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Orsus Xelent Technologies, Inc.

(AMEX: ORS)

JUNE 17, 2007 | TARGET PRICE: \$ 7.10 | RATING: STRONG BUY

VISIBILITY

FIRST QUARTER UPDATE

Jin Xing, MBA, CFA Level I

Candidate

Research Analyst

1-800-RED-CHIP

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Orsus Xelent Technologies, Inc.
6B Building 5,
Yi Jing Yuan, Chao Yang District,
Peking, China, Postal Code 100020
Tel: 010-8561-3362
<http://www.orsus-xelent.com>

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AT A GLANCE

TICKER..... ORS

FISCAL..... December

SECTOR..... Technology

INDUSTRY..... Communication

Equipment

RECENT PRICE..... \$ 3.70

TARGET PRICE (12 mos).... \$ 7.10

REPORT DATE..... 06/15/07

MARKET CAP..... \$119M

52-WEEK HIGH..... \$ 5.40

52-WEEK LOW..... \$ 1.10

PRICE/EARNING..... 17.47

PRICE/CASH FLOW..... N/A

PRICE/BOOK..... 5.04

PRICE/SALE..... 1.49

SHARES OUTSTANDING.... 29.76M

FLOAT..... 5.59M

AVERAGE DAILY VOLUME.... N/A

INSIDER SHAREHOLDERS.. 50.04%

CEO.....Xavier Xin Wang

COMPANY OVERVIEW

Orsus Xelent Technologies is a Beijing-based designer and manufacturer of award winning mobile phones. The Company's business encompasses the design and manufacturing of mobile phone hardware, R&D specialized software application and mobile phone integration technology.

Today, Orsus offers a wide range of high performance mobile phones for the value conscious consumer. Orsus owns its proprietary platform, named Spreadrum and MTK, which allows the Company to develop a series of low cost mobile phones with innovative functions. Orsus products has received several awards for their innovative features and designs.

Orsus is currently collaborating with an application development company to integrate specialized software with mobile devices. The software supports an application platform called the Industry & Commerce Law-Enforcement Platform (ICEP), which will be used to assist law enforcement agents of State Administration of Industry Commerce (SAIC) of PRC in conducting various tasks. Orsus has been selected as the hardware provider for SAIC, and is expected to deliver more than 300,000 customized mobile devices operating under ICEP platform to meet SAIC's requirements. The handheld will be priced at \$400 per unit, and requires a device update twice a year. In addition, Orsus will charge \$55 per user per month for providing ongoing application services.



Model M62, Feb. 2005¹



¹ Annual Conference on Network Application Technology, Beijing, held by CCID



Orsus believes that the specialized applications mobile phone business could generate at least \$120 in recurring revenue. This segment will become one of the most important revenue sources for the Company.

Orsus also initiated a product distribution strategy that allows the Company to sell mobile phones directly through large retail chains. Orsus anticipates direct distribution will translate into higher sales volume and margins for the Company as a result of eliminating unnecessary intermediaries and increasing product exposure. The initial target number is approximately 200 stores and they intend to add more in the near future.

INVESTMENT SUMMARY

- ORS posted strong revenue for Q1 FY07. Revenue increased to \$20 million in Q1 FY07 from \$8.3 million in the comparable quarter in FY06, representing a 139% increase. This dramatic increase was attributed to a change in their business model to better position products, and a favorable promotion initiated by China Unicom to boost sales of CDMA models. Sales of GSM models remained stable in 1Q07, which accounted for 32% of total revenues, while the balance was attributed to sales of CDMA models. As China Unicom continues to expand its CDMA network coverage and promote CDMA models, ORS expects to benefit from strong demand.
- Gross margin and operating margin were 18.3% and 8.8% for 1Q07 which represents a respective decline of 18% and 35% compared to 1Q06. This decline in margins was primarily attributed to intensive pricing competition from domestic and overseas cellular manufacturers, and increased sales of low-end models. Net profit margin also declined in the quarter due to a reduced operating margin and payment of income taxes. ORS was exempt from paying income tax as a foreign controlled entity operating in the special industrial zone in the PRC during 1Q06. However, this tax holiday break expired in 4Q06. The Company reported 1Q07 EPS of \$0.042 versus \$0.038 for 1Q06.



D9000

Type: PDA
H(mm): 82.8
W(mm): 46
D(mm): 17
Weight(g): 72
Case Colors:
Black, Silver



TDA-6028

Type: PDA
H(mm): 108
W(mm): 59
D(mm): 20.5
Weight(g): 150
Case Colors:
Black, White



X5

Type: Slim Bar
H(mm): 109.5
W(mm): 46.5
D(mm): 11.5
Weight(g): 70
Case Colors:
Black, Silver



D8120

Type: Slide
H(mm): 92
W(mm): 47
D(mm): 16.5
Weight(g): 90
Case Colors:
Black



- ORS recorded 1Q07 cash and cash equivalents of \$3.5 million compared to \$2.4 million in 4Q06, representing an increase of 44%. This increase was mainly due to the enhancement of control over account receivables, and the collection of some outstanding receivables. In addition, ORS obtained a second loan of \$2.6 million from Beijing Rural Bank coupled with an existing loan of \$6.3 million secured in 1Q07. Cash flow from operations improved in 1Q07 compared to 1Q06, due to improvement in inventory turnover and collection of receivables. With a greater amount of available cash, ORS is in a good position to invest in product R&D and distribution.
- During 1Q07, ORS has taken a significant step towards the cooperation intent Agreement with the State Administration for Industry & Commerce (SAIC) to deliver more than 300,000 mobile devices to assist SAIC officials with law enforcement operations. The Company has reached an agreement with the SAIC in the Hebei Province to deliver approximately 20,000 handsets equipped with specialized applications to each member of its field staff in 2007. The SAIC expects the adoption of this new system to be completed within 18 to 20 months, at which time approximately 560,000 SAIC law enforcement officials will be outfitted with this specialized device. At \$400 per handset, ORS is expecting a sizable revenue stream from this transaction.
- During the quarter, ORS secured a contract with Huayuan Run Tong Technology Co., Ltd (HYRT) to embed the Company's mobile terminals with HYRT's software and sell 10,000 model X180 handsets to BOC International Limited (BOCI China), the largest Investment Bank in the PRC. The Company anticipates to expand the rollout of its devices to promote business throughout the PRC in the future, including Shanghai, Zhejiang and ten other areas.
- In May 2007, ORS announced that it received approval to be listed on the American Stock Exchange, and changed its symbol from "ORXT" to "ORS". This is a milestone for the Company as it continues to transform itself to a powerful player in an emerging market.

VALUATION

ORS posted strong 1Q07 results, which reflects an effective execution of their strategy to adopt to rapidly changing market conditions. We anticipate strong sales of both CDMA and GSM models as the Company continues to cooperate directly with major telecommunications operators in the PRC, and continues to focus on addressing the needs of their consumers. We expect the Company's revenue to grow at 35% year over year for FY07, with a strong contribution from sales of specialized application devices. ORS has tremendous upside potential and we maintain a strong buy rating. We raise our 12 month price target to \$7.10 from a previous target price of \$5.25, translating into 20 times FY07's EPS of \$0.356.



RISK FACTORS

Country Risk: Since Orsus operations are based in China, it is subject to risks such as political instability, weak financial structure, economic instability, and foreign exchange risk.

Intense Competition: The Company faces strong competition from both foreign and domestic competitors. The mobile phone market in China is characterized by low barriers to entry, which means there is an increasing number of potential competitors. Increased competition could lead to the Company lowering prices in order to stay competitive. This could adversely affect Orsus' revenue and profit margins.

Reliance of Third Party Assistance: Orsus relies extensively on third parties to manufacture the majority of their mobile phones. If a third party requires Orsus to utilize different input resources for its manufactured product, production costs could be negatively affected.

Limited Business Insurance Coverage: The insurance industry in China is still in the early development stage. The government offers limited business insurance. As a result, Orsus will be subject to substantial costs and a diversion of resources in the case of business disruption, litigation or natural disaster.

Limited Resources to Protect Intellectual Property: Orsus relies on contractual restrictions on disclosure to protect its intellectual property rights. Monitoring unauthorized use of information services is difficult and costly, and Orsus cannot be certain that the steps it takes will effectively prevent misappropriation of its technology and content. In the future, management may decide to submit an application for copyright, trademark or trade secret protection.



INCOME STATEMENT

	3 Month Ended FY07		Full Year	
	Q1 FY06A	Q1 FY07A	FY06A	FY07E
Net Revenue	8,367	20,009	68,108	91,946
Cost of Revenue	6,493	16,341	55,226	74,476
Gross Profit	1,874	3,668	12,882	17,470
Sales & Marketing	444	113	1,045	3,345
General & Administrative	189	1,374	1,560	2,230
Research & Development	81	53	255	879
Depreciatio & Amortization	25	52	175	275
Other Expenses	0	320	1,841	0
Total Expenses	739	1,912	4,876	6,729
Income from Operation	1,135	1,756	8,006	10,741
Interest expense, other income, net	2	(125)	(41)	1,617
Income before Tax	1,137	1,631	7,965	12,358
Income Tax Expense	0	(384)	(1,247)	(1,765)
Minority Interest	0	0	0	0
Net Income	1,137	1,247	6,718	10,593
Weighted Average Shares	29,756	29,756	29,756	29,756
EPS	0.038	0.042	0.226	0.356
Cost of Revenue %	77.6%	81.7%	81.1%	81.0%
Gross Margin %	22.4%	18.3%	18.9%	19.0%
Total Expenses %	8.8%	9.6%	7.2%	7.3%
Operating Margin %	13.6%	8.8%	11.8%	11.7%
Net Profit Margin %	13.6%	6.2%	9.9%	11.5%

Disclosures

The analysts contributing to this report do not hold any shares of ORS. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts' personal views as to the subject securities and issuers. RedChip certifies that no part of the analysts' compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report. Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. As such, the report should not be construed as advice designed to meet the particular investment needs of any investor. Any opinions expressed herein are subject to change. In the purview of Section 17(b) of the Securities Act of 1933 and in the interest of full disclosure, we call the reader's attention to the fact that Red Chip Visibility, a division of RedChip Companies Inc, has been paid \$34,500 for this report. The Company has also hired RedChip's affiliate company, Aurelius Consulting Group Inc., to provide investor relations services for a fee of \$10,000 per month.