

MARKET OPPORTUNITIES

The Directors believe that the Group is well positioned to capitalise on the opportunities arising from telecommunication industry de-regulation, technology advancement, as well as increasing popularity of wireless applications in the PRC.

1. **Industry de-regulation** — With the restructuring of the telecommunication sector in the PRC, mobile and fixed-line telecommunication operators are not only providing voice services. More value-added and data services and services based on network standard with both mobile and fixed-line features such as PHS have been launched in recent years. As a result, competition among telecommunication operators intensifies. To enhance competitiveness and to introduce additional revenue sources, telecommunication operators seek to provide more comprehensive value-added services and to develop innovative industry applications of wireless services on top of basic voice services. The Directors believe that these developments will continue to create opportunities for solution and equipment providers with technical expertise, track records and nation-wide services network.
2. **Technology advancement in wireless technologies** — As higher bandwidth digital mobile network (such as 2.5G and 3G) and particularly the CDMA1X (referred to as 2.5G or 2.8G) network are being or expected to be used in the PRC on a nationwide scale, telecommunication operators are able to offer more sophisticated services and would need to market such services to subscribers in the shortest possible time frame to recover the investment in network infrastructure. This and the need for the offering of more data centric services are expected to create substantially more demand for the Group's products and solutions.

The Directors believe that the emergence of 3G standards in the PRC signifies potential new markets for full range of the Group's products and solutions, including network coverage solutions, back-end system solutions for telecommunication operators and terminal products. All the designs of the Group's existing products have been developed with consideration of further upgrade to 3G standards.

The Directors understand that 3G testing was first carried out in the PRC in 2002. In November 2003, the second stage of 3G testing were conducted by six telecommunication operators and equipment providers on three major 3G standards, being WCDMA, CDMA2000 and TD-SCDMA. 3G inter-vendor equipment operability, network coverage and system capacity tests have been conducted in selected regions in 2004. In light of these developments, the Directors believe that 3G could be launched in the PRC no earlier than 2005, though no concrete timetable, rules or regulations have been issued by the State as at the Latest Practicable Date. The Directors believe that, with the deployment of 3G technology in the PRC, mobile operators in the PRC will increase their investment on wireless peripheral equipment so as to extend the functionality of their network coverage and terminal products to achieve 3G compatibility. Accordingly, in order to build up the Group's ability and readiness to provide 3G wireless coverage system solutions and 3G compatible wireless terminals, the Group has set up a 3G and multi-media project team in its R&D department. In order to follow 3G technologies development and study on application of 3G technologies, in March and October 2004, the Group entered into strategic partnership agreements with a 3G module

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developer which is engaged in the design and manufacturing of CDMA wireless modules, and a wireless telecom component and system provider, respectively. The Group's 3G and multimedia team has also been in frequent contact with and is in negotiation with a core 3G technology developer in the PRC for collaboration in R&D of 3G technologies. The Group plans to upgrade its existing wireless system solutions and terminal products to be 3G compatible.

- 3. Unique requirements of the PRC market** — The Directors believe that the Group has acquired substantial knowledge on the requirements of customers in the PRC. Capitalising on its local expertise, the Group developed its own operating system for its smartphone products for the PRC market. Such operating system relieves the Group from paying licensing fee to third party technology provider. In addition, it also allows the Group to have autonomy in designing and refining functions of the smartphone products and in developing industry applications so as to meet changing requirements of the market and technology innovations in a timely manner.

GROWTH STRATEGY

During the Track Record Period, on its know-how on core wireless telecommunication technologies, the Group was able to effectively adjust its product and solution portfolio in line with the investment focus of telecommunication industry in the PRC. During the Track Record Period, the Group's major source of turnover changed from sales of wireless system solutions to wireless terminals. The contribution from wireless system solutions decreased from approximately 99.3% in 2001 to approximately 18.3% in the five months ended 31 May 2004, while that from wireless terminals increased from approximately 0.7% in 2001 to approximately 81.7% in the five months ended 31 May 2004.

As basic infrastructure of the existing telecommunication networks in the PRC matures and the competition among telecommunication operators intensifies, the Directors expect that the telecommunication operators will continue to focus on enhancing user interface and promote more value-added services to reinforce customer loyalty. Under the current market condition, the Group expects to maintain the provision of wireless system solutions and to derive growth from wireless terminal products, particularly smartphone. In the long term, the Group will continue to generate growth by providing products and solutions in response to the emergence of new technology and the increasing requirements of the telecommunication operators and corporate clients by utilising its core wireless technologies. To achieve growth in such direction, the Group has formulated development plans as follows.

DEVELOPMENT PLANS

Further development of the smartphone business and development of the potential smartphone operating system licensing business

The Directors believe that the Group is one of the leaders among the many technology companies in the PRC which have successfully developed their own operating system for wireless terminals. In July 2004, the Group's *Coolpad* 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). With its self-developed operating system, the Group does not need to pay licence fee to third party technology provider and has the autonomy to enhance the functions

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of its wireless terminal products. The Group has also been in discussions with certain major handset manufacturers in the PRC about licensing the Group's proprietary operating system with the aim of penetrating into the smartphone operating system market.

Coupled with its experience in wireless system solution development, the Group is well positioned to extend the application of its wireless terminals, particularly smartphone, to provide tailor made industry applications. The Group intends to promote industry applications either on its own or in partnership with other services/application providers or telecommunication operators. The Group has taken steps to market the industry applications for stock trading, aviation, banking, insurance, land transportation and public security industries. Details of the industry applications are set out in the paragraphs headed "Industry applications developed based on the Group's wireless terminal products" in the section headed "Business" in this prospectus.

Further empowering of R&D

To support future expansion, the Directors consider it crucial to further strengthen the Group's R&D team. The Group plans to recruit additional professionals to join its R&D team, purchase more R&D equipment, and provide continuous training to improve the R&D team's technical know-how. The Group will also continue to participate in exhibitions and workshops in order to keep abreast of latest wireless technologies. In order to accommodate the growing R&D team, the Directors consider that it would be useful for the Group to build its own R&D centre in the future. However, the Directors further confirmed that as at the Latest Practicable Date, the Group has not committed to any third party for purchase of land for such purpose, nor the Group has any fixed timetable for doing so.

It is the Group's strategy to focus on a few core areas of wireless communication technologies related to its proprietary operating system for wireless terminal products and its industry applications, wireless coverage system for PHS network and applications of 3G technologies. Besides investing in research on the applications of core 3G technologies, the Group plans to upgrade its existing products and solutions to be 3G compatible. Details on the Group's R&D directions are set forth under the paragraph headed "Research and development" in the section headed "Business" in this prospectus.

Brand awareness and products/solutions promotion

With its core technical competence in wireless technologies, the Group aims to position itself as a preferred partner for telecommunication operators and corporate subscribers. To this end, the Group aims to maintain close contact with major telecommunication operators in the PRC on both headquarters level and provincial branch level. The Group's technical staff will continue to liaise closely with the representatives of telecommunication operators to keep itself abreast of technical requirements as well as market development directions. The Directors expect that the Group would continue to partner with telecommunication operators, other telecommunication solution or equipment providers in promoting its wireless terminal products as core component of industry applications. The promotion is expected to be done primarily through direct marketing. The Group will participate in various trade shows and technical conferences in the PRC to enhance the publicity of its brandname. Advertisements will also be placed in selected professional and general magazines as well as outdoor media in major PRC cities such as Beijing, Shanghai, Guangzhou, Hangzhou and Shenzhen to enhance the awareness of products and solutions and image of the Group.

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Expansion in sales, distribution and services network coverage

The Group is headquartered in Shenzhen of the PRC and has one representative office in Beijing and sales liaison points in Shanghai, Chongqing, Tianjin and 20 provinces in the PRC. In order to strengthen the Group's market position, the Group intends to upgrade some of its sale liaison points and the representative office in future. In doing so, the Group expects to enlarge the sales team, expand the office space and upgrade office facilities. In addition, the Group also intends to increase the number of experienced sales engineers in order to support the increasing volume of marketing activities and to provide better services to its customers.

PROPOSED USE OF THE NET PROCEEDS FROM THE NEW ISSUE

The Directors intend to use the net proceeds from the New Issue to implement the Group's future development plans. Assuming that the Over-allotment Option is not exercised, and based on the Offer Price of HK\$0.83 (being the mid-point of the indicative Offer Price range between HK\$0.79 and HK\$0.87), the net proceeds from the New Issue, after deduction of underwriting commission and estimated expenses payable by the Company, are estimated to be approximately HK\$70.7 million. The Directors currently plan to use such net proceeds as follows:—

- as to approximately HK\$25 million for strengthening R&D capabilities, of which approximately HK\$16 million will be used in R&D of smartphone and related industry application, approximately HK\$2 million in R&D for enhancement of wireless coverage solution for PHS network, approximately HK\$2 million in R&D for enhancement of the Group's integrated telecom business platform, approximately HK\$2 million for R&D on 3G technologies and upgrading of existing products and solutions to be 3G compatible, and approximately HK\$3 million in further R&D of core technologies of wireless telecommunication;
- as to approximately HK\$25 million for the manufacturing and marketing of smartphones, of which approximately HK\$18 million will be used for financing purchase of materials, approximately HK\$2 million for manufacturing activities, and approximately HK\$5 million for marketing activities;
- as to approximately HK\$9 million for promotion of overall corporate image, of which approximately HK\$4 million for television advertising, HK\$3 million for newspaper and out-door media advertising, and HK\$2 million for other promotion;
- as to approximately HK\$5 million for strategic investments in wireless technologies companies. It is intended that the target company should have strong technology development capability in wireless industry application in banking, stock brokerage or public security industry, as well as multi-media technology, which is synergistic with the Group's plan for devoting to wireless industry application and 3G solution. The Directors confirm that as at the Latest Practicable Date there was no specific target, negotiation, concrete plan in relation to the proposed strategic investments;
- as to approximately HK\$5 million for enhancing the Group's network for sales and provision of customer support services; and

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- as to the remaining balance to be used as general working capital of the Group, mainly to finance the purchase of materials, manufacturing and marketing of the Group's products and solutions.

In the event that the Over-allotment Option is exercised in full, and based on the Offer Price of HK\$0.83 (being the mid-point of the indicative Offer Price range between HK\$0.79 and HK\$0.87), the Company will receive additional net proceeds of approximately HK\$16.0 million which the Directors intend to use as additional general working capital.

To the extent that the net proceeds from the New Issue and the issue of new Shares under the Over-allotment Option are not immediately applied for the above purposes, or if the Group is not able to effect any part of its future development plans as intended, it is the present intention of the Directors that such net proceeds be placed on short-term deposits.