In evaluating an investment in the Placing Shares, potential investors should consider carefully all of the information contained in this prospectus and, in particular, should consider the following risk factors and special considerations associated with an investment in the Company.

RISKS RELATING TO THE COMPANY

Risk involved in accumulation of trade receivables

The Company recorded a significant amount of trade receivables as at the closing date of each reporting period during the Track Record Period. **As at 31 December 2001, 31 December 2002 and 31 May 2003, the Company's trade receivables, after netting off allowance for doubtful debts, amounted to approximately RMB24.8 million, RMB98.6 million and RMB91.8 million respectively, representing approximately 33%, 56% and 43% of the Company's total current assets as at the respective balance sheet dates.** For details on the ageing analysis of trade receivables, please refer to the accountants' report set out in appendix I to this prospectus. The subsequent settlement of trade receivable up to 31 August 2003 amounted to approximately RMB24.6 million or 26.8% of the balance outstanding as at 31 May 2003. The allowance for doubtful debts made by the Company during the two years ended 31 December 2002 and the five months ended 31 May 2003 amounted to approximately RMB0.7 million, RMB4.3 million and RMB1.7 million respectively, representing approximately 0.9%, 2.6% and 2.1% of the turnover of the Company for the respective period. In the event that any portion of such trade receivables becomes bad debts and cannot be collected by the Company, the Company's operations and financial condition may be adversely affected. In addition, in the event that the Company's trade receivables could not be collected and the Company needed to finance its working capital requirement by borrowings, any increase in interest rate may adversely affect the Company's financial position due to increase in finance costs.

For the trade receivables from the members of China Unicom Group and China Mobile Group, the amounts are settled by instalments which are mutually determined and agreed by the relevant parties. In general, the credit period granted to members of China Unicom Group and China Mobile Group is 240 days. However, for balance outstanding as at 31 May 2003 and remained unsettled as at 31 August 2003, approximately 30% of the outstanding trade receivables from members of China Unicom Group and approximately 20% of the outstanding trade receivables from members of China Mobile Group were aged over 240 days as at 31 August 2003. As at 31 December 2001, trade receivables before allowance from China Mobile Group and China Unicom Group were approximately RMB7.7 million and RMB5.6 million respectively. As at 31 December 2002, trade receivables before allowance from China Mobile Group and China Unicom Group were approximately RMB12.1 million and RMB52.4 million respectively. As at 31 May 2003, the trade receivables before allowance from China Mobile Group and China Unicom Group were approximately RMB12.7 million and RMB50.6 million respectively. In the event that the trade receivables from China Mobile Group and China Unicom Group continue to increase as a percentage of current assets, the burden on the Company's working capital will increase due to long settlement period for such trade receivables. Accordingly, the Company's financial position may be adversely affected.

Under normal circumstances, the Company grants credit period ranging from 90 days to 240 days to its customers. On some occasions, extension of credit period longer than the abovementioned credit period up to 365 days may, upon their request, be granted to certain customers who possess good records of repayment history. Such request has to be approved by an executive Director, Mr. Xiao Bing, based on acceptable reasons and such approvals are granted occasionally. In the event that the outstanding amount of trade receivables granted with extended credit period continue to increase, the burden on the Company's working capital will increase accordingly and its financial position may be adversely affected.

High debt to equity ratio and consequence of realisation of security

The Company generally finances its operation with internally-generated cashflow and banking facilities provided by its principal bankers in the PRC. As at 31 December 2001, 31 December 2002, 31 May 2003 and 31 August 2003, the debt to equity ratios (defined as the total bank and other borrowings of the Company divided by the net assets of the Company) were approximately 56.7%, 79.5%, 96.6% and 71.5% respectively. In general, such high gearing ratio is due to the rapid expansion of the Company which was not met by a comparative growth rate of internal financial resources. The bank borrowings increased during the Track Record Period because the Company needed additional working capital to finance its expanding business, fixed assets investment (such as base station testing equipment (基站測試儀), vector network analysers, noise coefficient analyzer (噪聲系數分析儀), vector signal generator (矢量信號發生器)), and product research and development. During the Track Record Period, the Company acquired fixed assets which amounted to approximately RMB52.6 million and the aggregate of trade receivables and inventory has increased from approximately RMB45.6 million as at 31 December 2001 to approximately RMB131.7 million as at 31 May 2003. During the year 2001, the Company invested approximately RMB28.0 million in fixed assets and approximately RMB12.7 million in acquiring the land use right for the site at No. 36 Gao Xin Liu Road, Xi'an National Hi-tech Industrial Development Zone where the Company's headquarters and production base are currently located. During the year 2002, and the five months ended 31 May 2003, the Company invested approximately RMB21.2 million and RMB3.4 million respectively in fixed assets.

As at 31 August 2003, the Company had a debt level of approximately RMB78.8 million (of which approximately RMB0.8 million should be repaid by December 2003, RMB18 million should be repaid in February 2004, RMB30 million should be repaid in March 2004, and RMB30 million should be repaid in May 2004) as compared to its net asset value of RMB110.2 million.

As at 31 August 2003, the Company was granted the following banking facilities:

Name of bank	Nature	Facilities Available *RMB million*	Facilities Utilised *RMB million*	Collateral	Repayment Date	Renewal/ Expiry
Agricultural Bank of China	Loan	30	30	Land use right and buildings at No. 36 Gao Xin Liu Road, Xi'an National Hi-tech Industrial Development Zone, Xi'an	28 March 2004	28 March 2004 and will be renewed to 28 March 2008
China Everbright Bank	Loan and bills of exchange *(Note 1)*	40	30	Land use right and buildings at No. 36 Gao Xin Liu Road, Xi'an National Hi-tech Industrial Development Zone, Xi'an	30 May 2004	30 May 2004 and will be renewed to 30 May 2007
Shanghai Pudong Development Bank	Factoring *(Note 2)*	30	18	Trade receivables from China Unicom (Gansu), UTStarcom and China Unicom (Shaanxi)	19 February 2004	Revolving facilities; will be expired on 30 June 2004
Bank of East Asia, Limited Xi'an Branch (東亞銀行有限公司西安分行)	Loan	0.8	0.8	Unsecured	10 December 2003	10 December 2003
			78.8			

Note 1: In addition to RMB30 million bank loan, China Everbright Bank also granted facilities of issuing bills of exchange of up to a maximum amount of RMB10 million to the Company on 28 April 2003. As at 31 August 2003, the Company had issued bills of exchange under such facilities, which amounted to approximately RMB5.4 million as at that date.

Note 2: The facility was fully utilised on 30 September 2003 when an additional amount of RMB12 million was borrowed under such facility on 30 September 2003.

As security for the loan facility to the extent of RMB30 million provided by the China Everbright Bank and another loan facility to the extent of RMB30 million provided by the Agricultural Bank of China, the Company has pledged to both banks its land use right in respect of No. 36 Gao Xin Liu Road, Xi'an National Hi-tech Industrial Development Zone and the buildings thereon, which are currently occupied by the Company as its head office and main production facilities. According to Vigers Hong Kong Ltd., the capital value of the aforementioned interest in land and buildings amounted to approximately RMB38 million as at 31 August 2003. According to the legal opinion issued by Jingtian & Gongcheng, in the event that the Company fails to repay the amount advanced under the banking facilities in accordance with the terms of the relevant loan agreements, the relevant bankers may enforce their rights under the relevant security documents. As a result, the Company may have to relocate its production facilities and during such relocation, the Company may have to cease its operation. In such event, the Company will have to incur relocation costs. The Directors expect the relocation costs to amount to approximately RMB100,000. Besides, the operation and profitability of the Company may be adversely affected.

Pursuant to the loan agreement entered into between the Agricultural Bank of China and the Company dated 28 March 2002, the Agricultural Bank of China agreed to grant a loan of RMB30 million to the Company as a medium term working capital for the purchase of raw materials, at an interest rate of 5.49% per annum. The term of this loan is for a period of two years from 29 March 2002 to 28 March 2004. By a mortgage agreement dated 28 March 2002 entered into between the Agricultural Bank of China and the Company, the land use right of the Company in respect of No. 36 Gao Xin Liu Road, Xi'an National Hi-tech Industrial Development Zone and the buildings thereon were pledged as security for this loan. The Company has obtained an irrevocable written undertaking from the Agricultural Bank of China dated 3 June 2003, pursuant to which, the Agricultural Bank of China has irrevocably undertaken to the Company to rollover or renew this loan on the same terms of borrowing when it becomes due. Accordingly, such loan will be renewed in March 2004 for a term of two years until March 2006, with a further renewal in March 2006 to March 2008. According to an explanation regarding the procedure for renewal of such loan (有關本行短期借款轉貸程序的說明) dated 4 October 2003 issued by the Agricultural Bank of China, when renewing the loan, the Company and the Agricultural Bank of China shall sign another loan agreement and the terms of the new agreement shall be identical to the original agreement except for the effective date. The Company shall deposit an amount equivalent to the amount of the existing loan on or before expiry date to the designated account of the Agricultural Bank of China and upon signing of a new loan agreement, the said deposited amount can be utilised by the Company. If any event of default arises (such as the delay of payment of, or failure to pay, the principal and/or interest of the loan), the Agricultural Bank of China may exercise its rights as a creditor against the Company through, among other measures, sale of the pledged property. If the sales proceeds of the pledged property are insufficient to repay the debt owed to the Agricultural Bank of China, the Company will be obliged to repay any outstanding amount. Such loan is expected to be repaid in full in March 2008. According to a supplemental undertaking dated 4 October 2003, the Agricultural Bank of China shall rollover or renew such loan irrespective of any change in interest rate or the value of the pledged property. The major terms for rollover or renewal of such loan are as follows:

1. Amount of loan:	RMB30 million
2. Purpose:	Medium term working capital for the purchase of raw materials
3. Interest rate:	5.49% per annum
4. Term:	two years
5. Security:	The land use right in respect of No. 36 Gao Xin Liu Road, Xi'an National Hi-tech Industrial Development Zone and the buildings thereon.

Pursuant to the loan agreement entered into between the China Everbright Bank and the Company dated 30 May 2003, the China Everbright Bank agreed to grant a loan of RMB30 million to the Company as working capital at an interest rate of 5.31% per annum. The term of this loan is for a period of one year from 30 May 2003 to 30 May 2004. By a mortgage agreement dated 28 April 2003 entered into between the China Everbright Bank and the Company, the land use right of the Company in respect of No. 36 Gao Xin Liu Road, Xi'an National Hi-tech Industrial Development Zone and the buildings thereon were, with the consent of the Agricultural Bank of China, pledged as security for such loan. The Company has obtained an irrevocable written undertaking from the China Everbright Bank dated 9 June 2003, pursuant to which, the China Everbright Bank has irrevocably undertaken to the Company to rollover or renew this loan for 3 years until May 2007 on the same terms of borrowing when it becomes due, subject to an annual renewal by the China Everbright Bank. According to an explanation regarding the procedures for renewal of short term loan (有關本行短期借款轉貸程序的說明) dated 4 October 2003 issued by the China Everbright Bank, when renewing the loan, the Company and the China Everbright Bank shall sign another loan agreement and the terms of the new agreement shall be identical to the original agreement except for the effective date. The Company shall deposit an amount equivalent to the amount of the existing loan on or before expiry date to the designated account of the China Everbright Bank and upon signing of a new loan agreement, the said deposited amount can be utilised by the Company. If any event of default arises (such as the delay of payment of, or failure to pay, the principal and/or interest of the loan), the China Everbright Bank may exercise its rights as a creditor against the Company. If the sales proceeds of the pledged property are insufficient to repay the debt owed to the China Everbright Bank, the Company will be obliged to repay any outstanding amount. This loan is planned to be repaid in full in May 2007. According to a supplemental undertaking dated 4 October 2003, the China Everbright Bank shall rollover or renew such loan irrespective of any change in interest rate or the value of the pledged property. The major terms for rollover or renewal such loan are as follows:

1. Amount of loan: RMB30 million
2. Purpose: Working capital
3. Interest rate: 5.31% per annum
4. Term: one year
5. Security: The land use right in respect of No. 36 Gao Xin Liu Road, Xi'an National Hi-tech Industrial Development Zone and the buildings thereon.

As advised by the Company's PRC legal advisers, Jingtian & Gongcheng, the irrevocable written undertakings issued by the Agricultural Bank of China dated 3 June 2003 and by the China Everbright Bank dated 9 June 2003 have been affixed with the seals of the respective banks and reflected the true intention of the two banks. According to (i) Article 55 of the General Principles of the Civil Laws of the PRC ("Civil Laws"), a civil juristic act shall meet the following requirements: (1) the obligor has relevant capacity for civil conduct; (2) the intention expressed is genuine; and (3) the act does not violate the law or the public interest; (ii) Article 56 of the Civil Laws, a civil juristic act may be in written, oral or other form. If the law stipulates that a particular form be adopted, such stipulation shall be observed; and (iii) Article 57 of the Civil Laws, a civil juristic act shall be legally binding once it is instituted. The obligor shall not alter or rescind its act except in accordance with the law or with the other party's consent. Accordingly, the undertakings are legally binding on the two banks and are legal and valid.

As confirmed by Jingtian & Gongcheng, and the Directors, the two loans have been registered in the loan register with the PBOC, the relevant authority for loan registration. The mortgage agreements for such loans have been registered with and the original land use right certificate in respect of No. 36 Gao Xin Liu Road, Xi'an National Hi-tech Industrial Development Zone, has been kept in the Land and Property Management Bureau of Xi'an National Hi-tech Industrial Development Zone (西安高新科技術產業開發區房地產管理局). According to Jingtian & Gongcheng, it is provided in Section 35 of the Guarantee Law of the PRC《中華人民共和國擔保法》, that "where a property is mortgaged and the value of the same exceeds the amount of indebtedness secured, the property can be further mortgaged to secure an amount not exceeding the excess." According to the said section, the Company was entitled to mortgage its land use right in respect of No. 36 Gao Xin Liu Road, Xi'an National Hi-tech Industrial Development Zone and the buildings thereon to two banks respectively.

As confirmed by the Directors and according to the two explanations regarding the procedures for renewal of short term loan (有關本行短期借款轉貸程序的說明) both dated 4 October 2003 and issued by the Agricultural Bank of China and the China Everbright Bank respectively, since such loans have been approved, additional approval process will not be required at the time of rollover or renewal when they become due during the next rollover or renewal periods of two years and one year, respectively. In addition, other than the effective date, there will not be any changes in the terms of the rolled over or renewed loans at the due date.

In the event that the Company is unable to obtain other financing arrangements or the Company's bankers become reluctant to continue extending the loans to the Company or in the event the Company fails to repay the borrowings according to relevant repayment schedule, or the Company's bankers enforce their rights against the Company under the relevant security documents, the Company's operation and financial position may be adversely affected. In addition, as the bank borrowings were secured by, among others, charges over certain properties held by the Company and cash deposits of the Company and pledges of trade receivables from certain customers of the Company, any default in repayment will adversely affect the operation of the Company. If the Company is unable to generate sufficient cash flow from its operation and/or obtain other financing to meet its operating expenditure, the operations, performance and prospects of the Company will be adversely affected.

Professor Xiao has agreed and undertaken to indemnify the Company to the extent of RMB100,000 against all costs, expenses, losses (including but not limited to relocation costs and loss of profits), damages, claims, proceedings, fees and actions which may suffer, sustain or incur by the Company as a result of or in connection with either the Agricultural Bank of China or the China Everbright Bank demanding the Company for the transfer or sale of the pledged property following the failure of the Company in making the repayment in accordance with the terms of the relevant loan agreements.

Reliance on major customers

For the two years ended 31 December 2002 and the five months ended 31 May 2003, the Company sold its products to approximately 144 customers. Among the 144 customers, 118 of them are repeat customers (and for such purpose, repeat customers mean those who place two orders or more with the Company during the Track Record Period). During the two years ended 31 December 2002 and the five months ended 31 May 2003, sales to the Company's five largest customers accounted for approximately 88.7%, 88.1% and 95.0% respectively of the Company's total turnover and the largest customer of the Company for the five months ended 31 May 2003, UTStarcom, accounted for approximately 61.8% of the Company's total turnover for the period. The largest customer of the Company for the year ended 31 December 2002, China Unicom Group, accounted for approximately 36.5% of the Company's turnover for the year and the largest customer of the Company for the year ended 31 December 2001, China Mobile Group, accounted for approximately 30.8% of the Company's turnover for that year. For the above purpose, each of China Mobile Group or China Unicom Group is considered to be an individual customer. All of the five largest customers during the Track Record Period are Independent Third Parties. The Company has entered into a sale and purchase agreement with UTStarcom which does not specify any specific term. The Company has not entered into with any members of China Mobile Group and China Unicom Group any sale and purchase agreement of which the validity period is longer than one year from the date of signature.

During each of the two years ended 31 December 2002 and the five months ended 31 May 2003, the amount of products sold to China Mobile Group, in aggregate, were approximately RMB23.0 million, RMB31.3 million and RMB7.0 million respectively, representing approximately 30.8%, 19.0% and 8.8% of the turnover of the Company for the respective year/period. During the same years/period, the amount of products sold to China Unicom Group, in aggregate, were approximately RMB7.3 million, RMB60.0 million and RMB16.6 million respectively, representing approximately 9.8%, 36.5% and 20.9% of the turnover of the Company for the respective year/period. During the same years/period, the amount of products sold to UTStarcom, in aggregate, were approximately RMB22.3 million, RMB37.6 million and RMB49.0 million respectively, representing approximately 29.7%, 22.9% and 61.8% of the turnover of the Company for the respective year/period. However, there is no assurance that these customers will continue to place their purchase orders with the Company in the future.

The existing key customers of the Company are UTStarcom and members of China Mobile Group and China Unicom Group. The budget formulation and finalisation of UTStarcom, China Mobile Group and/or China Unicom Group will indirectly affect the timing and volume of the orders the Company received and in turn on the cashflow and financial position of the Company. If any of UTStarcom, China Mobile Group and China Unicom Group reduce their budget, or approve their respective budget at a late stage during any financial year, the Company's operation or performance may be adversely affected.

Although UTStarcom is granted with a credit period of 90 days and China Mobile Group and China Unicom Group are granted with a credit period of 240 days, they generally settle their payments after their respective credit period granted by the Company. During the Track Record Period, the average payment days for UTStarcom, China Mobile Group and China Unicom Group were 96 days, 123 days and 250 days respectively.

As at 31 December 2001, trade receivables before allowance from UTStarcom, from China Mobile Group and from China Unicom Group were approximately RMB9.4 million, RMB7.7 million and RMB5.6 million respectively, representing approximately 13.3%, 10.8% and 7.9% of the Company's net asset value as at that date. As at 31 December 2002, trade receivables before allowance from UTStarcom, China Mobile Group and China Unicom Group were approximately RMB15.5 million, RMB12.1 million and RMB52.4 million respectively, representing 16.9%, 13.1% and 57.0% respectively of the Company's net asset value as at that date. As at 31 May 2003, trade receivables before allowance from UTStarcom, China Mobile Group and China Unicom Group were approximately RMB18.8 million, RMB12.7 million and RMB50.6 million respectively, representing 18.7%, 12.6% and 50.3% respectively of the Company's net asset value as at that date. If any of these major customers fails to pay their trade receivables timely or at all, the Company's cashflow position and financial performance may be adversely affected.

In the event that any of these customers cease their business relationships with the Company or substantially reduce their orders with the Company and the Company is unable to find new customers, the Company's business and profitability may also be adversely affected.

Risk involved in the pledge of trade receivables

Pursuant to a factoring agreement dated 19 August 2003 and 30 September 2003 respectively ("Factoring Agreement") entered into between the Company and Shanghai Pudong Development Bank and a document on the Overall Facility of Xi'an Haitian Antenna Technologies Co., Ltd. dated 11 August 2003, issued by Shanghai Pudong Development Bank (上海浦東發展銀行西安分行關於對西安海天天綫科技股份有限公司綜合授信的說明), the Shanghai Pudong Development Bank has granted a consolidated facility of RMB90 million to the Company, comprising a stand-by facility for providing (i) a maximum amount of RMB65 million for discounting bills of exchange and pledging of trade receivables; and (ii) a maximum amount of RMB25 million for issuing bank guaranteed bills of exchange and issuing letter of credit in relation to trade financing. The expiry date of such consolidated facility is 30 June 2004. In relation to the aforesaid facility for providing a maximum amount of RMB65 million for both discounting bills of exchange and pledging of trade receivables, a maximum usable amount of facility for pledging of trade receivables is RMB30 million. As at 31 August 2003, trade receivables of approximately RMB23.7 million have been pledged to the Shanghai Pudong Development Bank whereas the amount of revolving facility utilized by the Company amounted to approximately RMB18 million.

However, since the due date of the repayment of the facility utilized by the Company to the Shanghai Pudong Development Bank may be different from the due date for the customers to pay the trade receivables due from them to the Company, it is possible that the trade receivables to be collected on the due date is insufficient for repaying the facility utilised by the Company which has fallen due. In order to ensure that the amount advanced under the facility is fully repaid as it falls due, the Company has to pay the difference between trade receivables to be collected on the due date and the amount due for repayment.

Pursuant to the terms of the Factoring Agreement, if, among other things, (i) the Company fails to repay the interest at a rate of 5.04% per annum accrued on the facility utilised; or (ii) for whatever reasons, the trade receivables, as they fall due, are insufficient to cover the facility utilised (together with the interest accrued) by the Company, the Company may be required to repay to Shanghai Pudong Development Bank all the facility utilised by the Company together with the interest accrued or, as the case may be, the difference between the facility utilised by the Company and the trade receivables which have become due. In such event, the financial position of the Company may be adversely affected. According to the terms of the Factoring Agreement, if the Company does not have the financial resources to repay the facility utilised by it, Shanghai Pudong Development Bank has the right to, among other things, terminate the revolving facility granted to the Company under the Factoring Agreement and to take legal action against the Company. As advised by Jingtian & Gongcheng, according to the Contract Law of the People's Republic of China (中華人民共和國合同法), if the Company refuses to perform the contract, Shanghai Pudong Development Bank can initiate proceedings in the People's Court in the PRC. Further, if the Company is found by the court to be in default, it may be required to repay the principal, interests and damages (違約金) (which is equivalent to an amount calculated on the outstanding principal and accured interest, multiplied by the default interest rate as set by PBOC) to the Shanghai Pudong Development Bank and to bear the legal fees if it loses in the proceedings. According to the Directors, there is no default in repayment by the Company under the factoring agreement during the Track Record Period.

Risk involved in the discounting of bills of exchange

Pursuant to a discounting agreement dated 29 May 2003 ("Discounting Agreement") entered into between the Company and Shanghai Pudong Development Bank, bills of exchange issued by UTStarcom, members of China Mobile Group and China Unicom Group could be discounted to the Shanghai Pudong Development Bank with recourse. Pursuant to a document issued by Shanghai Pudong Development Bank dated 11 August 2003, the maximum amount of the standby facility of discounting bills and pledging of trade receivables is RMB65 million. As at 31 August 2003, the amount of bills discounted under the Discounting Agreement with recourse was RMB32.5 million.

When a bill is due for payment, Shanghai Pudong Development Bank will present the bill to issuers such as UTStarcom, members of China Mobile Group and China Unicom Group for payment. In the event that the issuer fails to honour the bill when due, Shanghai Pudong Development Bank is entitled to claim against the Company. If the amount due is still not fully settled, the Shanghai Pudong Development Bank is entitled to, among other things, bring legal proceedings against the Company for the outstanding amount and/or the compound interest calculated on the outstanding amount at the default interest rate set by PBOC. In such event, the financial position of the Company may be adversely affected. According to the Directors, there was no default payment by any customers whose bills of exchange were discounted during the Track Record Period.

Dividend policy

During each of the two years ended 31 December 2002 and the five months ended 31 May 2003, the Company declared dividends of nil, RMB15 million and nil respectively. Dividends declared during the year ended 31 December 2002 were recommended by the Board and approved in the annual general meeting based on the fact that the Company had not declared a dividend since 31 December 2000 and the net profit of the Company for the year ended 31 December 2001 amounted to approximately RMB19.6 million. The dividend was paid in September 2003. The Board resolved that the payment of dividends would depend upon, among other things, the Company's business and operating results, capital requirements and surplus from its operations, cash flow, general financial conditions, contractual restrictions and such other factors as the Board may deem relevant.

There is no assurance that dividend payment will continue in the future or that the rate of dividend payment, if any, will be similar to the dividends declared and paid in the past. Potential investors should be aware that the past dividend payment should not be used as a reference or the basis upon which the Company's dividend policy are determined.

Reliance on senior management and core technology team

The Company has positioned itself as a high-technology enterprise. Its success is attributable to, among other things, the contribution and continuous service and performance of the Company's senior management team (including the executive Directors) and its core technology team. The core technology team researched the PHS antenna system and the GSM/CDMA antenna systems in the past, the standard of which was certified by the Science and Technology Committee of Shaanxi Province (陝西省科學技術委員會) in August 2000. Each member of the senior management team (including the executive Directors) and core technology team has entered into a service contract or employment contract with the Company for a fixed term of one to 15 years commencing from the date of their respective employment. However, there is no assurance that the Company is able to retain such members or recruit competent successor(s) if any member of the Company's senior management team and core technology team leaves the Company. The unanticipated departure of any member of the Company's senior management team and core technology team without immediate and adequate replacement or the inability to recruit competent successor(s) could have a material adverse effect on the Company's business.

Seasonal fluctuation

The Company mainly sells it products to mobile communication network operators such as China Mobile Group and China Unicom Group and mobile communication system integrators such as UTStarcom and Lucent Qingdao. The volume of orders the Company received are affected by network construction plans of the end customers, i.e. mobile communication network operators or mobile communication system integrators. Since invitations for tender of base station antennas and feeder systems are usually made in the second half of a year, the Company's sales experience a slight seasonal fluctuation with generally less sales during the first half of a year and a greater amount of sales in the second half of a year. For each of the two years ended 31 December 2002, turnover for the first half of the year amounted to approximately RMB29.3 million and RMB37.5 million respectively, representing 39.1% and 22.8% of the total turnover of the Company for the respective year, and the turnover for the second half of the year amounted to approximately RMB45.6 million and RMB127.1 million respectively, representing approximately 60.9% and 77.2% of the turnover of the Company for the respective year. In the event that mobile communication network operators or mobile communication system integrators do not have any new end-customers network construction plans or other business plans or approve their business plans at a late stage during any financial year, the financial performance of the Company may be adversely affected.

Intellectual property rights

The success of the Company depends, to a certain extent, on whether it is able to obtain and enforce patent protection for its products and processes. As at the Latest Practicable Date, the Company had submitted in the PRC 15 patent applications in respect of its products/technologies, three of which were being processed and 12 of which were granted patent certificates by the State Intellectual Property Office of PRC. The turnover attributable to the patented products for each of the two years ended 31 December 2002 and the five months ended 31 May 2003 were approximately 12.9%, 10.8% and 4.3% respectively. Brief details are set out in the paragraph headed "Intellectual property right – Patent rights in PRC" in appendix VI to this prospectus. No assurance can be given as to when, if at all, patent registration may be approved for the applications pending processing or that the patents granted will be sufficiently broad in their scope to provide protection and exclude competitors with similar products. Even when granted, the patents may still be susceptible to revocation or disputes raised by third parties. Furthermore, the grant of a patent does not necessarily confer an exclusive right on the Company to utilise that patent. According to Article 49 of the Patent Law of the PRC, in the case of emergency or exceptional circumstances or for the purpose of public interests, the Patent Administrative Department of the State Council (國務院專利行政部門) can grant a mandatory permission for the use of invention patent or new utility model patent. Since there is no interpretation of the terms "emergency" and "exceptional circumstances" under the Patent Law of the PRC, the implementation rules and the effective legislations of the PRC, their interpretation and application shall be determined by the relevant patent authorities. As at the Latest Practicable Date, Jingtian & Gongcheng was not aware of any mandatory permission for the use of invention patent or new practical patent being granted by the patent authorities.

According to the Patent Law of the PRC, where the Company refuses to sign any licence agreement in relation to the use of its patents with any entity or individual which makes a reasonable request and which has the requisite implementation resources, an application may be made by that entity or person for the granting of the mandatory permission for the use of the Company's patents. However, the applicant shall provide evidence to explain why it cannot obtain the licence to use the relevant patent from the patent registrant. At the same time, the applicant who has been granted the mandatory permission for the use of a patent is required to pay a reasonable fee to the patent registrant. The fee so payable is to be agreed by the relevant parties. If no agreement can be reached, a determination will be made by the Patent Administrative Department of the State Council. The applicant who is granted the mandatory permission does not enjoy an exclusive right to use the relevant patent and has no right to allow other parties to use the relevant patent.

The strength of the Company's patent portfolio is therefore uncertain. In addition, competitors may be able to design around the Company's patents. The extent to which the Company may be able to enforce its patent rights is also uncertain.

The Company has not filed patent applications for every aspect of its research processes and methods such as applying the existing simulation technologies in research which underlie the production of the Company's products and which may be proprietary. There is no assurance that no other party is developing similar products or using the same or similar processes and methods more efficiently than the Company, or that no other party has obtained or will obtain patents for such products, processes and methods which may be broader in scope, and which would affect the Company's ability to protect its intellectual property rights or would constrain the Company's proposed activities.

In addition, it is not possible to determine with certainty whether there are any conflicting third party rights which may affect the Company's current or future commercial strategy. The commercial success of the Company depends significantly on whether it is able to operate without infringing the patents and other proprietary rights of third parties. The processes and methods used by the Company itself may infringe the patents or violate other proprietary rights of third parties. Besides, the Company may be exposed to risks of third party claims arising from the previous business activities of the Company's technical experts in its research and/or production divisions or entities and may become involved in litigation relating to such claims. If any strategic alliance or technology partner of the Company is subject to any dispute or litigation to such claims, the business operations and/or prospects of the Company may also be adversely affected. There is no assurance that the Company will not become involved in costly and time-consuming litigation, or that third parties owning such patents or other proprietary rights will not obtain injunctions against the Company.

Terms of lease agreements

The Company currently leases 10 premises which are being used as sale offices, staff quarters or warehouses. The term of such lease agreements range from one to three years. Among such 10 premises, five are leased for a term of one year. Among these five premises, three are used as staff quarters, one is used as office and the remaining is used as warehouse. The warehouse under one year lease term is the one used for transitional products storage immediately before they are delivered to customers. For further details of such lease agreements, please refer to the property valuation report in appendix II to this prospectus.

In the event that any of the landlords refuses to renew the relevant lease agreement with the Company upon its expiration, the Company will be required to relocate to other suitable location and has to incur relocation expenses. The Company's operation may also be adversely affected as a result.

Product liability

For products under the WLL/PHS base station antenna series, the Company will, if so agreed under the relevant contract, generally provide a 3-year or 5-year product warranty to its customers from the date of delivery. For products under the GSM/CDMA antenna series, the Company, if so agreed under the relevant contracts, provides a maximum period of 15-year after-sale service to its customers, which includes a 6-year product warranty from the date of completion of the final testing. If a product subject to product warranty is found to be defective due to craftsmanship, the Company will provide free repair services to its customers and if such product cannot be repaired, the Company will replace it with a new one. Repair and maintenance services are charged to the Company's customers on a cost basis.

For products of the GSM/CDMA antenna series which are subject to the 15-year after-sale services warranty, the Company will provide after-sale services on a cost basis. If the proportion of defective products is high, the maintenance and repair costs which cannot be recovered from its customers may increase and may adversely affect the financial performance of the Company. Since the establishment of the Company, the percentage of replacements goods to the Company's annual turnover has amounted to no more than 1% and the Company has not received any claim for compensation. The Directors expect that the costs incurred in respect of product warranties will not be significant every year.

The Company may also face claims arising from defective products. Any claim brought against the Company may have an adverse effect on the reputation of the Company and its business. At present, the Company has not effected any insurance against product liability, defective products or third party liability. Any successful claims against the Company arising from defective products or sub-standard services may affect the profitability of the Company. Even if such insurance is effected, there is no assurance that the coverage will be sufficient.

Potential tax liabilities

The Company is generally subject to enterprise income tax at the rate of 33% calculated on its taxable income. As the Company has been recognised as a high and new technology enterprise, it is entitled under 財政部－國家稅務總局關於企業所得稅若干優惠政策的通知（94財稅字第001號）(Notice issued by Ministry of Finance and the State Tax Bureau on Preferential Policy applicable to Enterprise Income Tax (94 CSZ No. 001)) to the preferential policy of being exempted from enterprise income tax for the two financial years ended 31 December 2001, and thereafter subject to a reduced enterprise income tax rate of 15% calculated on its taxable income. However, there is no assurance that the Company can continue to enjoy such preferential treatment. The loss of the Company's status as a high and new technology enterprise or any change of the preferential treatment may increase the tax liabilities of the Company and thus adversely affect the Company's profitability.

Electricity supply

The Company is principally engaged in the research and development, manufacture and sale of base station antennas and related products. Its operations depend significantly on a stable and reliable supply of electricity. Occasional suspension of electricity supply may occur in different areas in the Xi'an Municipality. Since the relocation of the Company to the current address in January 2002, the Company has experienced four days of suspension of electricity supply on 31 July, 2 August, 14 August and 15 August 2002, each of which lasted from about one hour to about eight hours, and as a result of which production operations were suspended for a session in the afternoon on one occasion on 15 August 2002 and for a whole day in another occasion on 2 August 2002. There was also a 5-hour suspension of electricity supply on 20 August 2003 for electricity network testing in the Xi'an National Hi-tech Industrial Development Zone, as a result of which production operations were suspended for a whole day. Under such circumstances, the Company had to shift production schedule to the weekend immediately before and/or after the days in which electricity supply were suspended, in order to reduce the impact of such suspension to the business operation of the Company. In the event that the suspension of electricity supply occurs again or happens more often and/or sustains for a longer period, the operation and, thus, the profitability of the Company may be adversely affected.

Reliance on suppliers

For the two years ended 31 December 2002 and the five months ended 31 May 2003, the top five suppliers of the Company accounted for approximately 36.6%, 36.0% and 99.0% of the Company's total purchases respectively. During the same years/period, purchases from the largest supplier of the Company, namely Andrew Telecommunications (China) Co., Ltd. for the year ended 31 December 2001,西安海亞實業有限責任公司(Xi'an Haiya Industrial Company Limited) for the year ended 31 December 2002 and the five months ended 31 May 2003, accounted for approximately 11.7%, 10.5% and 51.2% of the Company's total purchases respectively. Since the sales of WLL/PHS base station antenna series accounted for approximately 65.2% of the turnover of the Company for the five months ended 31 May 2003 and the Company subcontracted a substantial part of the production process of WLL/PHS base station antenna series, percentage of purchase from the largest supplier, Xi'an Haiya Industrial Company Limited, as well as the top five suppliers increased substantially during the five months ended 31 May 2003. All of the five largest suppliers of the Company during the Track Record Period are Independent Third Parties.

A typical base station antenna system comprises the following main parts and components: metal backplane (skeleton) and dipoles unit; feeding network of co-axial wires; co-axial RF connector; encapsulation cases (antenna shade) and mounting devices. The interior copper wires of the co-axial wires, co-axial RF connector and mounting devices of the feeding network are common products which may be sourced readily from the market.

In relation to base station antennas, the metal backplane, dipoles unit, co-axial RF connector and mounting devices required by the Company for its production have to conform to particular specifications and are usually ordered from six designated suppliers during the Track Record Period. Designated suppliers are suppliers to whom the Company places orders frequently and the products supplied are specifically designed and produced for the Company. The designated suppliers usually keep moulds or fixture specially manufactured for the production of the parts of the Company's products. The moulds for production of the requisite metal backplane, dipoles and mounting devices of the base station antennas are owned by the Company. The Company has not entered into any long term supply arrangement with any of the said suppliers. For each of the two years ended 31 December 2002 and the five months ended 31 May 2003, two, four and five of the top five suppliers were designated suppliers of the Company. If any of such suppliers ceases production or ceases to supply the relevant parts or components to the Company and if appropriate replacement suppliers cannot be appointed in due course and at the same level of costs, the production plans and operations and/or profitability of the Company may be adversely affected.

Renewal of Network Access Licence

The Company is principally engaged in the research and development, manufacture and sale of base station antenna and related products. The PRC implements a Network Access Licence system for access to public telecommunications networks by certain prescribed types of telecommunications terminal equipment, wireless communications equipment and equipment involving interconnections between networks. For details of the Network Access Licence system, please refer to the section headed "Relevant laws and regulations of the PRC relating to the industry and the Company" in this prospectus. The sales of the Company's indoor distribution system series amounted to approximately 13.1% and 5.8% of the turnover for the year ended 31 December 2002 and the five months ended 31 May 2003 respectively. Among such sales, part of such revenue is generated from the sale of products which are subject to the regulations of the Network Access Licence system. The Company has obtained the relevant Network Access Licence for its products which are subject to the Network Access Licence system, namely, GSM digital cellular repeater (model no.: HTZF-900), the expiry date of which is 21 August 2004, and CDMA trunk amplifier (model no.: HTZF-880GIII), the expiry date of which is 23 September 2005. The Network Access Licences granted are generally valid for a term of three years and the Company is required to apply for the renewal of the respective Network Access Licence as and when they expire. If the Company fails to renew its Network Access Licence or the relevant authority revokes or refuses to renew the Company's Network Access Licence, the products of the Company which are subject to the Network Access Licence cannot be sold and hence the profitability of the Company may be adversely affected.

Reliance on the production facilities in the PRC

Most of the products distributed by the Company are manufactured at its own production facilities located at No. 36 Gao Xin Liu Road, Xi'an National Hi-tech Industrial Development Zone, Xi'an, Shaanxi Province, the PRC and none are manufactured at its rented properties. Should there be any unexpected events such as power loss, riots, fire, flood or other acts of God occurring in the above premises and if the Company is unable to find alternative premises to relocate its production facilities within a short period of time, the Company's operations and profitability will be adversely affected.

No assurance on achievement of business objectives

This prospectus contains a paragraph headed "Implementation plan" in the section headed "Statement of business objectives and strategies" which sets out various development plans of the Company for the Forward Looking Period. These business objectives are based on the assumptions that certain circumstances may or may not occur, as set out in the paragraph headed "Bases and assumptions" in the section headed "Statement of business objectives and strategies" of this prospectus. Such assumptions may or may not accord with the real circumstances in the future and, thus, there is no assurance that the business objectives are definitely achievable. There is an inherent risk in relying on these business objectives which may or may not be achieved by the Company.

Possible side effects resulting from the usage of mobile phones

There has been increasing concern on whether mobile phones may pose a health danger, including whether they will increase the risk of brain cancer or genetic mutations. As at the Latest Practicable Date, there was no conclusive evidence to show that radiation from mobile phones will pose a significant health risk, nor was there proof that mobile phones are risk-free. In the event that any research result shows or the public at large believe that radiation from mobile phones will pose a significant health risk, the demand for mobile phones may be reduced, which in turn may affect the operating environment and profitability of the Company.

Delayed set up of the Housing Fund

On 3 April 1999, the State Council promulgated the "住房公積金管理條例" (Regulation on Management of Housing Fund) pursuant to which the housing fund system (the "Housing Fund") is implemented countrywide. On 9 May 2000, Shaanxi Provincial People's Government published the ""關於印發貫徹國務院住房公積金管理條例" 實施意見的通知" (Notice regarding the Publication of Implementation Opinion of Regulation on Management of Housing Fund) pursuant to which the Housing Fund is implemented in Shaanxi province, where the Company is located. Although the Housing Fund has been set up by the Company on 10 October 2003, retrospective contribution to the Housing Fund since the effective date of 9 May 2000 may be required and a penalty for the delayed setup of the Housing Fund may be imposed on the Company. The retrospective contribution to the Housing Fund for its employees from the said effective date since its implementation may amount to not more than RMB400,000 as estimated by the Directors. In addition, the Company may be subject to a penalty ranging from RMB10,000 to RMB50,000 for the delayed setup of the Housing Fund. By a deed of indemnity dated 17 October 2003, Professor Xiao has undertaken to indemnify the Company to the extent of RMB450,000 in respect of the losses and damages which the Company may suffer in connection with its failure to comply with the provisions under the Housing Fund. In the event that the aggregate amount of the retrospective contribution to the Housing Fund and penalty for delayed setup of Housing Fund is more than RMB450,000, the financial position of the Company may be adversely affected should payment of such amount be required.

Environmental liability exposure

The research and development and manufacturing processes of the products of the Company are subject to certain regulations and guidelines of the relevant PRC authorities and the Company is not in violation of any environmental laws, regulations or guidelines in the PRC such as Environmental Protection Law of the PRC (中華人民共和國環境保護法), Law on Evaluation of Effects on Environment of the PRC (中華人民共和國環境影響評價法), Regulations Concerning Environmental Protection of Building Projects (建設項目環境保護管理條例), Rulings on Certain Issues of Environmental Protection of the State Council (Guo Fa [1996] No. 31) (國務院關於環境保護若干問題的決定(國發[1996] 31號) and Directory of Classified Management on Environmental Protection of Building Projects (建設項目環境保護分類管理目錄). There may be changes to the laws, regulations and/or guidelines introduced by relevant PRC authorities in relation to the environmental standards in the PRC. However, there is no assurance that the Company is able to abide with any new or amended laws, regulations and/or guidelines, in which case, the operation of the Company may be adversely affected.

RISKS RELATING TO THE INDUSTRY

Competition

The mobile communication industry of the PRC was developed relatively late as compared with that of the U.S., Canada, Sweden and Finland. Prior to 2001, the PRC base station antenna sector was predominated by mobile communication equipment vendors based in such countries. Due to the technological edge enjoyed by these vendors, the Company faces considerable competition from them. The Company also faces competition from local mobile communication equipment vendors mainly in terms of pricing. There is no assurance that the Company is able to maintain its market share. If competition intensifies in the future, the financial performance of the Company may be adversely affected.

Institutional structure of the mobile communication sector in the PRC

At present, the two major mobile communication network operators in the PRC are China Mobile Group and China Unicom Group. For the two years ended 31 December 2002 and the five months ended 31 May 2003, the amount of products sold by the Company to China Mobile Group were approximately RMB23.0 million, RMB31.3 million and RMB7.0 million respectively, representing approximately 30.8%, 19.0% and 8.8% of the total turnover for the two years ended 31 December 2002 and the five months ended 31 May 2003 respectively. During the same periods, the amount of products sold to China Unicom Group were approximately RMB7.3 million, RMB60.0 million and RMB16.6 million respectively, representing approximately 9.8%, 36.5% and 20.9% of the total turnover for the two years ended 31 December 2002 and the five months ended 31 May 2003 respectively. Wireless communication is also provided by the China Telecom Group and China Netcom indirectly through the PAS system. If the PRC Government changes the institutional structure of the telecommunication industry or mobile communication sector or allows direct foreign investment in such sector, competition may intensify and such network operators may adopt a more stringent procurement policy. If the amount spent on the construction or improvement of base stations reduces and/or the requirements on the quality of the base station antennas become more demanding such that the Company's production costs increase disproportionately, the performance of the Company may be adversely affected.

Product substitution

The PHS/WLL base station antenna, GSM/CDMA antenna and indoor distribution system series currently produced by the Company are basic generic equipment in the mobile communication network. They can be substituted by products with similar functions produced by other manufacturers.

New inventions and developments in the base station antenna technology and other communication technology are expected to continue at a rapid pace. It is difficult to predict the effect of future technological changes, inventions and developments on the viability or competitiveness of the Company's products. It is essential for the Company to respond to these changes by developing new products in a timely manner to meet technological advances in the market. The Company may have to adopt and modify development methods, processes and programmes in response to new technologies and discoveries. The failure of the Company to respond in a timely manner to changing technologies and new discoveries may have a material adverse impact on the Company's performance.

RISKS RELATING TO THE PRC

As all of the Company's production facilities are located in the PRC and over 90% of the Company's turnover during the Track Record Period is attributable to domestic customers, the Company's results of operations and financial position are therefore subject, to a significant degree, to the economic, political and legal developments in the PRC.

PRC's admission as a member of the WTO

The PRC became an official member of the WTO on 11 December 2001. Its accession to the WTO is expected to result in the PRC experiencing a higher level of competition in all of its markets and industries. The PRC Government has, on various occasions from 1997 to 1999, reduced import tariffs on a wide range of products. The Directors believe that this process towards the general opening up of the PRC market is likely to continue and may result in further reduction or abolition of import tariffs on various products. Any further reduction in the amount of import tariff payable in respect of imported products similar to those produced by the Company may intensify competition.

Political and economic policies of the PRC

Prior to its adoption of reform and open-door policies in 1978, China adopted a planned economic system. Since that time, the State has been reforming its economic system, and has also begun reforming the government structure in recent years. These reforms have resulted in significant economic growth and social advancement. Although the State still owns a significant portion of the productive assets in China, economic reform policies since the late 1970s have emphasised autonomous enterprises and the utilisation of market mechanisms. There is, however, no assurance that such reforms will continue to, or even if continued will, have a positive effect on the Company's business or development.

Currency conversion and foreign exchange

The Renminbi currently is not a freely convertible currency. A portion of the Company's Renminbi revenues or profit must be converted into other currencies to meet foreign currency obligations of the Company such as (after its listing on GEM) the payment of dividends, if declared.

Under the existing foreign exchange regulations in China, following the completion of the Placing, the Company may effect current account foreign exchange transactions, including the payment of dividend, without prior approval from the SAFE by producing commercial documents evidencing such transactions, provided that they are processed through PRC banks licensed to engage in foreign exchange transactions. The State has stated publicly that it intends to make Renminbi freely convertible in the future. However, uncertainty exists as to whether the State may restrict access to foreign currency for current account transactions if foreign currency becomes scarce in the PRC.

Foreign exchange transactions under the capital account, including principal payments in respect of foreign currency-denominated obligations, continue to be subject to limitations and require the prior approval of the SAFE. These limitations could affect the Company's ability to obtain foreign exchange through debt financing, or to obtain foreign exchange for capital expenditures.

Impact of fluctuation of Renminbi conversion rate on the value of and dividend payable on H Shares

The value of the Renminbi is subject to changes in the State's policies and depends to a large extent on China's domestic and international economic and political developments, as well as supply and demand in the local market. Since 1994, the official exchange rate for the conversion of Renminbi to U.S. dollars has generally been stable, and Renminbi has appreciated slightly against the U.S. dollar. However, given the economic instability and currency fluctuations in Asia in recent years, there is no assurance that the value of the Renminbi will continue to remain stable against the U.S. dollar or any other foreign currency. Any devaluation of the Renminbi may adversely affect the value of, and dividend payable on, the H Shares in foreign currency since the Company will receive substantial portion of its revenues and express its profits in Renminbi.

Different regulatory framework

Interpretation and enforcement of PRC laws and regulations

The PRC legal system is based on statutory law. Under this system, prior court decisions may be cited as persuasive authority but do not have binding precedential effect. Since 1979, the State has been developing a comprehensive system of commercial laws and considerable progress has been made in the promulgation of laws and regulations dealing with economic matters, such as corporate organisation and governance, foreign investment, commerce, contracts, taxation and trade. As these laws, regulations and legal requirements are relatively new and because of the limited volume of published case law and judicial interpretations and the non-binding nature of prior court decisions, the interpretation and enforcement of these laws, regulations and legal requirements involve some uncertainty.

Shareholders rights and protection

As a joint stock limited company incorporated in the PRC, the Company is subject to the Company Law. As a PRC company offering and listing its shares outside the PRC, the Company is subject to the Special Regulations and the Mandatory Provisions. The Mandatory Provisions contain certain provisions that are required to be included in the articles of association of PRC companies to be listed abroad and are intended to regulate the internal affairs of those companies. The Company Law and the Special Regulations, in general, and provisions for the protection of shareholders' rights and access to information, in particular, are different from those applicable to companies incorporated in Hong Kong, the United Kingdom, the U.S. and other developed countries or regions.

The Company Law is different in certain important aspects from the companies laws in Hong Kong, the U.S. and other common law countries or regions, particularly with regard to shareholders' protection, including such areas as derivative actions to be taken by minority shareholders and other minority protections, restrictions on directors, financial disclosure, variations of class rights, procedures at general meeting and payments of dividends.

The limited nature of investor protection under the Company Law is compensated for, to a certain extent, by the introduction of the Mandatory Provisions and certain additional requirements that are imposed by the GEM Listing Rules with a view to reduce the scope of differences between Hong Kong company law and the Company Law. The Mandatory Provisions and these additional requirements must be included in the articles of association of all PRC companies applying for listing in Hong Kong. The Articles of Association have incorporated the provisions required by the Mandatory Provisions, Special Regulations and the GEM Listing Rules. Despite such incorporation, there can be no assurance that shareholders of the Company will enjoy the protection that they may be entitled to in other jurisdictions.

Securities laws and regulations

At present, the regulatory framework for the securities industry in the PRC is (as compared with other developed countries such as the U.S. or the United Kingdom) at an early stage of development. The CSRC is responsible for administering and regulating the national securities markets and drafting relevant regulations for the regulation of the national securities markets. Regulations of the State Council and the relevant implementing measures of the CSRC apply to listed companies in general without being confined to companies listed on any particular stock exchange. Accordingly, it is possible that those provisions may be applicable to a joint stock company with limited liability with shares listed on a stock exchange outside the PRC, such as the Company.

On 1 July 1999, the PRC Securities Law became effective. The PRC Securities Law is the fundamental legislation regulating comprehensively the securities markets in the PRC and applies to the issuance and trading in the PRC of shares, corporate bonds and other securities so designated by the State Council or according to law. The Company Law, the rules and regulations recently promulgated thereunder and laws relating to PRC companies whose shares are offered overseas provide, to a certain extent, a legal framework governing the corporate behaviour of companies, such as the Company, and their directors and shareholders.

Exemption from withholding tax on dividends and capital gains tax currently available to holders of H Shares

Under the current PRC tax laws, regulations and rulings, dividends paid by the Company to holders of H Shares who are foreign individuals not resident in the PRC or which are foreign enterprises with no permanent establishment in the PRC are not subject to PRC withholding tax. In addition, gains realised by individuals or enterprises upon the sale or other disposition of H Shares are not currently subject to PRC capital gains tax. There can be no assurance, however, that withholding or capital gains taxes will not become applicable to those dividends or gains in the future. In such event, holders of H Shares could become subject to a withholding tax on dividends, which is currently imposed at the rate of 20%, or to a capital gains tax, which is currently imposed at the rate of 20%, unless reduced or eliminated by an applicable taxation treaty between the PRC and the country in which such foreign individual or enterprise resides.

Settlement of dispute between the Company and holders of H Shares by way of arbitration

The Articles of Association require a holder of H Shares having a claim against or a dispute with the Company, a director, a supervisor or an officer or a holder of the Domestic Shares relating to any rights or obligations conferred or imposed by the Articles of Association, the Company Law or any other PRC laws or administrative regulations and relating to the affairs of the Company, to submit the dispute or claim to the China International Economic and Trade Arbitration Commission or to the Hong Kong International Arbitration Centre for arbitration. The Articles of Association further provide that the award of the arbitral body shall be final and binding on all parties.

The PRC is a signatory to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the “New York Convention”) which has historically permitted reciprocal enforcement in the PRC of awards of arbitral bodies located in other New York Convention signatory countries. Following the resumption of sovereignty over Hong Kong by the PRC on 1 July 1997, the New York Convention no longer applies to the enforcement of Hong Kong arbitration awards in other parts of the PRC. In June 1999, an arrangement was made between Hong Kong and the PRC for the mutual enforcement of arbitration awards. This new arrangement was approved by the Supreme Court of the PRC and the Hong Kong Legislative Council, and became effective in February 2000. Under the Arbitration Ordinance (Chapter 341 of the Laws of Hong Kong), an arbitral award made by a recognised PRC arbitral body in accordance with the Arbitration Law of the PRC is enforceable in Hong Kong.

RISKS RELATING TO CERTAIN STATEMENTS IN THIS PROSPECTUS

Reliability of statistics

Certain statistics in this prospectus relating to the general market and industry of mobile communication, base station antennas and related products are derived from various publications. The statistics have not been independently verified by the Company. There is also no assurance that such statistical information is inherently consistent or is consistent with other information compiled by other organisations.

Forward-looking statements contained in this prospectus

Included in this prospectus are various forward-looking statements which can be identified by the use of forward looking terminology such as “may”, “will”, “expect”, “anticipate”, “estimate”, “continue”, “believe” and other similar words. The Company and the Directors have made forward-looking statements with respect to the following, among other things:

– the Company’s strategies to achieve its business objective; and

– the expected growth of the market and industry of mobile communication and base station antennas and related products.

Such forward-looking statements involve known and unknown risks, uncertainty and other factors which may cause the actual results, performance or achievements of the Company, or industry results to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on assumptions regarding the Company’s present and future business strategies and the environment in which the Company will operate in the future. Important factors that could cause the Company’s actual results, performance or achievements to differ materially from those in the forward-looking statements include, among others, increasing level of competition in the industry in which the Company operates, the loss of key personnel of the Company, changes relating to the market and industry of mobile communication, base station antennas and related products, and changes in general economic and business conditions. Additional factors that could cause actual results, performance or achievements to differ materially include, but are not limited to, those discussed above in this section. These forward-looking statements were made as of the Latest Practicable Date.

RISKS RELATING TO THE PLACING

The liquidity and market price of the H Shares following the Placing may be volatile

An active trading market for the H Shares may not develop and the trading price for the H Shares may fluctuate significantly. Prior to the Placing, there has been no public market for any of the H Shares. The Placing Price will be determined by negotiation between CPY International (on behalf of the Placing Underwriters) and the Company (for itself and on behalf of the Vendors). This price may not be indicative of the price at which the H Shares will trade following the completion of the Placing. According to the PRC legal advisers to the Company, under PRC laws, no transfer of H Shares is allowed in the PRC unless such transfer is effected through public stock markets outside the PRC, such as the Stock Exchange. In addition, there can be no guarantee that an active trading market for the H Shares will develop, or, if it does develop, that it will be sustained following the completion of the Placing, or that the market price of the H Shares will not decline below the Placing Price.

The trading price of the H Shares could also be subject to significant volatility in response to other factors.