 30 June 2005 are as follows:

	HK\$
Balance as at 1 January 2005	70 million
Proceeds used during the period, including:	
For strengthening research and development capabilities	15 million
For the manufacturing and marketing of smartphones	25 million
For promotion of overall corporation image	9 million
For enhancing the Group’s network for sales and provision of customer support services	5 million
Balance as at 30 June 2005	16 million

The Company will continue to apply the remaining proceeds as stated in the Prospectus.

FOREIGN EXCHANGE EXPOSURE

During the reporting period, the Group’s expenses, assets and liabilities were mainly denominated in Renminbi. Taking into account the Group’s operation and capital needs, the Directors considered that the Group did not have any significant foreign exchange exposure.

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EMPLOYEES AND REMUNERATION POLICY

During the report period under review, staff cost amounted to HK\$11,995,000. The remuneration of the Group's employees is commensurate with their responsibilities and market levels, with discretionary bonuses and share options given on a merit basis.

SIGNIFICANT INVESTMENTS

There were no significant investments held by the Group as at 30 June 2005.

MATERIAL ACQUISITION AND DISPOSALS DURING THE YEAR

There were no material acquisitions and disposals of the Company, its subsidiaries and associated companies as at 30 June 2005.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the period under review, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

SHARE OPTION SCHEME

The Company has adopted a share option scheme ("Share Option Scheme") by a written resolution of all shareholders of the Company on 21 November 2004. Details of options granted under the Scheme were disclosed in Note 16 to the Condensed Financial Statements.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Saved as disclosed under the paragraph "Directors' and chief executive's interests and short positions in shares and underlying shares and debentures", at no time during the period under review were rights to acquire benefits by means of the acquisition of shares in the Company granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES AND DEBENTURES

As at 30 June 2005, the interests and short positions of the directors, the chief executive or their associates in the share capital of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

Long positions in shares of the Company

Name of director	Note	Number of shares in which interested					Percentage of Company's issued share capital	
		Directly beneficially	Through spouse or minor children	Through controlled corporation	Beneficiary of a trust	Founder of a discretionary trust	Total	
		owned						
Mr. Guo								
Deying	1 & 2	—	207,792,812	18,000,000	—	207,792,812	225,792,812	56.45%
Ms. Yang Xiao	1	—	207,792,812	—	—	207,792,812	207,792,812	51.95%
Mr. Jiang Chao	3	—	—	—	18,000,000	—	18,000,000	4.5%

Long positions in shares of associated corporation

Number of shares held, capacity and nature of interest

Name of Director	Note	Name of associated corporation	Through spouse or minor children	Founder of a discretionary trust	Percentage of issued share capital of the associated corporation
Mr. Guo Deying	1	Data Dreamland Holding Limited	1,000	1,000	100
Ms. Yang Xiao	1	Data Dreamland Holding Limited	1,000	1,000	100

Notes:

- The entire issued share capital of Data Dreamland Holding Limited ("Data Dreamland") is held by Barrie Bay Limited ("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 International Trustee Limited ("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 Deying ("Mr. Guo") an executive Director and his spouse, Ms. Yang Xiao ("Ms. Yang"), a non-executive Director, the beneficiary objects of which include the minor children of Mr. Guo and Ms. Yang. As at 30 June 2005, each of Mr. Guo and Ms. Yang is taken to be interested in the 207,792,812 shares held by Data Dreamland as each of them is a settlor of the Barrie Bay Trust and by virtue of the interests of their children under the Barrie Bay Trust. The long position of each of Mr. Guo and Ms. Yang under the column "Through spouse or minor children" and the column "Founder of discretionary trust" under the table headed "Long position in shares of the Company" above refers to the same 207,792,812 shares.

Each of Mr. Guo and Ms. Yang is taken to be interested in the entire issued share capital of Data Dreamland as each of them is a settlor of the Barrie Bay Trust and by virtue of the interests of their children under the Barrie Bay Trust. The long position of each of Mr. Guo and Ms. Yang under the column "Through spouse or minor children" and the column "Founder of discretionary trust" under the table headed "Long position in shares of associated corporation" above refers to the same 1,000 shares.

2. Mr. Guo is taken to be interested in the 18,000,000 shares held by Wintech Consultants Limited as he is interested in the entire issued share capital of Wintech Consultants Limited.
3. Mr. Jiang Chao, an executive director, is taken to be interested in the 18,000,000 shares held by Wintech Consultants Limited as he is one of the discretionary objects under the China Wireless Employee Benefit Trust, a discretionary trust established for the benefit of the employees of the Group.

Save as disclosed above, none of the directors and chief executive had an interest or short position in the shares, underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.



SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2005, the following interests and short positions of 5% or more in the issued share capital and share options of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions in shares of the Company

Name	Notes	Number of shares in which interested		Nature of interest	Percentage of Company's	
		Number of shares in which interested	Number of shares in which interested under equity derivatives		Total number of shares	issued share capital
Data Dreamland Holding Limited	1	207,792,812	—	Beneficial owner	207,792,812	51.95%
Barrie Bay Limited	2	207,792,812	—	Interest of controlled corporation	207,792,812	51.95%
HSBC International Trustee Limited	2	207,792,812	—	Trustee	207,792,812	51.95%
JAFCO Asia Technology Fund	3	42,207,188	—	Beneficial owner	42,207,188	10.55%
JAFCO Asia Technology Fund L.P.	3	42,207,188	—	Interest of controlled corporation	42,207,188	10.55%
JAFCO Asia Technology Holdings Limited	3	42,207,188	—	Interest of controlled corporation	42,207,188	10.55%
JAFCO Investment (Asia Pacific) Limited	3	42,207,188	—	Interest of controlled corporation	42,207,188	10.55%

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Name	Notes	Number of shares in which Number of shares in which interested derivatives		Nature of interest	Percentage of Company's Total issued number of shares share capital	
		interested	under equity		number of shares	issued share capital
JAFCO Co., Ltd.	3	42,207,188	—	Interest of controlled corporation	42,207,188	10.55%
Nomura Holdings, Inc.	3	42,207,188	—	Interest of controlled corporation	42,207,188	10.55%

Notes:

- The entire issued share capital of Data Dreamland is held by Barrie Bay. Barrie Bay 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, which is acting as the trustee of the Barrie Bay Trust and the remaining 1 unit is owned by Ms. Yang Hua. The Barrie Bay Trust is a discretionary trust set up by Mr. Guo and Ms. Yang on 22 November 2005 and the discretionary objects of which include the children of Mr. Guo and Ms. Yang who are under 18 years old.
- The 207,792,812 shares are held by Data Dreamland, the entire share capital of which is held by Barrie Bay, which is acting as the trustee of the Barrie Bay Unit Trust and the entire issued share capital of which is held by HSBC Trustee.
- The 42,207,188 shares are held by JATF, a company 100% beneficially owned by JAFCO Asia Technology Fund L.P.

JAFCO Asia Technology Fund L.P. is a limited partnership which is managed by its sole general partner, JAFCO Asia Technology Holdings Limited. JAFCO Co., Ltd. has a 44.38% interest in JAFCO Asia Technology Fund L.P. JAFCO Asia Technology Holdings Limited is 100% beneficially owned by JAFCO Investment (Asia Pacific) Ltd.

JAFCO Investment (Asia Pacific) Ltd. is 100% beneficially owned by JAFCO Co., Ltd.

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JAFCO Co., Ltd. is 37.1% beneficially owned by Nomura Holdings, Inc.

Each of JAFCO Asia Technology Fund L.P., JAFCO Asia Technology Holdings Limited, JAFCO Investment (Asia Pacific) Ltd., JAFCO Co., Ltd. and Nomura Holdings, Inc. is taken to be interested in the 42,207,188 shares held by JATF.

Saved as disclosed above, so far as the Directors are aware, there are no other persons, other than directors and chief executive of the Company, who had interests or short position in the shares, underlying shares or debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and are required to be recorded in the register required to be kept pursuant to Section 336 of the SFO.

CODE OF CORPORATE GOVERNANCE PRACTICE

Throughout the period under review, save for the following derivations, the Company has complied with the code provisions of the Code of Corporate Governance Practices ("Corporate Governance Code") as set out in Appendix 14 of the Listing Rules:

1. Code Provision A.2.1

This Code Provision stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. As at 30 June 2005, Mr. Guo Deying is the Chairman and the Chief Executive Officer of the Company. The Company is reviewing such arrangement and will ensure appropriate arrangement will be made in according with the requirements of the Listing Rules.



2. Code Provision A.5.4

This Code Provision stipulates that the Board should establish written guidelines on no less exacting terms than the Model Code (as defined below) for the dealings in the securities of the Company by certain employees of the Group who, because of their office or employment, is likely to be in possession of unpublished price sensitive information in relation to the Company or its securities. The Company has adopted such written guidelines on 22 August 2005.

3. Code Provision B.1.1

This Code Provision stipulates that the Company should establish a remuneration committee with specific terms of reference and a majority of such committee should be independent non-executive Directors. The Company has established a remuneration committee ("Remuneration Committee") comprising 5 Directors, namely Mr. Jiang Chao, executive Directors, Mrs. Yang Xiao, non-executive Directors and Mr. Chan King Chung, Dr. Huang Dazhan and Mr. Xie Weixin, independent non-executive Directors with specific written terms of reference on 22 August 2005. Mr. Chan King Chung is the Chairman of the Remuneration Committee.

4. Code Provision B.1.3

This Code Provision stipulates that the terms of reference of the Remuneration Committee should include certain specific duties. As disclosed above, the Company has established the Remuneration Committee with specific written terms of reference in compliance with this Code Provision on 22 August 2005.



5. Code Provision B.1.4

This Code Provision stipulates that the Remuneration Committee should make available its terms of reference explaining its role and the authority delegated to it by the Board. As disclosed above, following the establishment of the Remuneration Committee of the Company and the adoption of its written terms of reference on 22 August 2005, the Company will make arrangement to make available the terms of reference of its Remuneration Committee in accordance with this Code Provision.

6. Code Provision C.3.3

This Code Provision stipulates that the terms of reference of the Audit Committee (as disclosed below) should include certain specific duties. The Company has adopted a written terms of reference on 22 August 2005 in compliance with this Code Provision.

7. Code Provision C.3.4

This Code Provision stipulates that the Audit Committee should make available its terms of reference explaining its role and the authority delegated to it by the Board. As disclosed above, following adoption of the written terms of reference of the Audit Committee on 22 August 2005, the Company will make arrangement to make available the terms of reference of its Remuneration Committee in accordance with this Code Provision.



MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) as set out in Appendix 10 of the Listing Rules as the Company’s code of conduct for dealings in securities of the Company by the directors. Based on specific enquiry of the Company’s Directors, the Directors complied with the required standard set out in the Model Code throughout the period under review.

AUDIT COMMITTEE

The audit committee (the “Audit Committee”) of the Company, comprising three independent non-executive Directors, namely, Dr. Huang Dazhan, Mr. Xie Weixin and Mr. Chan King Chung, has reviewed the accounting principles and practices adopted by the Company and has discussed the auditing, internal control and financial reporting matters. The Group’s unaudited financial statements for the six months ended 30 June 2005 has been reviewed by the members of the Audit Committee, who are of the opinion that such statements comply with applicable accounting standards, the Listing Rules and legal requirements and that adequate disclosures have been made therein.

MATERIAL LEGAL PROCEEDINGS

As at 30 June 2005, the Company was not involved in any material litigation or arbitration and no material litigation or claims was pending or threatened or made against the Company as far as the board of directors was aware of.