

CHINA DIGITAL WIRELESS INC
Form SB-2/A
February 08, 2005

As filed with the Securities and Exchange Commission on February 8, 2005
Registration No. 333-120431

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549
Amendment No 2 to
Form SB - 2
REGISTRATION STATEMENT
Under
THE SECURITIES ACT OF 1933

CHINA DIGITAL WIRELESS, INC.

(Exact name of registrant as specified in its charter)

Nevada
(State or other jurisdiction
of organization)

90-0093373
(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.
925 Fourth Avenue, Suite 2900
Seattle, Washington 98104
Ph: (206) 623-7580
Fax: (206) 623-7022

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.

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

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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 February 4, 2005, the last reported sales price on our common stock was \$4.64 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 February 8, 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

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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

PROSPECTUS SUMMARY.....	3
CHINA DIGITAL WIRELESS, INC.....	3
THE OFFERING.....	5
RISK FACTORS.....	6
SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS.....	19
MARKET FOR COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND DIVIDEND POLICY.....	20
MANAGEMENT'S DISCUSSION AND ANALYSIS OF PLAN OF OPERATION.....	21
BUSINESS.....	35
DIRECTORS AND EXECUTIVE OFFICERS.....	48
PRINCIPAL STOCKHOLDERS.....	51
CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS.....	52
DESCRIPTION OF OUR CAPITAL STOCK.....	53
SELLING STOCKHOLDERS.....	54
SHARES ELIGIBLE FOR FUTURE SALE.....	55
PLAN OF DISTRIBUTION.....	55
INDEPENDENT PUBLIC ACCOUNTANTS.....	56
LEGAL MATTERS.....	56
EXPERTS.....	56
INTERESTS OF NAMED EXPERTS AND COUNSEL.....	56
WHERE YOU CAN FIND MORE INFORMATION.....	56
FINANCIAL STATEMENTS	
PART II.....	II-1
INFORMATION NOT REQUIRED IN PROSPECTUS.....	II-1
RECENT SALES OF UNREGISTERED SECURITIES.....	II-1
EXHIBITS.....	II-2
UNDERTAKINGS.....	II-3
SIGNATURES.....	II-5

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 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.

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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

3

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 primarily distribute nine different SAMSUNG Electronics Co., Ltd., or Samsung, mobile phone models in the region surrounding Shanghai, China. 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, stock trading, and currency exchange 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 first-tier wholesalers contract, through local branches, with sub-wholesalers to distribute each Samsung 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. We were 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 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

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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.

4

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 information included in this prospectus for a discussion of factors you should consider before deciding to invest in shares of our common 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 possess 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

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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.

6

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

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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:

- o our affiliate fails to achieve performance standards which are established by the applicable operator from time to time,
- o 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,
- o the operator receives high levels of customer complaints about our affiliate's services, or
- o 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

7

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 their willingness 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 their willingness 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. As a result, monthly statements that our affiliates receive and provide to us from the mobile operators cannot be reconciled to our internal records. In addition, we have only limited means to independently verify the information provided to us by our affiliates in this regard because we do not have access to the mobile operators' internal records. 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

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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.

Because China Mobile and China Unicom do not supply our affiliated value-added mobile phone service providers with revenue and transmission information on a service-by-service basis, we can only estimate our actual gross revenue and our cost of services by service type, and as a result, which of our services are or may be profitable, all of which make it difficult to analyze the factors affecting our financial performance.

China Mobile's and China Unicom's monthly statements to our affiliated value-added service providers regarding the services provided through their networks currently do not contain revenue and billing and transmission failure

8

information on a service-by-service basis. Although we maintain our own records reporting the services provided, we can only estimate our actual gross revenue and cost of services by service type in this business because we are unable to confirm which services were transmitted but resulted in billing and transmission failures. As a result, we are not able to definitively calculate and monitor service-by-service revenue, margins and other financial information, such as average revenue per user by service and total revenue per user by service, and also cannot definitively determine which of our services are or may be profitable.

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

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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

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risks and difficulties frequently encountered by businesses in an early stage of development. These risks include our ability to:

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

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:

- o 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,
- o dedicated service providers, whose businesses focus on offering a variety of wireless content directly to mobile phone users, and
- o 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 derive from those areas, including the municipality of Shanghai and the provinces of Beijing and Jiangsu.

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 Huang Tianqi, our chief technology officer. 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, we could lose customers and suppliers and incur additional expenses to recruit and train personnel. Each of our executive officers has entered into non-competition agreements with TCH. We do not maintain key-man life insurance for any of our key executives. 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. Given the competitive nature of our industry, the risk of key technology staff leaving our company is high and 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

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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:

11

- o 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,
- o expand the percentage of our value-added information services revenues which are recurring and are derived from monthly subscription based services,
- o continue to enter into and maintain relationships with desirable content providers,
- o 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,
- o develop and improve our operational, financial, accounting and other internal systems and controls, and
- o 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.

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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.

12

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

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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

13

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 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

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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:

- o levy fines;
- o confiscate our income or the income of our affiliated value-added service providers;
- o revoke our business license or the business licenses of our affiliated value-added service providers;
- o 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;
- o require us to discontinue any portion or all of our wireless value-added information services business; or
- o 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

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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:

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- 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;
- o level of government involvement in the economy;
- o level of development;
- o level of capital reinvestment;
- o control of foreign exchange;
- o methods of allocating resources; and
- o 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

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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.

16

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.

Cash Flow.

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.

Customers.

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 52% of our mobile phone sales are made to three 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 three 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

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have a negative impact on our business.

We face certain risks relating to customer service.

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.

17

We face risks associated with distribution.

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.

Competition.

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:

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

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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 nine month period ended September 30, 2004 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.

18

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

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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. 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. 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.

19

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 February 4, 2005, the last reported sales price for our common stock was \$4.64 per share.

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.

By Quarter Ended -----	Common Stock	
	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 -----		

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March 31, 2005 (through February 4, 2005)

\$5.50

\$3.42

As of February 4, 2005, there were 17,018,692 shares of our common stock outstanding held by approximately 2,542 stockholders of record.

We did not pay any cash dividends on our common stock in fiscal 2002 or 2003 nor have dividends been paid or declared in fiscal 2004. 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.

20

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. In addition to historical information, the following discussion and other parts of this document contain certain forward-looking information. When used in this discussion, the words "believes," "anticipates," "expects," and similar expressions are intended to identify forward-looking statements. Such statements 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. We do not undertake to publicly update or revise any of its forward-looking statements even if experience or future changes show that the indicated results or events will not be realized. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. You are also urged to carefully review and consider our discussions regarding the various factors, which affect our business, included in this section and elsewhere in this report. In evaluating our business, you should carefully consider the information provided under the caption "Risk Factors" beginning on page 6 in this prospectus.

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 Securities and Exchange Commission.

Overview of Business Background

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Sifang Holdings was formed under the laws of the Cayman Islands on February 9, 2004 for the purpose of holding 100% of the equity interests 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 pager and 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 the 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

21

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 are asked to make advance payments for either three or six-month subscription periods.

Critical Accounting Policies

We prepare our consolidated financial statements in accordance with

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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

Revenues generated from sales of mobile phones are recognized 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 the ownership have been transferred to the customer, the price is fixed or determinable and collectability is reasonably assured.

We provide wireless receiver users with access to certain financial information provided by stock exchanges, comments and analyses on stock market activity provided by certain reputable security investment companies in China, lottery information, weather forecasts, and other value-added products through signing a monthly subscription agreement or buying a pre-charged service card. We purchase the aforementioned information from respected vendors and reformat it through decoding and recoding and transmit the reformatted information via Sifang Information to pager users. We constantly store the reformatted information in our server in order for mobile phone users to dial in via China Mobile or China Unicom. By signing a monthly subscription agreement, wireless receiver users need 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 commences using this card to access our server or begins using a pager to access the aforementioned information, we identify the subscription period and amortize the deferred revenue over the subscription period.

In response to a retailer's request, 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 with the pre-charged six-month subscription fee being paid to

us. After a customer using such a phone dials 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 correspondingly. At the date on which a customer starts to dial into the server, the subscription period begins and we amortize deferred revenue accordingly.

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Since April 2004, the revenue generated from selling pre-charged cards has gradually decreased while the revenue generated through monthly subscription 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 service. 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 service period cut-off date and the date the Mobile Operators send out their billing statements due to the segregated billing systems of each provincial subsidiary of the Mobile Operators. For the nine months ended September 30, 2004, about 10% of our service revenue from mobile phone users is recognized based on monthly billing statements prepared by the provincial subsidiaries of the Mobile Operators. However, as of September 30, 2004 none of such revenue can be attributed to the relationship between Tianci and China Unicom, as billing delays have prevented us from recognizing any revenue from this relationship. We have not recognized service revenue based on the records provided by our own server. 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 service is not covered by a monthly service subscription and we have no control whether it will incur or not). These network usage fees charged by the Mobile Operators are reflected as a part of cost of services in the financial statements. 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 currently record the mobile phone service revenue based on the amounts paid by our customers net of the Mobile Operators' service charge for billing and collection on our behalf. According to EITF Issue No. 99-19, recognizing revenue on a net basis in this situation is appropriate if we do not act as a principal in connection with the provision of our services. Factors which support a conclusion that we are not acting as a principal include:

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

We have very limited ability to adjust the ratio of our revenues to cost of services (which include the Mobile Operators' network usage fee and other fees, if any). In addition, the majority of service revenue derived from mobile phone users are subject to the floor price for monthly service set by the Mobile Operators as we do not have an ability to negotiate with our customers. The Mobile Operators will normally make payments within the 30 days after we receive the billing statement because it takes time for the Mobile Operators to collect payments from our customers. Consequently, we actually bear less risk of non-payments by customers as Mobile Operators must take care of their collections first. Only about 10% of the total service revenue derived from mobile phone users in the nine months ended September 30, 2004 was billed through the Mobile Operators' billing systems. Whereas, there are three items of mobile phone services over which we do have an ability to determine price, however, the portion of this type of revenue was immaterial in the nine months ended September 30, 2004. Therefore, we have concluded that reporting net revenue billed through the Mobile Operators' billing systems is appropriate.

Accounts Receivable, Employees Receivable, and Allowance for Doubtful Accounts

During the normal course of business, we extend unsecured credit to our retail customers who are mainly located in the Shanghai metropolitan area. Typically, the credit terms require payment to be made within 30 days of the sale. We do not require collateral from our customers. We maintain our cash accounts at credit worthy financial institutions.

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, along with a general reserve, 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 September 30, 2003 and 2004. However, actual write-offs might exceed the recorded allowance.

We advance cash to sales people for their travel and business activity needs. Under certain circumstances, the advances to employees might not be fully recovered by us. Accordingly, we also provide allowances against any doubtful accounts.

Inventories

Inventories consist principally of mobile phones manufactured by name brand manufactures with various features and are stated at the lower of cost (first-in, first-out) or market.

Rebates and Credits Receivable

In 2004 our major vendor began providing sales rebates and credits if we fulfilled 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" ("SFAS No. 144"), issued by the Financial Accounting Standards Board ("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.

Income Taxes

We account for income taxes in accordance with Statement of Financial Accounting Standards No 109, "Accounting for Income Taxes" ("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

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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.

24

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 and area 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 on our financial statements are based on the historical actual income tax rates of Sifang Information at 7.5% for the nine months ended September 30, 2003 and 2004, respectively. The deferred tax assets are determined based on the historical income tax rates applicable at the Sifang Information 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

Nine Months Ended September 30, 2004 Comparing to Nine Months Ended September 30, 2003

Revenue recognition

We generate revenue from both mobile phone sales and the delivery of value-added services. The revenues related to mobile phone distribution are recognized when the following criteria are met: (a) we have transferred to the customer the significant risks and rewards of ownership of the goods; (b) we retain neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; (c) the amount of revenue can be measured reliably; (d) it is probable that the economic benefits associated with the transaction will flow to us; and (e) the costs incurred or to be incurred in respect of the transaction can be measured reliably. The revenues related to the delivery of value-added services are comprised of services provided to pager users and services provided to mobile phone users. Revenues from providing services to pager users are recognized in the period in which services are rendered and the subscription fee is fixed or determinable and collectability is reasonably assured. Revenues from providing

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services to mobile phone users are recognized in the period in which the services are performed, provided that persuasive evidence of a contractual arrangement exists and collectability is reasonably assured. Any payments received related to the services prior to service being rendered are recorded as deferred revenue.

Revenue

Mobile phone distribution

Our mobile phone distribution in the nine months ended September 30, 2004 increased by approximately \$4,459,211, representing an approximately 41% increase, to \$15,427,286 (including product sales to three related parties (Shanghai Shantian Telecommunication Technology Inc., Tianci Group Co., Ltd., or Tianci Group, and Sifang Information) as compared to \$10,968,075 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. For the nine months ended September 30, 2004, Samsung's mobile phones accounted for about 97% of total product sales and other name brand mobile phones accounted for the remaining 3%. Compared to the nine months ended September 30, 2003, Samsung's

25

mobile phones accounted for 99% of total product sales and other brands accounted for the balance. Market competition for mobile phone sales is so fierce that we decreased our overall mark-up ratio to 5.0% in order to maintain our market position, compared to the mark-up ratio of 8.9% for the same period the prior year.

Mobile phone sales to a related party

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 , 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. During the nine months ended September 30, 2004, we sold \$10,512,821 of mobile phones with a reasonable mark-up of approximately 3.6% in order to support start-up stage of Shantian's business as compared to the aggregate mark-up ratio of 5.0% for the products sold to all other customers. Compared to the mark-up ratio of 7.9% in the first half year of 2004, the decrease in mark-up ratio was due mainly to the significant decline of mark-up to 1.8% for the three months ended September 30, 2004 compared to 7.0% for the same period of the prior year. Because TCH had not obtained all the government issued VAT invoices for the mobile phones distribution, the sales of mobile phones went through the related parties during the third quarter.

Service revenue, net

Total service revenue net of the related business tax and surcharge for the nine months ended September 30, 2004 increased by approximately \$116,541, representing approximately a 5.0% increase, to \$2,467,990 compared to \$2,351,449 for the same period of the prior year. Moreover, the components of service revenue changed significantly. Service revenue from mobile phone users for the nine months ended September 30, 2004 increased by \$1,433,076 to \$1,828,041 compared to \$394,965 for the same period of the prior year, representing an increase of approximately 363%, which resulted in the overall increase in

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service revenue. Service revenue from pager users for the nine months ended September 30, 2004 decreased by \$1,316,535 to \$639,949 compared to \$1,956,484 for the same period of the prior year, representing approximately a 67% decrease. We believe that service revenue from pager users will continue to decrease given the increased popularity of mobile phones over beepers and pagers. 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.

Cost of goods sold

The cost of goods sold for the nine months ended September 30, 2004 increased by \$4,670,568 to \$14,658,663 compared to \$9,988,095 for the same period of the prior year, representing an approximately 47% increase. The increase was consistent with the increases in revenue from product sales.

Cost of service

The cost of service for the nine months ended September 30, 2004 decreased by \$47,684 to \$660,791 compared to \$708,475 for the same period of the prior year, representing an approximately 6.7% decrease. This decrease was the result of a decrease in the content fee charged by the content providers from \$66,901 to \$25,538 in the comparison of the nine months ended September 30, 2004 and the same period last year. According to the contracts signed between TCH and other content providers who offered us information content related to securities, lottery entertainment and so on, we recorded all accrued expenses in the third quarter of year 2004. We expect that the final determined fee due to the providers will be confirmed in the fourth quarter of 2004. Meanwhile, we are striving to expand the contents included in our value-added services within the current fee-charge level and trying to establish collaborative relationships or partnerships with certain information content providers.

26

Gross profit

After considering the cost of goods sold and cost of service, our gross profit for the nine months ended September 30, 2004 decreased by approximately \$47,132 to approximately \$2,575,822, representing an approximately 1.8% decrease, compared to the gross profit of \$2,622,954 for the same period of the prior year. The decrease of gross profit was primarily attributable to the fact: (i) service revenue from pager users generated in the nine months ended September 30, 2004 decreased from \$1,956,484 to \$639,949, representing an approximately 67.3% decrease, compared to the same period in fiscal 2003; and (ii) the gross profit ratio of the mobile phone distribution for the first three quarters in fiscal 2004 decreased from 8.9% to 5.0% resulting in the decline of the total gross profit.

The following table presents in summary certain information related to the various components of revenue in a manner similar to segment reporting information.

	Information	Information
	Service -	Service -
	Mobile Phone	Pager
Mobile Phone		
Distribution		

Tot

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For nine months ended September 30, 2004

Revenue	\$ 15,427,286	\$ 1,828,041	\$ 639,949	\$ 17,8
Cost	14,658,663	150,900	509,891	15,3
Gross profit	768,623	1,677,141	130,058	2,5
Gross profit ratio	5.0%	91.7%	20.3%	

For nine months ended September 30, 2003

Revenue	\$ 10,968,075	\$ 394,965	\$ 1,956,484	\$ 13,3
Cost	9,988,095	163,827	544,648	10,6
Gross profit	979,980	231,138	1,411,836	2,6
Gross profit ratio	8.9%	58.5%	72.2%	

On July 16, 2004, Tianci Group, a related party to TCH, entered into an agreement with China Unicom to promote CDMA mobile phones and relevant monthly service for China Unicom. According to the signed agreement, should Tianci Group sell varieties of CDMA mobile phones owned by China Unicom to customers who would like to subscribe for monthly service for a period of two years with a monthly service fee of \$3.38, Tianci Group would be entitled to receive an sales commission from China Unicom of \$15.70 per unit, sales commission of \$3.62 per SIM card, and \$12.08 for monthly service subscription. Tianci Group feels that TCH has been in a better position to sell these CDMA mobile phones, SIM cards and monthly service subscriptions. Therefore, Tianci Group entered into an agent agreement with TCH and asked TCH to conduct these businesses on behalf of Tianci Group. Consequently, TCH would be entitled to receive the sales commission from Tianci Group based on the terms between Tianci Group and China Unicom. This agent business started in August 2004 along with the promotion initiated by China Unicom. As this business activity is more uncertain in nature, we reported this sales commission as other income instead of regular revenue. We recognized

27

agent income of \$130,060 in the nine months ended September 30, 2004 at TCH level. The recurrence of this type of transaction depends on the promotion initiated by China Unicom. Therefore, we recognize the agent income as other income.

Selling expenses

Selling expenses for the nine months ended September 30, 2004 increased by \$11,592 to \$127,833 compared to \$116,241 for the same period of the prior year, representing an approximately 10% increase. The increase was due to promotion expenses for value-added information service related to mobile phone users. Advertising fees increased from \$889 to \$29,707.

General and administrative expenses

General and administrative expenses for the nine months ended September 30, 2004 increased by \$1,169,720 to \$1,462,504 compared to \$292,784 for the same period of the prior year, representing a material increase. The increase was due mainly to the stock-based compensation expenses of approximately \$1,014,000 and an increase of \$19,737 in software amortization expenses from \$75,293 to \$95,030. In addition, office rental expense increased by approximately \$20,556

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and audit and consultant fees incurred in the first three quarters of fiscal 2004 accounted for a \$10,656 increase for the reorganization and recapitalization transaction. Other miscellaneous items accounted for the remaining increase of \$4,355 for the nine months ended September 30, 2004.

Of the aforementioned stock-based compensation of \$1,014,000 for the nine months ended September 30, 2004, \$604,000 was the fair value of the 167,895 shares issued to a consultant in lieu of cash payment, and other \$410,000 was total premium difference between the trading price (\$3.60 per share) and the stock purchase price (\$1.14 per share) per a stock purchase agreement resulting in the issuance of 166,667 redeemable shares.

Interest income (expense)

For the nine months ended September 30, 2004, interest income was \$31,931, which was mainly derived from the amount due from Sifang Information. For the nine months ended September 30, 2003, there were two borrowing and lending transactions between TCH and Sifang Information resulting in the interest expense \$10,873.

Income tax

TCH is subject to taxation under the laws of the PRC, and the statutory income tax rate for the nine months ended September 30, 2003 and 2004 was 7.5%. In the nine months ended of September 30, 2003 and 2004, income tax expense was \$165,229 and \$169,643, respectively, based on pretax income of \$2,258,366 and \$1,247,476 (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, the income tax expense of \$169,643 incurred in China was based on the taxable income of approximately \$2,261,899.

Net income

We recorded net income of \$977,833 for the nine months ended September 30, 2004, a \$1,059,994 decrease in net income compared to a net income of \$2,037,827 for the same period of the prior year, representing an approximately

28

52% 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, and (ii) the decrease of the gross profit generated from mobile phone distribution and the pager service business.

Earnings per share

The earnings per share for the nine months ended September 30, 2004 decreased by \$0.08 to \$0.07 compared to \$0.15 for the same period of the prior year, representing an approximately 53% decrease. The decrease was due mainly to the decrease in our net income and the increase in the total outstanding shares of common stock as the weighted average number of shares of common stock outstanding for the nine months ended September 30, 2004 increased by approximately 13%, compared the weighted average number of common stock outstanding for the same period of the prior year.

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Fiscal Year Ended December 31, 2003 Compared to the Fiscal Year Ended December 31, 2002

Revenue recognition

We generate revenue from both mobile phone sales and the delivery of value-added services. The revenues related to mobile phone distribution are recognized when the following criteria are met: (a) we have transferred to the customer the significant risks and rewards of ownership of the goods; (b) we retain neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; (c) the amount of revenue can be measured reliably; (d) it is probable that the economic benefits associated with the transaction will flow to us; and (e) the costs incurred or to be incurred in respect of the transaction can be measured reliably. The revenues related to the delivery of value-added services are comprised of services provided to pager users and services provided to mobile phone users. Revenues from providing services to pager users are recognized in the period in which services are rendered and the subscription fee is fixed or determinable and collectability is reasonably assured. Revenues from providing services to mobile phone users are recognized in the period in which the services are performed, provided that persuasive evidence of a contractual arrangement exists and collectability is reasonably assured. Any payments received related to the services prior to service being rendered are recorded as deferred revenue.

Revenue

Mobile phone distribution

Our mobile phone distribution for the year ended December 31, 2003 increased by \$13,008,954, representing a 2,500% increase, to \$13,529,279 as compared to \$520,325 for the year ended December 31, 2002. The increase was due mainly to our marketing effort, which was combined with Samsung's marketing efforts. In the telecommunication market of China, mobile phones have rapidly replaced beep pagers with the development of the wireless communication technology that stimulated a large demand from consumers resulting in an increase in mobile phone distribution. In the year ended December 31, 2003, Samsung's mobile phones accounted for about 97% of the total product sales and the other name brands mobile phones accounted for the remaining 3%. During the year ended December 31, 2002, we did not sell any Samsung mobile phones whereas Motorola's mobile phones accounted for 99.6% of total product sales and other name brands accounted for the balance. Compared to the negative gross profit ratio for the year ended December 31, 2002, the gross profit ratio for the year ended December 31, 2003 was a positive 8.17%, which was due mainly to the increase in sales volume and product mix.

Service revenue, net

Total service revenue net of related business tax and surcharges for the year ended December 31, 2003 increased by \$100,017, to \$3,503,099, as compared to \$3,403,082 for the year ended December 31, 2002, representing an approximately 2.9% increase. The overall increase was due primarily to the increase of service revenue from mobile phone users which was offset by the decrease of service revenue from pager users. Service revenue for mobile phone users for the year ended December 31, 2003 increased by \$1,290,366 to \$1,297,323 compared to \$6,957 for the prior year. In addition, approximate \$60,850 of

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service revenue from mobile phone users was attributed to the prepaid service fees generated by an installing agent, Chenggao Industry Co. Ltd. who installed the software on a retailer's inventories and collected proceeds from the retailer and transferred the proceeds to us. Please refer to our accounting policy regarding revenue recognition for further details. Service revenue from pager users for the year ended December 31, 2003 decreased by \$1,190,349 to \$2,205,776 compared to \$3,396,125 for the year ended December 31, 2002, which was due mainly to the prevailing demand for mobile phone services.

Cost of goods sold

The cost of goods sold for the year ended December 31, 2003 increased by \$11,896,996 to \$12,424,454 as compared to \$527,458 for the year ended December 31, 2002. The increase of the cost of goods sold was consistent with the increase of the revenue. For the years ended December 31, 2003 and 2002, the inventory turn-over ratios are 9.00 and 0.45, respectively.

Cost of service

The cost of service for the year ended December 31, 2003 increased by \$58,207 to \$910,440 compared to \$852,233 for the year ended December 31, 2002, representing an approximately 6.8% increase. The increase was related mainly to the value-added information service provided to mobile phone users and the purchasing cost related to more information content along with the increase in service fees charged by Mobile Operators. In the year ended December 31, 2003, we expanded the category of information services to meet the expectations of variety of customers accompanied by the rise of information acquisition cost at the rate of nearly 50%. The cost for purchasing information content jumped from \$40,267 to \$72,656 and the service fees charged by Mobile Operators increased from \$1,153 to \$18,420, respectively. Regarding the cost of service related to mobile phone users, the cost of service for the year ended December 31, 2003 increased by \$169,101 compared to \$46,219 for the year ended December 31, 2002, representing a 365.87% increase and being consistent with the increase in service revenue generated from mobile phone users. Regarding the cost of service related to beep pager users, the cost of service for the year ended December 31, 2003 decreased by \$110,894 compared to \$806,014 for the year ended December 31, 2002, representing a decrease of 13.76% and a semi-fixed nature of cost.

Gross profit

After considering the cost of goods sold and cost of service, our gross profit for the year ended December 31, 2003 increased by \$1,153,768 to \$3,697,484, representing an approximately 45.4% increase, as compared to gross profit of \$2,543,716 for the year ended December 31, 2002. The increase was primarily attributable to the material increase of the gross profit of mobile phone distribution and information service provided for mobile phone users. The increase of these two items was from the negative gross profit of \$7,133 in fiscal 2002 to a positive gross profit of \$1,104,825 and from a negative gross profit of \$39,262 to a positive gross profit of \$1,082,003, respectively, aggregating \$2,233,223, which offset the decrease in gross profit of information service provided for beep pager users from \$2,590,111 to \$1,510,656.

However, the percentage of gross profit over the total revenue for the year ended December 31, 2003 was approximately 21.7% compared to 64.8% for the year ended December 31, 2002, representing a 43.1% decrease. The decrease was

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due to the fact that the service revenue generated in year 2003 accounted for only 21% of total revenue whereas the service revenue generated in the year 2002 accounted for 87% of total revenue, given that the service revenue is much more profitable than mobile phone distribution.

	Mobile Phone Distribution -----	Information Service - Mobile Phone -----	Information Service - Pager -----	T -----
For the year ended December 31, 2003				
Revenue	\$ 13,529,279	\$ 1,297,323	\$ 2,205,776	\$ 17
Cost	12,424,454	215,320	695,120	13
Gross profit	1,104,825	1,082,003	1,510,656	3
Gross profit ratio	8.17%	83.40%	68.49%	

For the year ended December 31, 2002

Revenue	\$ 520,325	\$ 6,957	\$ 3,396,125	\$ 3
Cost	527,458	46,219	806,014	1
Gross profit	(7,133)	(39,262)	2,590,111	2
Gross profit ratio	(1.37)%	(564.35)%	76.27%	

Selling expenses

Selling expenses for the year ended December 31, 2003 decreased by \$135,012 to \$153,437 as compared to \$288,539 for the prior year, representing an approximately 47% decrease. The decrease was due mainly to the reduction in advertising and promotion expenses of this year compared with those of the prior year, which declined from \$117,290 to \$14,721. We have moved the marketing focus from beep pager users to mobile phone users in order for us to adapt to the demands demonstrated by the telecommunication market. Furthermore, the traditional marketing method on beep pager users was not a fit for mobile phone value-added information service and distribution. As we have contracted with an installing agent to install our software in the inventory of a retailer, and established collaborative relationships and partnerships with the installing agent and retailer to sell information services, we have been able to reduce our marketing expenses.

General and administrative expenses

General and administrative expenses for the year ended December 31, 2003 increased by \$180,608 to \$391,930 as compared to \$211,322 for the year ended December 31, 2002, representing an 85% increase. The increase was attributable mainly to an increase in employee compensation and welfare payments along