

Management Discussion & Analysis





酷派手写世家

CDMA



酷派858
手写双模，至高·智慧



酷派858CDMA
震撼两音王朝，纵横手写天地



酷派519
手写·与“声”俱来



酷派518
商务新貌 贵族悦目



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In terms of revenue mix, turnover from smartphones accounted for 92% of the Group's turnover in 2005, as compared with 71% in 2004.

REVIEW OF OPERATIONS

Turnover

For the year ended 31 December 2005, the Group accomplished a turnover of HK\$354.0 million, a growth of 44.2% over that of 2004. The increase was principally attributable to sales of the smartphone products which increased by 86% to HK\$325.6 million from HK\$ 175.4 million in 2004.

In terms of revenue mix, turnover from smartphones accounted for 92% of the Group's turnover in 2005, as compared with 71% in 2004. Contribution from sales of wireless coverage system decreased from 11% in 2004 to 6% in 2005, while that of integrated telecom business platform decreased from 4% in 2004 to 2% in 2005. Sales from other terminal products vanished in revenue mix was attributable to the upgrading of the Group's wireless terminal products and the changing environment for the market and technologies developments.

TURNOVER	2005 HK\$ million	% of turnover	2004 HK\$ million	% of turnover
Wireless systems solutions				
PHS Intelligent Coverage System	22.1	6%	26.7	11%
Integrated Telecom Business Platform	6.3	2%	9.8	4%
Subtotal	28.4	8%	36.5	15%
Wireless terminals				
Smartphones	325.6	92%	175.4	71%
Fixed wireless terminals	—	—	32.2	13%
One-way wireless terminals	—	—	1.5	1%
Subtotal	325.6	92%	209.1	85%
Total	354.0		245.5	

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Gross Profit

The Group's gross profit increased by 24.9% to HK\$124.1 million in 2005. The gross profit margin decreased by 5.4% to 35.1% in 2005, as compared with 40.5% in 2004. The reasons of the decline were included: (1) a smaller proportion of revenue from system solutions, which offer higher gross profit margin, in the revenue mix during the reporting period; (2) the lower gross profit margin of bulk smartphone orders from China Unicom during the reporting period.

Net Profit

For the year ended 31 December 2005, the Group recorded a net profit of HK\$50.9 million, representing an increase of 16.5% over 2004. The net profit margin dropped from 17.8% in 2004 to 14.4% in 2005. The major reasons were that, during the reporting period: (1) the gross profit margin of the Group dropped; (2) the Group increased its research and development expenses; and (3) the increase in marketing promotion and brand building expenses.

Selling and distribution costs

Selling and marketing expenses increased by 52% from HK\$25.9 million in 2004 to HK\$39.4 million in 2005. The increment principally reflected the stepping up of promotional and advertising activities, the higher staff costs as the marketing staff force was enlarged, and the extended distribution network.

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Administrative expenses

Administrative expenses increased by 60% from HK\$21.8 million in 2004 to HK\$34.9 million 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 and 3G.

Income tax expense

In 2005, the Group's income tax expense amounted to HK\$9.4 million, as compared to HK\$7.5 million 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, the income tax rate of 15% was applied for the year ended 31 December 2005.

LIQUIDITY AND FINANCIAL RESOURCES

For the year ended December 31, 2005, the Group's operating capital was mainly generated from cash from its daily operations and bank borrowings.

- As at 31 December 2005, the Group had a gearing ratio of 47% (based on debt over total assets) (2004: 43%)
- As at 31 December 2005, the Group had a current ratio of 52% (based on current liabilities over current assets) (2004: 48%)

PLEDGE OF ASSETS

As at 31 December 2005, approximately HK\$49 million of the Group's bank deposits were pledged to secure notes payable. The Group's office building, with a net book value of approximately HK\$29 million (2004: HK\$22 million), was pledged to secure a short term bank loan granted to the Group.



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The Group offered 4 new models of smartphones with propriety operating system. The Coolpad 728 GSM-CDMA dual-mode smartphone is currently the only smartphone in the world that allows a GSM card and a CDMA card to work simultaneously in one smartphone. Its powerful and innovative functions immediately attracted huge market interests.

BUSINESS ACTIVITIES

As one of the leading wireless data total solutions providers in the PRC, the Group offers innovative products and personalised solutions to satisfy demands of different clients and different industries.

The year of 2005 is an encouraging year. The “Coolpad” brand is widely recognised and enjoys high reputation in the PRC and international smartphone market. In order to further boost the brand awareness of the “Coolpad” brand, the Group actively participated in several domestic and international telecommunication exhibitions.

In 2005, the Group offered 4 new models of smartphones with propriety operation system, including 3 models based on the Linux operating system and 1 model based on Windows CE operating system. The successful development of the Coolpad 728 dual-mode smartphone, which is currently the only smartphone that allows two SIM cards (a GSM card and a CDMA card), to work simultaneously and is the first of its kind in the world, is highly encouraging. The powerful function of the Coolpad 728 dual-

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mode smartphone immediately attracted huge market interests upon its launch and the Group has secured a large order of 150,000 units of Coolpad 728 dual-mode smartphones from China Unicom in December 2005.

During the reporting period, the Group established close strategic partnerships with well-known enterprises such as Microsoft, Qualcomm and Texas Instruments. Through the cooperation with Microsoft, the Group is able to offer updated smartphones with more application functions based on Windows CE platform. Through the cooperation with Qualcomm and Texas Instruments, the Group can keep abreast with the updated 3G technology development trends and will be in a position to offer 3G smartphones and 3G wireless data solutions based on CDMA2000 and WCDMA 3G standards. In addition, through these cooperation, the Group reduced the production costs for the smartphone products and is able to deploy more resources to product design. Besides the above cooperation, the Group is also actively working with Datang Telecom to the development of the TD-SCDMA 3G standard and TD-SCDMA 3G products and 3G wireless data solutions.

OUTLOOK

The Group plans to launch 5 to 6 new smartphone models targeting different customers and telecom operators to provide wireless data total solutions in 2006. Among the 5 to 6 new smartphone models, 4 models of which will be based on 2.5G network and others will be based on 3G network. It is expected that the TD-SCDMA-GSM dual-mode smartphone will be the major model of 3G smartphone provided by the Group in 2007.

Besides the smartphone products, with China expected to formally announce its 3G policies soon, the Group sees a promising imminent prospect for the 3G coverage systems and 3G wireless data total solutions in 2006. The Group will further enhance its 3G coverage systems to cater for telecom operators in the PRC. In addition, since wireless data transmission speed in 3G network is markedly quicker than the current 2.5G network, the Group believes that market potential for 3G wireless data solutions is huge.

In 2006, apart from continuing to keep a close working relationship with China Unicom, the Group will also seek to strengthen the cooperation with China Mobile, China Telecom and China Netcom. The Group is currently developing certain products and solutions for China Mobile and China Telecom and expects that the turnover from China Mobile and China Telecom to increase in 2006.

USE OF PROCEEDS

The Company was listed on the Main Board of the Stock Exchange on 9 December 2004. As at 31 December 2005, the Company had used up its listing proceeds as set out in the Company's listing prospectus except for the HK\$5 million budgeted for strategic investments as the Company has not yet identified suitable investment targets.

In December 2005, the Company and Data Dreamland Holdings Limited, a substantial shareholder of the Company and the placing agents entered into an agreement pursuant to which the Company issued and placed 40,000,000 new Shares, at a price of HK\$1.05 per Share by way of top up placing. The net proceeds from the placement of the Company was approximately HK\$40.5 million, which were used as

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general working capital of the Group, of which approximately HK\$35 million has been used for the purchase of materials and components for smartphone products, and of which the balance of approximately HK\$5.5 million has been used for promotion of the Group's overall corporate and brand image and enhancing the sales network.