CHINA DIGITAL WIRELESS INC
Form POS AM
September 12, 2005

As filed with the Securities and Exchange Commission on September 12, 2005
Registration No. 333-120431

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549
Form SB-2
Post-effective Amendment No. 1
Registration Statement Under the Securities Act of 1933

CHINA DIGITAL WIRELESS, INC.
(Exact name of registrant as specified in its charter)

Nevada	90-0093373
(State or other jurisdiction of organization)	(IRS Employer incorporation or identification No.)

7374
(Primary Standard Industrial Classification Code Number)

429 Guangdong Road
Shanghai 200001
People's Republic of China
Ph: (86-21) 6336-8686
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

The Corporation Trust Company of Nevada
6100 Neil Road, Suite 500
Reno, Nevada 89511
Ph: (775) 688-3061
(Name, address, including zip code, and telephone number, including area code, of agent for service)

With copies to:

Preston Gates & Ellis LLP
Attention: Gary J. Kocher, Esq.
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925 Fourth Avenue, Suite 2900
Seattle, Washington 98104
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Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this registration statement.
If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act, check the following box. [X]
If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act Registration Statement number of the earlier effective

Registration Statement for the same offering. [_]
If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act Registration Statement number of the earlier effective Registration Statement for the same offering. [_]
If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act Registration Statement number of the earlier effective Registration Statement for the same offering. [_]
If delivery of the prospectus is expected to be made pursuant to Rule 434, check the following box. [_]

The Registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said section 8(a), may determine.

2,737,381 Shares

CHINA DIGITAL WIRELESS, INC.

Common Stock

This is an offering of 2,737,381 shares of common stock by the selling stockholders. The shares are being registered to permit public secondary trading of the shares that are being offered by the selling stockholders named in this prospectus. We will not receive any of the proceeds from the sale of the shares.

The selling stockholders may, but are not obligated to, offer all or part of their shares for resale from time to time through public or private transactions, at either prevailing market prices or at privately negotiated prices.

Our common stock is currently quoted on the NASD's Over-the-Counter Bulletin Board under the symbol "CHDW." On September 8, 2005, the last reported sales price on our common stock was $2.79 per share.

Investing in our common stock involves risks. See "Risk Factors" beginning on page 6 to read about factors you should consider before buying shares of our common stock.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is September 12, 2005.

ABOUT THIS PROSPECTUS

You should rely only on the information contained in this document or any other document to which we refer you. Neither we nor the selling stockholders have authorized anyone to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. Neither we nor the selling stockholders are making an offer to sell these securities in a jurisdiction where the offer or sale is not permitted. The information contained in this document is current only as of its date, regardless of the time of delivery of this prospectus or of any sales of shares of common stock. Our business, financial condition, results of operations and prospects may have changed since that date.

The information in this prospectus is not complete and may be changed. The selling stockholders may not sell the securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

TABLE OF CONTENTS

2

PROSPECTUS SUMMARY

This summary highlights selected information about us and the offering that is contained elsewhere in this prospectus. You should read the entire prospectus before making an investment decision, especially the information presented under the heading "Risk Factors" and the financial statements and related notes included elsewhere in this prospectus, as well as the other documents to which we refer you. Except as otherwise indicated by the context, references in this prospectus to "we," "us," "our," or the "company" are to the combined business of China Digital Wireless, Inc. and its wholly-owned direct subsidiary, Sifang Holdings Company Limited, or Sifang Holdings, and its wholly-owned subsidiary, Shanghai TCH Data Technology Co., LTD, or TCH, and in each case do not include the selling stockholders.

CHINA DIGITAL WIRELESS, INC.

Our Business

Value-added Information Services. We render value-added information services in China by purchasing content from third-party providers and reformatting that content. Our value-added information services enable wireless receiver (mobile phone and pager) users in China to access financial information and various entertainment-related services. We contract with our affiliated wireless service providers to transmit the reformatted content to customers of China's various network operators.

The primary focus of our value-added information services is on providing wireless receiver users in China with access to financial information. We derive the vast majority of our value-added information services revenue from our financial information business. Our financial information software, Sifang Gutong, allows our customers to access stock and currency exchange information and execute stock trades.

Leveraging our experience and understanding of the wireless value-added services market in China, we purchase and reformat content, applications and technologies that we believe are popular in the Chinese wireless market. To further enhance and differentiate our services, we have entered into, and will continue to actively pursue, collaborative relationships with third parties to customize, market and provide access to their content through various wireless technologies to Chinese consumers. In addition, all of our services are promoted by our sales force and supported by our customer service team, each of which is strategically based in Shanghai.

We began providing our entertainment-related services, including icons, screen savers, multiplayer games, Western horoscopes, jokes, and sports and entertainment news during the latter part of 2003. These services are ancillary to our financial information services and they represent only a small percentage of our value-added information services revenue at the present time.

We primarily conduct our business in China solely through our wholly-owned subsidiary, Sifang Holdings, and its wholly-owned subsidiary, TCH. In order to meet ownership requirements under Chinese law that restrict us, as a foreign company, from operating in certain industries such as value-added telecommunication and Internet services, we have entered into information service and cooperation agreements with two of our affiliates that are incorporated in the People's Republic of China: Shanghai Sifang Information Technology Co., Ltd., or Sifang Information, and Shanghai Tianci Industrial Group Co., Ltd., or Tianci.

The original stockholder structure of Sifang Holdings was identical to the current stockholder structure of Sifang Information, and each of Sifang Information and Tianci are owned approximately 69% through direct and indirect ownership by Tai Caihua, our president and the chairman of our board of directors. We hold no ownership interest in Sifang Information or Tianci. Sifang Information and Tianci contract with China Mobile Communications Corporation, or China Mobile, and China United Telecommunications Corporation, or China Unicom, respectively, to provide wireless value-added information services to wireless receiver customers in China via China Mobile and China Unicom. Sifang Information transmits those services to customers of China Mobile and China Unicom on behalf of itself and Tianci pursuant to a signed agreement between Sifang Information, Tianci and TCH, respectively.

Distribution. We distribute various mobile phone brands in the Shanghai, China region. We distribute mobile phones manufactured primarily by SAMSUNG Electronics Co., Ltd., or Samsung, and to a lesser extent, by Motorola, Inc., or Motorola. We began distributing Motorola mobile phones in early 2002 and Samsung mobile phones in November 2002. We began discontinuing our Motorola mobile phone distribution business on June 30, 2004. We will remain a distributor, for the Shanghai region, of nine different mobile phone models manufactured by Samsung, and plan to increase our sales of Samsung mobile phones. Six of the Samsung models we distribute are compatible with the CDMA network and three are compatible with the GSM network. We plan to pre-install the end-user portion of our Sifang Gutong software in all of the Samsung mobile phones we distribute, and market our stock information, stock trading, and currency exchange services by placing brochures touting those services in the packaging of those Samsung mobile phones before we distribute the phones to retailers. We believe this process will increase name recognition of our financial information and stock trading services with wireless receiver users.

There are three main first-tier wholesalers of Samsung phones in China: Shanghai Taili Communication Equipment Co., Ltd., Shenzhen Tianyin Communication Development Co., Ltd., and Guangzhou Yingtai Data Power Technology Co., Ltd. These wholesalers contract, through local branches, with sub-wholesalers to distribute each model in a defined area. We have contracts with Shanghai branch offices of the three main first-tier wholesalers on whom we rely, making us a sub-wholesaler distributor of nine Samsung mobile phone models in the Shanghai region. We sell approximately 52% of our mobile phones to three retailers.

Our Corporate Information

We originally began operations as a Colorado corporation known as Boulder Brewing Company, or Boulder Brewing. Boulder Brewing was incorporated in Colorado on May 8, 1980 and operated as a microbrewery of various beers. Boulder Brewing was unable to become profitable within any segment of its core business, became illiquid, and was forced to divest itself of all of its assets. Boulder Brewing became dormant without any operations or assets in the second quarter of 1990.

In September 2001, Boulder Brewing changed its state of incorporation from Colorado to Nevada through a merger and changed its name to Boulder Acquisitions, Inc., or Boulder Acquisitions. The articles of incorporation and bylaws of the Nevada corporation became the articles of incorporation and bylaws of the surviving corporation. From the date of reincorporation until June 23, 2004 Boulder Acquisitions had no material operations or assets.

On June 23, 2004, we completed a stock exchange transaction with the stockholders of Sifang Holdings. The exchange was consummated under Nevada and Cayman Islands law pursuant to the terms of a Securities Exchange Agreement dated effective as of June 23, 2004 by and among Boulder Acquisitions, Sifang Holdings and the stockholders of Sifang Holdings. Pursuant to the Securities Exchange Agreement, we issued 13,782,636 shares of our common stock, par value $0.001 per share, to the stockholders of Sifang Holdings, representing approximately 89.7% of our post-exchange issued and outstanding common stock, in exchange for 100% of the outstanding capital stock of Sifang Holdings. We presently carry on the business of Sifang Holdings' wholly-owned subsidiary, Shanghai TCH Data Technology Co., Ltd., a Chinese corporation, or TCH.

Effective August 6, 2004, we changed our name from Boulder Acquisitions, Inc. to China Digital Wireless, Inc. The name change was undertaken in order to provide us with a name that is more indicative of the business operations we conduct.

Our corporate headquarters is located at 429 Guangdong Road, Shanghai, 200001, Peoples Republic of China. Our telephone number is (86-21) 6336-8686.

THE OFFERING

Common stock outstanding prior to this offering.........	17,018,692 shares
Common stock offered by us............................	0 shares
Common stock offered by the selling stockholders........	2,737,381 shares
Total shares of common stock offered...................	2,737,381 shares
Common stock to be outstanding after the offering.......	17,018,692 shares
Risk factors..	See "Risk Factors" and other infor included in this prospectus for a disc of factors you should consider deciding to invest in shares of our stock.

RISK FACTORS

An investment in our securities involves a high degree of risk. You should carefully consider the following risks and the other information set forth elsewhere in this prospectus, including our financial statements and related notes, before you decide to purchase shares of our common stock. If any of these risks occur, our business, financial condition and results of operations could be adversely affected. As a result, the trading price of our common stock could decline, perhaps significantly, and you could lose part or all of your investment.

Risks Related to Our Business

Risks Related to Our Wireless Value-Added Information Services Business

We depend upon contractual arrangements with our affiliated value-added mobile phone service providers, Sifang Information and Tianci, for the success of our business. These arrangements may not be as effective in providing operational control as direct ownership of these businesses and may be difficult to enforce.

Because we conduct our business only in China, and because we are restricted by the Chinese government from owning telecommunications or Internet operations in China, we depend on our affiliated value-added mobile phone service providers, Sifang Information and Tianci, in which we have no direct ownership interest, but with which we have entered into information service and cooperation agreements, to provide those services to mobile phone users in China through contractual agreements with the mobile operators, China Mobile and China Unicom. These arrangements may not be as effective in providing control over our value-added information services to mobile phone users in China as would be direct ownership of these businesses. For example, Sifang Information or Tianci could fail to take actions required to operate our business, such as entering into service contracts with China Mobile or China Unicom. Moreover, a portion of the fees for our services are paid by the mobile operators directly to Sifang Information and Tianci, which are then obligated to transfer all of those fees to us, in return for a small fee. If Sifang Information or Tianci fails to perform their obligations under these agreements, we may have to rely on legal remedies under Chinese law, which we cannot assure you would be effective or sufficient.

In the opinion of our Chinese counsel, Grandall Legal Group (Shanghai), Sifang Information and Tianci each possesses such licenses, permits, certificates, authorities and approvals, issued by appropriate governmental agencies or bodies in the People's Republic of China, as are necessary to conduct its business as presently conducted as well as to perform its obligations under any contracts between it and China Mobile and China Unicom, respectively. In addition, to the best knowledge of Grandall Legal Group (Shanghai), TCH is not in breach of or in default under any laws of the People's Republic of China or any approval, consent, waiver, authorization, exemption, permission, endorsement or license granted by any People's Republic of China governmental agencies. There are, however, substantial uncertainties regarding the interpretation and application of current and future Chinese laws and regulations, as discussed below.

We depend on one software developer for a significant portion of our software development, as well as for important marketing relationships.

We rely on Shanghai Chengao Industrial Co., Ltd., or Chengao, to develop a significant portion of our software, including our Sifang Gutong software. We also rely on Chengao to provide us with an important marketing relationship regarding the mobile phone version of our Sifang Gutong software. If we lose our relationship with Chengao, we could have a difficult time finding a suitable replacement in the short term.

Our corporate structure could be deemed to be in violation of current or future Chinese laws and regulations which could adversely affect our ability to operate our business effectively or at all.

In connection with China's entry into the World Trade Organization, or WTO, foreign investment in telecommunications and Internet services in China was liberalized to allow for 30.0% foreign ownership in value-added telecommunication and Internet services in 2002, 49.0% in 2003, and 50.0% thereafter. In order to meet these ownership requirements, we have entered into information service and cooperation agreements with Sifang Information and Tianci. We do not have any direct ownership interest in Sifang Information or Tianci. The original stockholder structure of Sifang Holdings was identical to the current stockholder structure of Sifang Information, and each of Sifang Information and Tianci are beneficially owned 69% by Tai Caihua, our president and the chairman of our board of directors. It is possible that the relevant Chinese authorities could, at any time, assert that any portion or all of TCH's, Sifang Information's, or Tianci's existing or future ownership structure and businesses violate existing or future Chinese laws, regulations or policies. It is also possible that the new laws or regulations governing the telecommunication or Internet sectors in China that have been adopted or may be adopted in the future will prohibit or restrict foreign investment in, or other aspects of, TCH's, Sifang Information's or Tianci's current or proposed businesses and operations. In addition, these new laws and regulations may be retroactively applied. In any such case, we could be required to restructure our operations, which could adversely affect our ability to operate our business effectively or at all.

We depend on China Mobile and China Unicom for delivery of our value-added information services to mobile phone users in China, and the termination or alteration of Sifang Information's and Tianci's various contracts with either of them or their provincial or local affiliates could materially and adversely impact our business.

Our affiliated value-added mobile phone service providers, Sifang Information and Tianci, contract with the two principal mobile phone operators in China, China Mobile and China Unicom, to offer our wireless value-added information services to mobile phone users through these mobile phone operators, which service nearly all of China's approximately 282.2 million mobile phone subscribers. Given their dominant market position, our affiliated value-added mobile phone service providers' negotiating leverage with these operators is limited. If our affiliated value-added mobile phone service providers' various contracts with either operator are terminated or adversely altered, it may be impossible for our affiliated value-added mobile phone service providers to find appropriate replacement operators with the requisite licenses and permits, infrastructure and customer base to offer our services, and our business would be significantly impaired.

Our value-added information services are provided to mobile phone users in China pursuant to contracts with Sifang Information and Tianci have with China Mobile and China Unicom and their provincial or local affiliates. Each of these contracts is non-exclusive, and has a limited term (generally one year). Our affiliates usually renew these contracts or enter into new ones when the prior contracts expire, but on occasion the renewal or new contract can be delayed by periods of one month or more. The terms of these contracts vary, but the operators are generally entitled to terminate them in advance for a variety of reasons or, in some cases, for no reason in their discretion. For example, several of our affiliates' contracts with the mobile operators can generally be terminated if:

- our affiliate fails to achieve performance standards which are established by the applicable operator from time to time;
- our affiliate breaches its obligations under the contracts, which include, in many cases, the obligation not to deliver content that violates the operator's policies and applicable law;
- the operator receives high levels of customer complaints about our affiliate's services; or
- the operator sends written notice to our affiliate that it wishes to terminate the contract at the end of the applicable notice period.

Our affiliates may also be compelled to alter their arrangements with these mobile operators in ways which adversely affect our business. China Mobile and China Unicom have unilaterally changed their policies as applied to third-party

service providers in the past, and may do so again in the future. We may not be able to adequately respond to negative developments in the contractual relationships between our affiliates and China Mobile or China Unicom in the future because we do not have a contractual relationship with China Mobile or China Unicom.

Our business could be adversely affected if China Mobile or China Unicom or both begin providing their own wireless value-added services.

Our wireless value-added information services business may be adversely affected if China Mobile or China Unicom or both decide to begin providing their own wireless value-added services to mobile phone users. In that case, we would face enhanced competition, and our services could be fully or partially denied access to their networks.

We depend in part on China Mobile and China Unicom to maintain accurate records and to continue to pay our affiliated value-added wireless service providers.

We depend in part on China Mobile and China Unicom to maintain accurate records of the fees paid by mobile phone users and to pay our affiliated value-added wireless service providers. Specifically, the mobile operators provide our affiliates with monthly statements that do not provide itemized information regarding which of our services are being paid for. Our business and results of operation could be adversely affected if these mobile phone companies miscalculate the revenue generated from our services and our affiliates' portion of that revenue, or refuse to pay our affiliates altogether.

Our revenues and cost of services are affected by billing and transmission failures which are often beyond our control.

Our affiliates do not collect fees for our services owed to them by China Mobile and China Unicom in a number of circumstances, including if:

- o the delivery of our service to a customer is prevented because his or her phone is turned off for an extended period of time, the customer's prepaid phone card has run out of value or the customer has ceased to be a customer of the applicable operator;
- o China Mobile or China Unicom experiences technical problems with their networks which prevent the delivery of our services to the customer;
- o we experience technical problems with our technology platform that prevent delivery of our services;
- o our affiliates experience technical problems with their technology platforms that prevent delivery of our services; or
- o the customer refuses to pay for our service due to quality or other problems.

These situations are known in the industry as billing and transmission failures, and we do not recognize any revenue for services which are characterized as billing and transmission failures. The failure rate can vary among the operators, and by province, and also has fluctuated significantly in the past. If actual billing and transmission failures exceed our estimates, our revenues could be materially adversely affected.

China Mobile and China Unicom may impose higher service or network fees on our affiliated value-added service providers if we are unable to satisfy customer usage and other performance criteria.

Fees for our wireless value-added information services are charged on a monthly subscription or per use basis. Based on our contractual arrangement and those of our wireless value-added service providers, we rely on China Mobile and China Unicom to bill and collect fees for our services from mobile phone users.

China Mobile and China Unicom generally charge our affiliated value-added service providers service fees of 15% and 30% of the revenues generated by their services, respectively. To the extent that the number of messages sent by Sifang Information over China Mobile's network exceeds the number of messages their

customers send to it, Sifang Information must pay per message network fees, which decrease in several provinces as the volume of customer usage of our services increases. The number of messages sent by Sifang Information will exceed those sent by end-users, for example, if a user sends Sifang Information a single message to order a game but Sifang Information in turn must send that user several messages to confirm his or her order and deliver the game itself. Tianci's service fees owed to China Unicom could also rise if Tianci fails to meet certain customer usage, revenue and other performance criteria. We cannot be certain that our affiliates will be able to continue to satisfy these criteria in the future or that the mobile operators will keep the criteria at their current levels. Any increase in China Mobile's or China Unicom's network fees and service charges could reduce our gross margins.

China Mobile and China Unicom may terminate their relationships with our affiliates if our affiliates fail to achieve minimum customer usage, revenue and other criteria.

Our business could be adversely affected if our affiliated value-added mobile phone service providers fail to achieve minimum customer usage, revenue and other criteria imposed or revised by China Mobile and China Unicom at their discretion from time to time. China Mobile and China Unicom, through their national and local offices, have historically preferred to work only with a small group of the best performing wireless value-added service providers, based upon the uniqueness of the service offered by each provider, total number of users, usage and revenue generated in the applicable province or municipality, the rate of customer complaints, and marketing expenditures in the applicable province or municipality.

The services our affiliated value-added mobile phone service providers offer and the prices they charge are subject to approval by China Mobile and China Unicom, and if requested approvals are not granted in a timely manner, our business could be adversely affected.

Our affiliated value-added mobile phone service providers must obtain approval from China Mobile and China Unicom with respect to each service that they propose to offer to their customers and the pricing for each such service. In addition, any changes in the pricing of our affiliates' existing services must be approved in advance by these operators. There can be no assurance that such approvals will be granted in a timely manner or at all. Moreover, under some of our affiliates' contracts with the operators, prices cannot be changed more than once every six months and prices must be within fixed parameters, depending on the service. Any failure of our affiliates to obtain, or any delay in obtaining, such approvals could place us at a competitive disadvantage in the market and adversely affect our business.

We operate in a rapidly evolving industry, which makes it difficult for investors to evaluate our business.

We began commercially offering wireless value-added information services to mobile phone and pager users in China in January 2002, and since that time, the technologies and services used in the wireless value-added information services industry in China have developed rapidly. As a result of this rapid and continual change in the industry, the prospects of our value-added information service business should be considered in light of the risks and difficulties frequently encountered by businesses in an early stage of development. These risks include our ability to:

- attract and retain users for our wireless value-added information services;
- expand the content and services that we offer and, in particular, develop and aggregate innovative new content and service offerings;
- respond effectively to rapidly evolving competitive and market dynamics and address the effects of mergers and acquisitions among our competitors;
- build relationships with strategic partners; and
- increase awareness of our brand and user loyalty.

Due to these factors, there can be no certainty that we will maintain or increase our current share of the highly competitive wireless value-added information services market in which we operate.

The success of much of our wireless value-added information services is significantly dependent on our ability to obtain and reformat desirable content and technology from third parties.

We obtain much of our content, including financial information, games, logos, music, news and other information, from third parties. Furthermore, we expect that we will develop and purchase technology in connection with our development of next generation services such as MMS, JAVA and BREW. As the market for wireless value-added information services develops, content and technology providers may attempt to increase their profits from distribution arrangements by demanding greater fees or a share of revenues, which would adversely affect our financial performance. Many of our arrangements with content and technology providers are non-exclusive, have a term of one year, and are subject to renewal. If our competitors are able to obtain such content in a similar or superior manner or to develop, purchase or license the same technologies, it could adversely affect the popularity of our services and our negotiating leverage with third-party providers.

If we fail to establish and maintain economically attractive relationships with content and technology providers and to thereafter successfully reformat their products, we may not be able to attract and retain customers or maintain or improve our financial performance.

We depend on our Sifang Gutong software continuing to be compatible with new mobile phone models.

There can be no assurance that our Sifang Gutong software will be compatible with new mobile phones developed by manufacturers such as Samsung. If the software is no longer compatible, we will be forced to engage Chengao or an alternative software developer to develop software that is compatible with the new mobile phones or we will have to develop the software ourselves. If we are unable to either engage a software developer or develop software in house that is compatible with new mobile phones, we will lose a significant portion of our value-added information services revenue, including all of the pre-charged subscription fee revenues we receive pursuant to our information services and cooperation agreement among us, Chengao, and Sifang Information.

We face intense competition from other wireless value-added service providers.

The Chinese market for wireless value-added services is intensely competitive. We believe there are more than 800 service providers (including the three groups discussed below) as of June 30, 2004. We compete directly or indirectly with three groups of wireless value-added service providers in China:

- portal service providers, which have established expertise in Internet content and have subsequently branched into mobile space. The portals serve as content aggregators offering a variety of wireless value-added services;
- dedicated service providers, whose businesses focus on offering a variety of wireless content directly to mobile phone users; and
- niche service providers, which focus primarily on a particular market segment or application that often builds on a pre-existing sector competency.

We have faced direct or indirect competition from all three groups since our entry into this market. Moreover, there are low barriers to entry for new competitors in the wireless value-added services market. As a result, our existing or potential competitors may in the future achieve greater market acceptance and gain additional market share, which in turn could reduce our revenues.

Most of our value-added information services revenues are derived from the Shanghai municipal area and surrounding provinces, and the termination or alteration of our affiliates' contracts with the mobile operators, or a general economic downturn in those areas, could have a particularly adverse effect on our business.

Per capita income levels and mobile phone penetration rates (i.e., the number of mobile subscribers divided by the population of China) in China are generally higher in the coastal and southern provinces, and most of our revenues

are derived from those areas, including the municipality of Shanghai and the provinces of Beijing and Jiangsu. If our affiliates' contracts with the mobile operators with respect to those areas are terminated or adversely modified, or if there is a general economic downturn in those areas, it could have a particularly adverse effect on our business.

We depend on key personnel for the success of our business. Our business may be severely disrupted if we lose the services of our key executives and employees or fail to add new senior and middle managers to our management.

Our future success is heavily dependent upon the continued service of our key executives, particularly Tai Caihua, our president and chairman of our board of directors, Fu Sixing, our chief executive officer, Lu Qin, our chief financial officer, and Qian Fang, our chief technology officer. Each of our executive officers has entered into a non-competition agreement with TCH. Management will spend approximately 30% of its time managing Sifang Information. We also rely on a number of key technology staff for the operation of our company. Our future success is also dependent upon our ability to attract and retain qualified senior and middle managers to our management team.

If one or more of our current or future key executives and employees are unable or unwilling to continue in their present positions, we may not be able to easily replace them, and our business may be severely disrupted. In addition, if any of these key executives or employees joins a competitor or forms a competing company, which is a high risk given the competitive nature of our industry, we could lose customers and suppliers and incur additional expenses to recruit and train personnel and it could disrupt our operations.

Rapid growth and a rapidly changing operating environment strain our limited resources.

As our value-added information services customer base increases, we will need to increase our investment in our technology infrastructure, facilities and other areas of operations, in particular our product development, customer service and sales and marketing departments, which are important to our future success. If we are unable to manage our growth and expansion effectively, the quality of our services and our customer support could deteriorate and our business may suffer. Our future success will depend on, among other things, our ability to:

- develop and quickly introduce new services, adapt our existing services and maintain and improve the quality of all of our services, particularly as new mobile technologies such as 3G are introduced;
- expand the percentage of our value-added information services revenues which are recurring and are derived from monthly subscription based services;
- continue to enter into and maintain relationships with desirable content providers;
- continue training, motivating and retaining our existing employees and attract and integrate new employees, including our senior management, most of whom have been with our company for less than one year;
- develop and improve our operational, financial, accounting and other internal systems and controls; and
- maintain adequate controls and procedures to ensure that our periodic public disclosure under applicable laws, including U.S. securities

laws, is complete and accurate.

Any failures of the mobile telecommunications network, the Internet or our technology platform may reduce use of our services.

Both the continual accessibility of China Mobile's and China Unicom's mobile networks and the performance and reliability of China's Internet infrastructure are critical to our ability to attract and retain our value-added information services customers . Moreover, our business depends on our ability to maintain the satisfactory performance, reliability and availability of our technology platform. The servers which constitute the principal system hardware

for our operations are located in one location in Shanghai. Any server interruptions, break-downs or system failures, including failures caused by sustained power shutdowns, floods or fire causing loss or corruption of data or malfunctions of software or hardware equipment, or other events outside our control that could result in a sustained shutdown of all or a material portion of the mobile networks, the Internet or our technology platform, could adversely impact our ability to provide our services to our value-added information services customers and decrease our revenues.

Computer viruses and hacking may cause delays or interruptions on our systems and may reduce use of our services and harm our reputation.

Computer viruses and hacking may cause delays or other service interruptions on our systems. "Hacking" involves efforts to gain unauthorized access to information or systems or to cause intentional malfunctions or loss or corruption of data, software, hardware or other computer equipment. In addition, the inadvertent transmission of computer viruses could expose us to a material risk of loss or litigation and possible liability. We may be required to expend significant capital and other resources to protect our systems against the threat of such computer viruses and hacking and to rectify any damage to our systems. Moreover, if a computer virus or hacking which affects our systems is highly publicized, our reputation could be materially damaged and usage of our services may decrease.

We may be held liable for information we purchase and reformat.

We may face liability for defamation, negligence, copyright, patent or trademark infringement and other claims based on the reformatted content to which we provide access through our wireless value-added information services. For example, SMS news updates provided by us could possibly be deemed to contain state secrets in violation of applicable Chinese law. In addition, third parties could assert claims against us for losses incurred in reliance on information distributed by us. We may incur significant costs in investigating and defending these claims, even if they do not result in liability.

We may not be able to adequately protect our intellectual property, and we may be exposed to infringement claims by third parties.

We rely on contractual restrictions on disclosure to protect our intellectual property rights. Monitoring unauthorized use of our information services is difficult and costly, and we cannot be certain that the steps we take will effectively prevent misappropriation of our technology and content. Our management may determine in the future to make application for copyright, trademark or trade secret protection if management determines that such protection would be beneficial and cost-effective.

From time to time, we may have to resort to litigation to enforce our intellectual property rights, which could result in substantial costs and diversion of our resources. In addition, third parties may initiate litigation against us for alleged infringement of their proprietary rights. In the event of a successful claim of infringement and our failure or inability to develop non-infringing technology or content or license the infringed or similar technology or content on a timely basis, our business could suffer. Moreover, even if we are able to license the infringed or similar technology or content, license fees that we pay to licensors could be substantial or uneconomical.

We have limited business insurance coverage.

The insurance industry in China is still at an early stage of development. Insurance companies in China offer limited business insurance products, and do not, to our knowledge, offer business liability insurance. As a result, we do not have any business liability insurance coverage for our operations. Moreover, while business disruption insurance is available, we have determined that the risks of disruption and cost of the insurance are such that we do not require it at this time. Any business disruption, litigation or natural disaster might result in substantial costs and diversion of resources.

Risks Related to the Wireless Value-Added Services Industry

Our ability to generate revenues could suffer if the Chinese market for wireless value-added services does not develop as anticipated.

The wireless value-added services market in China has evolved rapidly over the last four years, with the introduction of new services, development of consumer preferences, market entry by new competitors and adaptation of strategies by existing competitors. We expect each of these trends to continue, and we must continue to adapt our strategy to successfully compete in our market.

In particular, we currently offer a wide range of wireless value-added information services for mobile phones using 2.5G technologies. There can be no assurance, however, that these 2.5G technologies and any services compatible with them will be accepted by consumers or promoted by the mobile operators. Moreover, there are numerous other technologies in varying stages of development, such as third generation mobile technologies, which could radically alter or eliminate the market for SMS or 2.5G services.

Accordingly, it is extremely difficult to accurately predict consumer acceptance and demand for various existing and potential new offerings and services, and the future size, composition and growth of this market. Furthermore, given the limited history and rapidly evolving nature of our market, we cannot predict the price that wireless subscribers will be willing to pay for our services or the services of our affiliated value-added service providers or whether subscribers will have concerns about security, reliability, cost and quality of service associated with wireless services. If acceptance of our wireless value-added information services is different than anticipated, our ability to maintain or increase our revenue and profits could be materially and adversely affected.

The popularity of our services which operate with next generation technology standards are necessarily dependent on the market penetration of mobile phones that are compatible with those standards, which is beyond our control.

Mobile phone users can access our MMS, WAP, JAVA, BREW and other services which operate with next generation technology standards only if they purchase mobile phones that are compatible with those standards. In particular, mobile phones that are 2.5G-compatible have historically been significantly more expensive in China than mobile phones using older technology such as GSM. Although the prices of 2.5G-compatible mobile phones have been dropping rapidly in recent quarters, we cannot be certain whether this trend will continue or the extent to which existing users will be willing to upgrade their mobile phones to obtain the latest technology. The pricing, marketing and other factors which affect the sales of more sophisticated mobile phones are all outside of our control, and weak sales of mobile phones for which we have developed services could adversely affect our business.

The telecommunication laws and regulations in China are evolving and subject to interpretation and will likely change in the near future. If we are found to be in violation of current or future Chinese laws or regulations, we could be subject to severe penalties.

Although wireless value-added services are subject to general regulations regarding telecommunication services, we believe that currently there are no Chinese laws at the national level explicitly governing wireless value-added services, such as our services related to MMS, WAP, JAVA, and BREW, and no Chinese government authority has been specifically designated to regulate these services. Many providers of wireless value-added services have obtained various value-added telecommunication services licenses, such as the licenses possessed by our Chinese affiliates, Sifang Information and Tianci. These value-added telecommunication licenses were issued by the local Shanghai Municipal Telecommunications Administration Bureau, and may not be sufficient to offer wireless value-added services on a national basis. Sifang Information and Tianci are in the process of applying with the Ministry of Information Industries for

13

an inter-provincial value-added telecommunication license in accordance with the Ministry's general regulations regarding telecommunication services. However, we cannot predict whether either will be granted that license. Moreover, we cannot be certain that any local or national value-added telecommunication license requirements will not conflict with one another or that any given license will be deemed sufficient by the relevant governmental authorities for the provision of this category of service. It is also possible that new national legislation might be adopted to regulate such services.

If we or our affiliates are found to be in violation of any existing or future Chinese laws or regulations regarding wireless value-added services or Internet access, the relevant Chinese authorities have the power to, among other things:

- levy fines;
- confiscate our income or the income of our affiliated value-added service providers;
- revoke our business license or the business licenses of our affiliated value-added service providers;
- shut down our servers or the servers of our affiliated value-added service providers or block any Web sites that we or our affiliated value-added service providers may operate;
- require us to discontinue any portion or all of our wireless value-added information services business; or
- require our affiliated value-added service providers to discontinue

any portion or all of their wireless value-added services business.

The Chinese government, China Mobile or China Unicom may prevent us from distributing, and we may be subject to liability for, content that any of them believe is inappropriate.

China has enacted regulations governing telecommunication service providers, Internet access and the distribution of news and other information. In the past, the Chinese government has stopped the distribution of information over the Internet that it believes violates Chinese law, including content that is obscene, incites violence, endangers national security, is contrary to the national interest, or is defamatory. In addition, our affiliated value-added service providers may not publish certain news items, such as news relating to national security, without permission from the Chinese government. Furthermore, the Ministry of Public Security has the authority to cause any local Internet service provider to block any Web site maintained outside China at its sole discretion. China Mobile and China Unicom also have their own policies regarding the distribution of inappropriate content by wireless value-added service providers and have recently punished certain providers for distributing content deemed by them to be obscene. Such punishments have included censoring of content, delaying payments of fees by the mobile operators to the offending service provider, forfeiture of fees owed by the mobile operators to the offending service provider and suspension of the service on the mobile operators' networks. Accordingly, even if our affiliated wireless value-added service providers comply with Chinese governmental regulations relating to licensing and foreign investment prohibitions, if the Chinese government, China Mobile or China Unicom were to take any action to limit or prohibit the distribution of information or to limit or regulate any current or future content or services available to users, our revenues could be reduced and our reputation harmed.

The Chinese government is expected to grant licenses to offer wireless services in China to China Telecom, China Netcom and possibly other parties with which our affiliated wireless value-added service providers have not yet developed close relationships. If those parties receive licenses and are successful in the market but our affiliates are unable to develop cooperative relationships with them, our business could be adversely affected.

It is also possible that China Telecom, China Netcom and any other parties receiving wireless licenses may decide to offer wireless value-added services created by them, rather than by third-party service providers such as our affiliated wireless value-added service providers. In that case, our business could be adversely affected.

Risks Related to Doing Business in China

A downturn in the Chinese economy may slow down our growth and profitability.

The growth of the Chinese economy has been uneven across geographic regions and economic sectors. There can be no assurance that growth of the Chinese economy will be steady or that any downturn will not have a negative effect on our business. Our profitability, will decrease if expenditures for wireless value-added services decrease due to a downturn in the Chinese economy. More specifically, increased penetration of wireless value-added services in the less economically developed central and western provinces of China will depend on those provinces achieving certain income levels so that mobile phones and related services become affordable to a significant portion of the population.

Government regulation of the telecommunications and Internet industries may become more complex.

Government regulation of the telecommunications and Internet industries is highly complex. New regulations could increase our costs of doing business and prevent us from efficiently delivering our services. These regulations may stop or slow down the expansion of our wireless value-added information services customer base and limit access to our services.

The uncertain legal environment in China could limit the legal protections available to you.

The Chinese legal system is a civil law system based on written statutes. Unlike common law systems, it is a system in which decided legal cases have little precedential value. In the late 1970s, the Chinese government began to promulgate a comprehensive system of laws and regulations governing economic matters. The overall effect of legislation enacted over the past 20 years has significantly enhanced the protections afforded to foreign invested enterprises in China. However, these laws, regulations and legal requirements are relatively recent and are evolving rapidly, and their interpretation and enforcement involve uncertainties. These uncertainties could limit the legal protections available to foreign investors, such as the right of foreign invested enterprises to hold licenses and permits such as requisite business licenses.

Any recurrence of severe acute respiratory syndrome, or SARS, or another widespread public health problem, could adversely affect our business and results of operations.

A renewed outbreak of SARS or another widespread public health problem in China, where all of our revenue is derived, and in Shanghai, where our operations are headquartered, could have a negative effect on our operations. Our operations may be impacted by a number of health-related factors, including the following:

- o quarantines or closures of some of our offices which would severely disrupt our operations;
- o the sickness or death of our key officers and employees; and
- o a general slowdown in the Chinese economy.

Any of the foregoing events or other unforeseen consequences of public health problems could adversely affect our business and results of operations.

Changes in China's political and economic policies could harm our business.

The economy of China has historically been a planned economy subject to governmental plans and quotas and has, in certain aspects, been transitioning to a more market-oriented economy. Although we believe that the economic reform and the macroeconomic measures adopted by the Chinese government have had a positive effect on the economic development of China, we cannot predict the future direction of these economic reforms or the effects these measures may have on our business, financial position or results of operations. In addition, the Chinese economy differs from the economies of most countries belonging to the Organization for Economic Cooperation and Development, or OECD. These differences include:

- o economic structure;

- level of government involvement in the economy;
- level of development;
- level of capital reinvestment;
- control of foreign exchange;
- methods of allocating resources; and
- balance of payments position.

As a result of these differences, our business may not develop in the same way or at the same rate as might be expected if the Chinese economy were similar to those of the OECD member countries.

Restrictions on currency exchange may limit our ability to receive and use our revenues effectively.

Because almost all of our future revenues may be in the form of Renminbi, any future restrictions on currency exchanges may limit our ability to use revenue generated in Renminbi to fund any future business activities outside China or to make dividend or other payments in U.S. dollars. Although the Chinese government introduced regulations in 1996 to allow greater convertibility of the Renminbi for current account transactions, significant restrictions still remain, including primarily the restriction that foreign-invested enterprises may only buy, sell or remit foreign currencies, after providing valid commercial documents, at those banks authorized to conduct foreign exchange business. In addition, conversion of Renminbi for capital account items, including direct investment and loans, is subject to governmental approval in China, and companies are required to open and maintain separate foreign exchange accounts for capital account items. We cannot be certain that the Chinese regulatory authorities will not impose more stringent restrictions on the convertibility of the Renminbi, especially with respect to foreign exchange transactions.

The value of our securities will be affected by the foreign exchange rate between U.S. dollars and Renminbi.

The value of our common stock will be affected by the foreign exchange rate between U.S. dollars and Renminbi. For example, to the extent that we need to convert U.S. dollars into Renminbi for our operational needs and should the Renminbi appreciate against the U.S. dollar at that time, our financial position and the price of our common stock may be adversely affected. Conversely, if we decide to convert our Renminbi into U.S. dollars for the purpose of declaring dividends on our common stock or for other business purposes and the U.S. dollar appreciates against the Renminbi, the U.S. dollar equivalent of our earnings from our subsidiaries in China would be reduced.

Risks Related to the Mobile Phone Distribution Industry

We are dependent on three main first-tier wholesalers to supply all of our mobile phones.

Our performance depends on whether we can continue to secure contracts with the three first-tier wholesalers of Samsung mobile phones on whom we rely. We have no long-term purchase contracts or other contracts that provide continued supply, pricing or access to new mobile phone models and any of the first-tier wholesalers on whom we rely could discontinue selling to us at any time. We may not be able to acquire new Samsung models in the future and we may not be able to acquire the models that we need in sufficient quantities or on terms that are acceptable to us in the future. As a result, our revenues may decrease.

Our performance is dependent on the popularity of Samsung's mobile phone models.

We primarily distribute mobile phones manufactured by Samsung and thus are dependant on Samsung's ability to create and deliver high quality mobile phone models in a cost effective and timely manner. Samsung is a leading manufacturer of mobile phones based on both the CDMA network and the GSM network in China. There can be no assurance that Samsung will continue to create high quality mobile phone models that are popular with consumers. As a result, our revenues

may decrease. In addition, our success depends on our ability to anticipate and respond to changing mobile phone model trends and consumer demands in a timely manner. The models we distribute must appeal to a broad range of consumers whose preferences cannot always be predicted with certainty and may change between sales seasons. If we misjudge which mobile phone models will be popular or the market for the models we distribute, our sales may decline or we may be required to sell our models at lower prices.

We rely on cash flow to purchase mobile phones from wholesalers, and any significant decrease in cash flow could have a negative impact on our ability to meet customer demand.

It is important that we have sufficient cash flow to purchase enough mobile phones from the first-tier wholesalers on whom we rely. If our cash flow decreases significantly, we will not be able to purchase a sufficient quantity of inventory to meet our customers' demands, which would have a negative impact on our sales, and may cause the first-tier wholesalers on whom we rely to look to other sub-wholesalers to distribute their mobile phones. This development would have a negative impact on our revenues.

Our customers are under no obligation to do business with us, and if they terminate or materially reduce their relationship with us it would adversely impact our business.

One of the factors the first-tier wholesalers on whom we rely consider when determining who they will use as a sub-wholesaler is the sub-wholesaler's relationship with retailers. Currently approximately 67% of our mobile phone sales are made to five retailers. We have no long-term sales contracts or other contracts that provide continued selling or pricing and any of the retailers we supply could discontinue buying from us at any time. If we lose our relationships with our five largest retailers, we will have a difficult time finding new large retailers to purchase our Samsung mobile phones and may lose our relationships with the first-tier wholesalers on whom we rely. This would have a negative impact on our business.

We face certain risks relating to customer service, and any resulting problems could adversely affect our sales.

Any material disruption or slowdown in our order processing systems resulting from labor disputes, mechanical problems, human error or accidents, fire, natural disasters, or comparable events could cause delays in our ability to receive and distribute orders and may cause orders to be lost or to be shipped or delivered late. As a result, customers may cancel orders or refuse to receive goods on account of late shipments, which would result in a reduction in our net sales and could result in increased administrative and shipping costs.

We face risks associated with the concentration of our distribution operations in one location.

We conduct all of our distribution operations from one facility in Shanghai, China. Any disruption in the operations at our distribution center could have a negative impact on our business.

We face competition from distributors selling other mobile phone models.

Despite the fact that we distribute nine Samsung mobile phone models in the Shanghai, China region, we face competition from distributors of different models of mobile phones manufactured by Samsung in the Shanghai region and from distributors of phones manufactured by companies other than Samsung that distribute in the Shanghai region.

Competition is based on a variety of factors including maintenance of product quality, competitive pricing, delivery efficiency, customer service and satisfaction levels and the ability to anticipate technological changes and changes in customer preferences. The first-tier wholesalers on whom we rely or Samsung may acquire, startup, or expand their own distribution systems to sell directly to our customers.

Risks Related to our Common Stock

The market price for our common stock may be volatile.

The market price for our common stock is likely to be highly volatile and subject to wide fluctuations in response to factors including the following:

- actual or anticipated fluctuations in our quarterly operating results;
- announcements of new services by us or our competitors;
- changes in financial estimates by securities analysts;
- conditions in the wireless value-added services market;
- changes in the economic performance or market valuations of other companies involved in wireless value-added services or distribution of mobile phones;
- announcements by our competitors of significant acquisitions, strategic partnerships, joint ventures or capital commitments;
- additions or departures of key personnel;
- potential litigation; or
- conditions in the mobile phone market.

In addition, the securities markets have from time to time experienced significant price and volume fluctuations that are not related to the operating performance of particular companies. These market fluctuations may also materially and adversely affect the market price of our common stock.

Stockholders could experience substantial dilution.

We may issue additional shares of our capital stock to raise additional cash for working capital. If we issue additional shares of our capital stock, our stockholders will experience dilution in their respective percentage ownership in the company.

We have no present intention to pay dividends.

Neither during the preceding two fiscal years nor during the three month period ended March 31, 2005 did we pay dividends or make other cash distributions on our common stock, and we do not expect to declare or pay any dividends in the foreseeable future. We intend to retain any future earnings for working capital and to finance current operations and expansion of our business.

A large portion of our common stock is controlled by a small number of stockholders.

A large portion of our common stock is held by a small number of stockholders. As a result, these stockholders are able to influence the outcome of stockholder votes on various matters, including the election of directors and extraordinary corporate transactions including business combinations. In addition, the occurrence of sales of a large number of shares of our common stock, or the perception that these sales could occur, may affect our stock price and could impair our ability to obtain capital through an offering of equity securities. Furthermore, the current ratios of ownership of our common stock reduce the public float and liquidity of our common stock which can in turn affect the market price of our common stock.

We may be subject to "penny stock" regulations.

The Securities and Exchange Commission, or SEC, has adopted rules that regulate broker-dealer practices in connection with transactions in "penny stocks." Penny stocks generally are equity securities with a price of less than $5.00 (other than securities registered on certain national securities exchanges or quoted on the NASDAQ system, provided that current price and volume information with respect to transactions in such securities is provided by the exchange or system). Penny stock rules require a broker-dealer, prior to a

transaction in a penny stock not otherwise exempt from those rules, to deliver a standardized risk disclosure document prepared by the SEC, which specifies information about penny stocks and the nature and significance of risks of the penny stock market. A broker-dealer must also provide the customer with bid and offer quotations for the penny stock, the compensation of the broker-dealer, and our sales person in the transaction, and monthly account statements indicating the market value of each penny stock held in the customer's account. In addition, the penny stock rules require that, prior to a transaction in a penny stock not otherwise exempt from those rules, the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction. These disclosure requirements may have the effect of reducing the trading activity in the secondary market for stock that becomes subject to those penny stock rules. Whenever any of our securities become subject to the penny stock rules, holders of those securities may have difficulty in selling those securities.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that involve risks and uncertainties. These statements relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "could," "expect," "plan," "intend," "anticipate," "believe," "estimate," "predict," "potential," or "continue," or the negative of such terms or other comparable terminology. These statements are only predictions and are subject to certain risks and uncertainties, which could cause actual results to differ materially from those projected due to a number of factors beyond our control. Actual events or results may differ materially. In evaluating these statements, you should specifically consider various factors, including the risks outlined in the "Risk Factors" section above. These factors may cause our actual results to differ materially from any forward-looking statement.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. We are under no duty to update any of the forward-looking statements after the date of this prospectus to conform such statements to actual results or to changes in our expectations.

Factors that might cause actual results, performance or achievements to differ materially from those projected or implied in such forward-looking statements include, among other things: (i) the impact of competitive products; (ii) changes in law and regulations; (iii) adequacy and availability of insurance coverage; (iv) limitations on future financing; (v) increases in the cost of borrowings and unavailability of debt or equity capital; (vi) the effect of adverse publicity regarding our products; (vii) our inability to gain and/or hold market share; (viii) exposure to and expense of resolving and defending product liability claims and other litigation; (ix) consumer acceptance of our products; (x) managing and maintaining growth; (xi) customer demands; (xii) market and industry conditions including pricing and demand for products, (xiii) the success of product development and new product introductions into the marketplace; (xiv) the departure of key members of management; (xv) our ability to efficiently market its products; as well as other risks and uncertainties that are described from time to time in our filings with the SEC.

MARKET FOR COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND DIVIDEND POLICY

Our common stock is traded on the NASD's Over-the-Counter Bulletin Board under the symbol "CHDW." On August 6, 2004 we changed our name from Boulder Acquisitions, Inc. to China Digital Wireless, Inc. and changed our symbol from "BAQI" to "CHDW." On September 8, 2005, the last reported sales price for our common stock was $2.79 per share.

19

The following table sets forth, for the quarters indicated, the range of closing high and low bid prices of our common stock as reported by the NASD Over-the-Counter Bulletin Board, as adjusted for all previously effected stock splits.

	Common Stock	
By Quarter Ended	High	Low
Fiscal 2003		
March 31, 2003	$.00	$.00
June 30, 2003	$.42	$.23
September 30, 2003	$.42	$.42
December 31, 2003	$.42	$.42
Fiscal 2004		
March 31, 2004	$5.00	$.42
June 30, 2004	$4.05	$2.30
September 30, 2004	$3.90	$1.98

December 31, 2004	$4.85	$2.80
Fiscal 2005		
March 31, 2005	$4.25	$3.42
June 30, 2005	$5.20	$1.40
September 30, 2005 (through September 8, 2005)	$3.01	$1.41

As of June 30, 2005 there were 17,018,692 shares of our common stock outstanding held by approximately 2,554 stockholders of record.

We did not pay any cash dividends on our common stock in fiscal 2003 or 2004 nor have dividends been paid or declared in fiscal 2005. We do not anticipate paying any cash dividends on our common stock in the foreseeable future. We currently intend to retain future earnings, if any, to finance operations and the expansion of our business.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF PLAN OF OPERATION

The following discussion should be read in conjunction with our financial statements and the notes thereto and the other financial information appearing elsewhere in this document.

Overview of Business Background

Sifang Holdings was formed under the laws of the Cayman Islands on February 9, 2004 for the purpose of holding a 100% equity interest in TCH. TCH was established as a foreign investment enterprise in Shanghai under the laws of the PRC on May 25, 2004, with a registered capital of $7.2 million.

Sifang Information is a Shanghai-based privately owned enterprise established under the laws of the PRC on August 14, 1998. Sifang Information is engaged in the business of pager and mobile phone distribution and provides value added information services to the customers in the Shanghai metropolitan area. In March 2004, Sifang Information spun off its mobile phone distribution business and the majority of its value added information services business by presenting a set of carve-out financial statements for the years ended December 31, 2002 and 2003 and three months ended March 31, 2004 as if the spun-off business had been a stand-alone company for two years and one quarter. On March 31, 2004, Sifang Information transferred the spun-off business into TCH. Being a receiving entity under common control, TCH initially recognized all the assets and liabilities transferred at their carrying amounts in the accounts of Sifang Information at the date of transfer under the guidance of SFAS No. 141, Appendix D. On May 26, 2004 Sifang Information exchanged 100% of equity interest in TCH

for a 100% equity interest in Sifang Holdings. Since the ultimate owners of the three entities were the same owners and the three entities remained under common control, the ownership exchange transaction was accounted for at historical costs under the guidance of SFAS No. 141, Appendix D. Prior to May 26, 2004, there were no activities in Sifang Holdings. As a result of exchanging the ownership between TCH and Sifang Holdings, TCH's historical financial statements become the historical financial statements of Sifang Holdings.

Sifang Information operates in a business segment that is subject to certain restrictions imposed by the government of the PRC. For example, paging facilities, radio transmitting stations and transmitting equipment owned by

Sifang Information are not allowed to be owned by foreign investment enterprises in accordance with PRC government regulations. Therefore, Sifang Information still maintains a small part of its business and paging facilities in order to stay in compliance with relevant regulations and laws in PRC.

As a result of the spin-off, TCH engages in the business of mobile phone distribution and the provision of pager and mobile phone (collectively "wireless receiver") users with access to certain information reformatted by TCH. TCH purchases mobile phones from first tier distributors and sells them to retailers with a mark-up. In the process of providing value-added information services through entering into monthly subscription agreements with various users, TCH purchases trading activity information from stock exchanges, comments and analysis on PRC stock markets provided by certain reputable security and investment companies, lottery information, weather forecast, and other value-added products and reformats the aforementioned information through decoding and recoding and then has the reformatted information transmitted by Sifang Information, via service contracts, to pager users. The information is constantly saved in TCH's server in order for mobile phone users to dial in via China Mobile or China Unicom. By signing a monthly subscription agreement, wireless users agree to make advance payments for either three or six-month subscription periods.

Critical Accounting Policies

We prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Management periodically evaluates the estimates and judgments made. Management bases its estimates and judgments on historical experience and on various factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates as a result of different assumptions or conditions.

The following critical accounting policies affect the more significant judgments and estimates used in the preparation of our consolidated financial statements.

Revenue Recognition

We derive revenues from the sale of mobile phones and the provision of wireless information services that are used on mobile phones, pagers and prepaid phone cards. We additionally earn commission income, or Agency Income, from the sale of CDMA mobile phones on the behalf of a related party. We recognize revenues net of related business taxes and value added taxes.

Mobile Phone Sales

Revenues generated from the sale of mobile phones are recognized when the products are shipped to the distributor or retailer and when persuasive evidence of an arrangement exists, delivery of the products has occurred, customer acceptance has been obtained, which means the significant risks and rewards of ownership have been transferred to the customer, the price is fixed or determinable and collectibility is reasonably assured.

Services

We recognize service revenues over the term of the noted agreement and or when the services have been provided to the end user.

Information Services - TCH. By signing a subscription agreement, wireless receiver users agree to make payments for three- to six-month subscriptions in advance. We record the proceeds as deferred revenue and amortize the deferred revenue over the subscription period. When customers buy a pre-charged service card, we record the proceeds as deferred revenue. When a customer starts to use this card to access to our server and starts to use a pager to access the aforementioned information, we identify the subscription period and amortizes the deferred revenue over the subscription period.

Information Services - Installing Agent. We have an installing agent install our software on mobile phones, which are owned by the retailer. The retailer sells these phones for a premium covering a fee to be paid to the installing agent and pre-charged six-month subscription fees to be paid to us. After a customer using such a phone dials into the server to access the desired information, the server records a unique identification number installed on the mobile phone, which indicates that a specific phone user starts his or her subscription period. After we receive a detailed list from the installing agent regarding the number of phones that have been installed with our software, we match this information with a detailed list from the retailer setting forth how many such phones have been sold. Based on the number of such phones sold, we record accounts receivable and deferred revenue. At the date on which a customer starts to dial into the server, the six-month subscription period begins and we amortize deferred revenue accordingly.

Information Services - China Mobile and / or Unicom. Since April 2004, the revenue generated from selling pre-charged cards has gradually decreased while the revenue generated through monthly subscriptions with China Mobile and/or China Unicom (collectively, "Mobile Operators") has gradually increased as the Mobile Operators' billing systems have been enhanced. Our affiliates, Sifang Information and Tianci, contract with the Mobile Operators for the transmission of our value-added information services. The Mobile Operators bill and collect from customers and then pass those fees (net of billing and collection service fees charged by the Mobile Operators) to Sifang Information and Tianci who in turn pass those fees to us. We recognize net revenues based on the total amount paid by our customers, for which the Mobile Operators bill and collect on our behalf. There is a time lag ranging from 10 days to 45 days between the end of the service period and the date the Mobile Operators send out their billing statements due to the segregated billing systems of each of the provincial subsidiaries of the Mobile Operators. We received the December invoice before the issuance of our financial statements to reconcile the monthly revenues to the Mobile Operators billing statement. We have not recognized service revenue based on the records provided by its own server but have performed a reconciliation on a monthly basis of the revenues recognized by our server to the Mobile Operator's billing statement. In addition, the Mobile Operators charge a network usage fee based on a fixed per message fee multiplied by the excess of messages sent over messages received. This type of service is not covered by a monthly service subscription and we have no control whether or not it will occur Network usage fees charged by the Mobile Operators are reduced for messages received by us because the Mobile Operators separately charge the sender a fee for these transmissions.

We record the revenue from China Mobile / China Unicom on a net basis in compliance with EITF 99-19, "Reporting Revenues Gross as a Principal versus Net as an Agent" because we:

- are not the primary obligor in the arrangement, as we rely on Sifang Information to transmit the information services to the end user;

- o have limited ability to adjust the cost of services by adjusting the design or marketing of the service,
- o have limited ability to determine prices, as we must follow the price policy within ranges prescribed by Mobile Operators; and
- o have limited ability to assume risk of non-payment by customers.

22

Our dependence on the substance and timing of the billing systems of the mobile telecommunications operators may require us to estimate portions of our reported revenue for wireless Internet services from time to time. As a result, subsequent adjustments may have to be made to our wireless Internet service revenue in our financial statements. As we do not bill our wireless Internet services users directly, we depend on the billing systems and records of the mobile telecommunications operators to record the volume of our wireless Internet services provided, charge our users through mobile telephone bills and collect payments from our users and pay us.

Accounts Receivable and Concentration of Credit Risk

During the normal course of business, we extend unsecured credit to our retailers and distributors who are mainly located in the Shanghai metropolitan area. Typically, for mobile phone distributors, the credit terms require payment to be made within 30 days of the sale. We do not require collateral from our customers. Our policy is to provide for delinquent

We regularly evaluate and monitor the creditworthiness of each customer on a case-by-case basis. We include any account balances that are determined to be uncollectable in the overall allowance for doubtful accounts. After all attempts to collect a receivable have failed, the receivable is written off against the allowance. Based on the information available to management, we believe that our allowance for doubtful accounts was adequate as of March 31, 2005 and 2004. However, actual write-offs might exceed the recorded allowance.

Cash and Cash Equivalents

We consider all highly liquid investments with maturities of three months or less to be cash equivalents. We maintain our cash accounts at credit worthy financial institutions.

Inventories

Inventories consist principally of mobile phones manufactured by name brand manufacturers with various features and are stated at the lower of cost (weighted-average) or market.

Rebates and Credits Receivable

In 2004 our major vendor began providing sales rebates and credits if we fulfill certain sales volumes prescribed by the vendor in order to induce our distributors to sell more of our products. As a result, we are entitled to receive certain rebates and credits for the inventory held and sold by us within the specified period of time as defined by our vendor through submitting the necessary application forms. In general, once the vendor approves these applications the amounts of these rebates and credits will be deducted from our accounts payable to our vendor and decrease the cost of goods sold or inventory held correspondingly.

Impairment of Long-Lived Assets

We apply the provisions of Statement of Financial Accounting Standard No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," or SFAS No. 144, issued by the Financial Accounting Standards Board, or FASB. SFAS No. 144 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable through the estimated undiscounted cash flows expected to result from the use and eventual disposition of the assets. Whenever any such impairment exists, an impairment loss will be recognized for the amount by which the carrying value exceeds the fair value. There was no impairment of long-lived assets in the years ended December 31, 2004 and 2003 and the three months ended March 31, 2005.

Income Taxes

We account for income taxes in accordance with Statement of Financial Accounting Standards No 109, "Accounting for Income Taxes," or SFAS No. 109. SFAS No. 109 requires an entity to recognize deferred tax liabilities and assets. Deferred tax assets and liabilities are recognized for the future tax consequence attributable to the difference between the tax bases of assets and liabilities and their reported amounts in the financial statements. Deferred tax assets and liabilities are measured using the enacted tax rate expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that included the enactment date. We establish a valuation when it is more likely than not that the assets will not be recovered.

TCH is registered at Pudong District in Shanghai and subject to a favorable income tax rate of 15% compared to a normal income tax rate of 33% (30% for the central government and 3% for the local government) under current PRC tax laws. However, Sifang Information registered in the Shanghai downtown area and has been treated by the Shanghai Municipal Administration of Labor as an enterprise that provides unemployed and handicapped people with jobs. Accordingly, Sifang Information is entitled to be subject to a favorable income tax rate of 15% and qualifies for income tax exemption for three years from January 1, 2000 to December 31, 2002, and 50% of income tax reduction for three years from January 1, 2003 to December 31, 2005. The income tax provisions presented in our financial statements are based on the historical actual income tax rates of Sifang Information at 7.5% for the year ended December 31, 2003. The income tax provision presented for the year ended December 31, 2004 is based on 7.5% for the months of January to June and 15% for the months of July to December. The income tax provision presented for the three months ended March 31, 2005 is based on $799,898. The deferred tax assets are determined based on the historical income tax rates applicable at the TCH level.

There is no income tax for companies domiciled in the Cayman Islands. Accordingly, Sifang Holdings financial statements do not present any income tax provisions related to Cayman Islands tax jurisdiction.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from those estimates. Discussion and Analysis of Operating Results

Three Months Ended March 31, 2005 Comparing to Three Months Ended March 31, 2004

Total revenues

Total revenues in the three months ended March 31, 2005 increased by approximately $1,032,656, representing an approximately 21.8% increase, to $5,775,362 as compared to $4,742,706 for the same period of the prior year. The increase was due mainly to our marketing effort and further facilitated by Samsung's marketing promotion. Total revenues consist of product sales, product sales to related parties, information service revenues, and advertising service revenue, net. In the Chinese telecommunication market, mobile phones have rapidly replaced beepers and pagers as the mobile communication device preferred by consumers, resulting in an increase in mobile phone distribution. In the three months ended March 31, 2005, Samsung's mobile phones accounted for about 97% of our total product sales and other name brands mobile phones accounted for the remaining 3%, compared to the same period of the prior year, in which Samsung's mobile phones accounted for 94% of our total product sales and other brands accounted for the balance. During 2005 market competition for mobile phone sales intensified, causing us to decrease our overall mark-up ratio to 3.4% in order to maintain our market position, in comparison to a mark-up ratio of 5.0% for the same period the prior year.

Product sales

Revenue from product sales in the three months ended March 31, 2005 decreased by approximately $1,429,685, representing an approximately 68.2% decrease, to $669,191 as compared to $2,098,876 for the same period of the prior year. In 2005, we have promoted distribution of mobile phones through our related party, Shanghai Shantian by establishing its market channel and facility from the fiscal year 2004. As we have focused our marketing efforts on Shanghhai Shantian there was a decline in the mobile phones sales to direct customers.

Product sales to a related party

As discussed above, we distributed Samsung mobile phones to our related party, Shanghai Shantian, in which Sifang Information holds a 51% equity interest. During the three months period ended March 31, 2005, we sold $4,060,514 worth of mobile phones to Shantian, with an average mark-up of approximately 2.4 % as compared to an average mark-up of 3.4% for the products sold to all of our other customers.

Information service revenue

Total service revenue net of related business tax and surcharge for the three months ended March 31, 2005 increased by $211,127 representing approximately a 24.3% decrease, to $657,703 compared to $868,830 for the same period of the prior year. Value-added service revenue from mobile phone users for the three months ended March 31, 2005 decreased by $70,867 to $450,098 compared to $520,965 for the same period of the prior year, representing a 13.6% decrease. The decrease was due mainly to the decline of our financial value-added service basically based on Chinese security market, which was not performing well. The Chinese stock market along with inactive stock exchanges hindered our growth in this segment of business. In addition, service revenue from pager users for the three months ended March 31, 2005 decreased by $140,260 to $ 207,605 compared to $347,865 for the same period of the prior year, representing approximately a 40.3% decrease. We believe that service revenue from pager users will continue to decrease given the increased popularity of mobile phones over beepers and pagers. We project that the decrease in service revenue from pager users will likely plateau at a certain level as most lower income pager users still like to use pagers to access our information services.

Advertising service revenue, net

During the three months ended March 31, 2005, TCH rendered advertisement designing and producing services to Shanghai Tianci Real Estate Co. Ltd. ("Tianci Real Estate") for publicity and promoting its apartment.

Cost of goods sold

The cost of goods sold for the three months ended March 31, 2005 increased by $890,314 to $4,569,793 compared to $3,679,479 for the same period of the prior year, representing an approximately 24.2 % increase. The increase was consistent with the increases in revenue from product sales.

Cost of service

The cost of service for the three months ended March 31, 2005 decreased by $82,016 to $170,808 compared to $253,824 for the same period of the prior year, representing an approximately 32.7% decrease. The costs of service consist of value-added service costs and advertising service costs. The decline was due

mainly to the decrease of information fees paid to content providers for the value-added service. The breakdown of our service business has changed and the proportion of beep services that are related to financial service has decreased, resulting in a decrease in associated costs pertaining to the security information fee paid. During 2005, we continued to maintain current fee structures and establish collaborative relationships or partnerships with Chinese mobile operators and certain information content providers.

Gross profit

After taking into account the cost of goods sold and cost of service, our gross profit for the three months ended March 31, 2005 increased by approximately $225,358 to approximately $1,034,761, representing approximately a 27.9% increase, compared to gross profit of $809,403 for the same period of the prior year. The increase in gross profit was primarily attributable to the proceeds generated in the new advertising service during the first quarter of 2005.

The following table summarizes certain information related to the various components of revenue.

	Advertising Income	Mobile Phone Distribution	Information Service - Mobile Phone	Informatio Service - Pager

For the quarter ended March 31, 2005

Revenue	$ 459,131	$ 4,729,705	$ 450,098	$ 207,6
Cost	71,177	4,569,793	103,327	67,4
Gross profit	387,954	159,912	346,771	140,1
Gross profit ratio	84.5%	3.4%	77.0%	67

For the quarter ended March 31, 2004

Revenue	$ --	$ 3,873,876	$ 520,965	$ 347,8
Cost	--	3,679,479	72,018	181,8
Gross profit	--	194,397	448,947	166,0
Gross profit ratio	--	5.0%	86.2%	47

Selling expenses

Selling expenses for the three months ended March 31, 2005 increased by $7,053 to $43,289 compared to $36,236 for the same period of the prior year, representing a 19.5% increase. This increase was due to the fees charged related to our beeper service. We have moved our marketing focus from beeper and pager users to mobile phone users in line with changing consumer demands. Salaries paid to our marketing team were $1,273 and $5,499 in the three months ended March 31, 2005 and the same period of the prior year, respectively.

General and administrative expenses

General and administrative expenses for the three months ended March 31, 2005 increased by $65,858 to $192,039 compared to $126,181 for the same period of the prior year, representing a 52.2% increase. The increase was due mainly to the audit and retainer fees for listing.

General and administrative expenses incurred at the TCH level in the three months ended March 31, 2005 decreased from $126,181 to $102,002, representing a slight decrease. The decrease was primarily attributable to the decrease of account receivable from our clients, resulting in the recovery of provisions for bad debts, and cost control, which lead to the decline of utility expenses and communication fees.

The other cash-based expenses incurred at the parent level in the three months ended March 31, 2005 of $90,037, represented payments for the audit fees, a retainer fee and other consultant fees.

Interest income (expense)

During the three months ended March 31, 2005, interest income derived from deposits in banks was $465.

Income tax

The income tax provisions presented in the Company's financial statements are based on the historical actual income tax rates of Sifang Information at 7.5% for the three months ended March 31, 2004 and 15% for the three months ended March 31, 2005. In the three months ended March 31, 2004 and 2005, income tax expense was $48,524 and $133,490 respectively, based on pretax income of $646,986 and $799,898.

Net income

We recorded net income of $666,408 for the three months ended March 31, 2005, a $67,946 increase in net income compared to a net income of $598,462 for the same period of the prior year, representing an approximately 11.4% increase. The increase in net income was attributable to (i) the expansion of our mobile phone distribution business, and (ii) the startup of our new advertising business.

Earnings per share

The earnings per share for the three months ended March 31, 2005 was $0.039 compared to $0.043 for the same period of the prior year. The decrease was due mainly to the increase in the weighted average number of common shares outstanding, even though the company was able to increase net income.

Fiscal Year Ended December 31, 2004 Compared to the Fiscal Year Ended December 31, 2003

Total revenues

Total revenues for our 2004 fiscal year increased by approximately $7,488,572, representing an approximately 44.0% increase, to $24,520,950 as compared to $17,032,378 for the same period of the prior year. The increase was due mainly to our marketing effort and further facilitated by Samsung's marketing promotion. Total revenues consist of product sales, product sales to related parties and service revenue, net. In the Chinese telecommunication market, mobile phones have rapidly replaced beepers and pagers as the mobile communication device preferred by consumers, resulting in an increase in mobile phone distribution. For our 2004 fiscal year, Samsung's mobile phones accounted for about 97% of our total product sales and other name brands mobile phones accounted for the remaining 3%, compared to our 2003 fiscal year, in which Samsung's mobile phones accounted for 99.6% of our total product sales and other brands accounted for the balance. During 2004 market competition for mobile phone sales intensified, causing us to decrease our overall mark-up ratio to 6.4% in order to maintain our market position, in comparison to a mark-up ratio of 8.2% for the same period the prior year.

Product sales

Revenue from product sales for our 2004 fiscal year decreased by approximately $2,471,881, representing an approximately 18.3% decrease, to $11,057,398 as compared to $13,529,279 for the same period of the prior year. The decrease was due mainly to the spun-off business of THC.

27

Product sales to related parties

Before January 1, 2004 we only distributed CDMA mobile phones in the Shanghai area. Beginning in January 2004 we entered into the GSM mobile phone distribution business. Since the retail market channel related to our GSM mobile phone distribution was developed and maintained by Shanghai Shantian, in which Sifang Information holds a 51% equity interest, all of our Samsung GSM mobile phones were sold to Shanghai Shantian, which made Shanghai Shantian our second tier distributor in the first half of 2004. During our 2004 fiscal year, we sold a total of $9,891,691 worth of mobile phones to related parties, including $9,178,674 worth of mobile phones to Shanghai Shantian, and $713,017 to Tianci and Shanghai Tianci Industry Co.Ltd with a total competitive mark-up on average of approximately 4.8 % as compared to an average mark-up ratio of 7.8% for the products sold to all of our other customers.

Service revenue, net

Total service revenue net of related business tax for our 2004 fiscal year increased by $68,762, representing approximately a 2.0% increase, to $3,571,861 compared to $3,503,099 for the same period of the prior year. It was due mainly to the increase of mobile phone value-added services and the revenue derived from agent service income.

Value-added service revenue from mobile phone users for our 2004 fiscal year increased by $1,090,855 to $2,388,178 compared to $1,297,323 for the same period of the prior year, representing a material increase, which resulted in the overall increase in our service revenue. Approximately $1,973,842 of the service revenue from mobile phone users was attributable to prepaid service fees generated by an installing agent, Chengao Industry Co. Ltd, who installed the software on a retailer's (Beijing Jianghe Communication Co., Ltd) inventories and collected proceeds from the retailer and transferred the proceeds to the Company, representing a $745,057 increase compared to the same period of the prior year. The remaining $404,336 portion of the service revenue was generated by our SMS service, representing a material increase compared to the same period of the prior year. The increase was mainly due to the aggressive expansion of our subscriber base as the result of the Company's marketing campaigns. In addition, service revenue from pager users for our 2004 fiscal year decreased by $1,226,307 to $ 979,469 compared to $2,205,776 for the same period of the prior year, representing approximately a 55.6% decrease. We believe that service revenue from pager users will continue to decrease given the increased popularity of mobile phones over beepers and pagers. We project that the decrease in service revenue from pager users will likely plateau at a certain level as most lower income pager users still like to use pagers to access our information services.

Moreover, On July 16, 2004, Tianci, a related party to TCH, entered into an agreement with China Unicom to promote CDMA mobile phones and agent service for China Unicom. Under the agreement, Tianci is entitled to receive a sales commission from China Unicom of $15.70 per unit, $3.62 per SIM card based on sales to customers who agree to subscribe for monthly service for a minimum period of two years at a minimum monthly service fee of $3.38. Tianci then entered into an agent agreement with TCH pursuant to which TCH agreed to sell the CDMA mobile phones, SIM cards and monthly service subscriptions on behalf of Tianci and, consequently, is entitled to receive sales commissions from Tianci based on the terms agreed upon between Tainci Group and China Unicom. The agent relationship began in August 2004 at the same time as a sales promotion initiated by China Unicom. We recognized agent service income of $204,214 during the send half year of our 2004 fiscal year at the TCH level.

Total cost of goods sold

The total cost of goods sold for our 2004 fiscal year increased by $8,230,371 to $19,608,832 compared to $12,424,454 for the same period of the prior year, representing an approximately 57,8% increase. The increase was consistent with the increases in revenue from product sales.

Cost of service

The cost of service for our 2004 fiscal year increased by $29,675 to $1,045,993 compared to $1,016,318 for the same period of the prior year, representing an approximately 2.9% increase. In addition, software amortization for mobile phone value-added service generated in the 2004 fiscal year represented a $42,338 increase compared to the prior year. During 2004, we continued to strive to expand the content offered by our value-added services while maintaining current fee structures and to establish collaborative relationships or partnerships with Chinese mobile operators and certain information content providers.

Gross profit

After taking into account the cost of goods sold and cost of service, our gross profit for our 2004 fiscal year increased by approximately $274,519 to approximately $3,866,125, representing approximately a 7.6% increase, compared to gross profit of $3,591,606 for the same period of the prior year. The increase in gross profit was primarily attributable to the following factors (i) the gross profit derived from mobile phone distribution and mobile phone information services increased significantly, which offset the decrease in pager information service income; (ii) the agent service income generated in the second half of 2004.

The following table presents in summary certain information related to the various components of revenue.

	Agency Income	Information Mobile Phone Distribution	Information Service - Mobile Phone	Service - Pager
For the year ended December 31, 2004				
Revenue	$ 204,214	$ 20,949,089	$ 2,388,178	$ 979,4
Cost	--	19,608,832	498,194	547,7
Gross profit	204,214	1,340,257	1,889,984	431,6
Gross profit ratio	100.0%	6.4%	79.1%	44
For the year ended December 31, 2003				
Revenue	$ --	$ 13,529,279	$ 1,297,323	$ 2,205,7
Cost	--	12,424,454	287,464	728,8
Gross profit	--	1,104,825	1,009,859	1,476,9
Gross profit ratio	--	8.2%	77.8%	67

Other income, net

On July 16, 2004, Tianci, a related party to TCH, entered into an agreement with China Unicom to promote CDMA mobile phones and agent service for China Unicom. Under the agreement, Tianci is entitled to receive a sales commission from China Unicom of $15.70 per unit, $3.62 per SIM card based on sales to customers who agree to subscribe for monthly service for a minimum period of two years at a minimum monthly service fee of $3.38. Tianci then entered into an agent agreement with TCH pursuant to which TCH agreed to sell the CDMA mobile phones, SIM cards and monthly service subscriptions on behalf of Tianci and, consequently, is entitled to receive sales commissions from Tianci based on the terms agreed upon between Tainci Group and China Unicom. The agent relationship began in August 2004 at the same time as a sales promotion initiated by China Unicom. As the sales commission revenue from this business is more uncertain in nature, we reported this revenue as other income instead of regular revenue. We recognized agency income of $204,214 in the 2004 fiscal year at the TCH level.

Selling expenses

Selling expenses for our 2004 fiscal year increased by $93,202 to $246,639 compared to $153,437 for the same period of the prior year, representing approximately a 61% increase. This increase was due to promotion expenses for value-added information services related to mobile phone users. Advertising fees and expenses for a series of marketing campaigns increased by $41,183 in our 2004 fiscal year, from $18,909 to $60,092, representing a material increase in comparison to the prior year. We have moved our marketing focus from beeper and pager users to mobile phone users in line with changing consumer demands. Salaries paid to the Company's marketing team in the 2004 fiscal year rose from $33,836 to $84,946, representing a 151% increase in comparison to the prior year.

General and administrative expenses

General and administrative expenses for our 2004 fiscal year increased by $1,365,428 to $1,656,841 compared to $291,413 for the same period of the prior year, representing a material increase. The increase was due mainly to the reorganization and recapitalization transaction and related audit and legal fees.

General and administrative expenses incurred at the TCH level in the 2004 fiscal year increased from $286,058 to $456,445, representing a 52.5% increase. These general and administrative expenses were comprised of salaries paid to the management, which increased from $94,437 to $117,800, representing a $23,363 increase, and office expenses, which rose from $11,888 to $20,015, representing a $8,127 increase.

During our 2004 fiscal year there was stock-based compensation of $1,014,000 related to the reverse merger generated at parent level, consisting of 167,895 shares issued to a consultant in lieu of cash payment at a fair market value of $604,000 and the issuance of 166,667 redeemable shares pursuant to a stock purchase agreement resulting in a charge of $410,000 representing the premium between the trading price ($3.60 per share) and the pre-negotiated stock purchase price ($1.14 per share) of the purchased shares. The other cash-based expenses incurred in the 2004 fiscal year of $205,376, represented payments for the audit fees, a retainer fee and other consultant fees.

Interest income (expense)

During our 2003 fiscal year, we borrowed funds from Sifang Information for temporary working capital and mobile phone distribution. As a result, we paid interest totaling $12,082 to Sifang Information during the 2003 fiscal year.

During our 2004 fiscal year, the interest income derived from deposits in banks was $1,955.

Income tax

TCH is subject to taxation under the laws of the PRC, and the statutory income tax rate for 2003 and 2004 fiscal years was 33%. The income tax provisions presented on our financial statements are based on the historical actual income tax rates of Sifang Information at 7.5% for the 2003 fiscal year and the six months ended June 30, 2004. The income tax provision presented for the six months ended December 31, 2004 are based on a 15% effective rate. In our 2003 and 2004 fiscal years, income tax expense was $246,694 and $369,971, respectively, based on pretax income of $3,134,674 and $1,964,600 (which included the stock compensation of $1,014,000 incurred in the U.S.). Since the loss of approximately $1,014,000 incurred in the U.S. did not offset the taxable income in China, a portion of income tax expense totaling $169,643, which was incurred in China, was based on taxable income of approximately $2,979,023.

Net income

We recorded net income of $1,594,629 for our 2004 fiscal year, a $1,293,351 decrease in net income compared to net income of $2,887,980 for the same period of the prior year, representing approximately a 45% decrease. The decrease in

net income was attributable to (i) the increase in general and administrative expenses for the period compared to general and administrative expenses for the same period of the prior year (we incurred a $1,014,423 charge for services performed by consultants related to the reverse merger and related activities, and the issuance of common stock in 2004), and (ii) the decrease of the gross profit generated from mobile phone distribution and our pager service business.

Earnings per share

Earnings per share for our 2004 fiscal year decreased by $0.11 to $0.10 compared to $0.21for the same period of the prior year. The decrease was due mainly to the decrease in our net income and the increase in the total outstanding shares of our common stock, as the weighted average number of shares of common stock outstanding for the 2004 fiscal year increased by approximately 12.1%, compared the weighted average number of common stock outstanding for the same period of the prior year.

Liquidity and Capital Resources

Our cash balance decreased from approximately $1,249,000 as of March 31, 2004 to approximately $404,202 as of March 31, 2005. This decrease in cash and cash equivalents was due primarily to the increase in the inventories, advances to suppliers for future purchases of inventory, and advances to related parties for investment activities.

Net cash generated in operating activities was $311,208 during the three months ended by March 31, 2005 compared to $534,333 during the same period of the prior year. The increase in cash generated from operations resulted primarily from the collection of accounts receivable and slower payment of payables, which was offset by substantial inventory purchases.

Net cash used in investing activities for the three months ended March 31, 2005 increased to $1,482,475 compared to $998,445 for the same period of the prior year, representing a $484,030 increase. The increase in cash used in investing activities was mainly d