

**HISTORY AND DEVELOPMENT**

Professor Xiao, a Director, began his career at the sixth department (currently the electronic engineering college of Xidian University) and the antenna development centre of the College of Northwest Telecommunication Engineering (西北電訊工程學院) (now known as Xidian University) after he graduated from Zhangjiakou PLA Communication Engineering College (張家口解放軍通訊工程學院) (now known as Xidian University) with a degree in radio engineering in 1957. He took positions as tutor, lecturer, associate professor, professor and dean in the same university. During such period, he was principally engaged in the theoretical study of scattering electromagnetic wave.

After retiring from Xidian University in January 1998, Professor Xiao began to engage in the research and development of base station antennas for public network of mobile communication systems in the commercial field.

Professor Xiao, using his own capital of RMB400,000, and his son, Mr. Xiao Bing, who is a Director, founded Xi'an Haitian Communications on 13 October 1999 with a registered capital of RMB1 million held as to 40% and 60% by Professor Xiao and Mr. Xiao Bing respectively. Mr. Xiao Bing was the sole director and manager of Xi'an Haitian Communications at that time. The principal business of Xi'an Haitian Communications was the research and development, manufacture and sale of base station antennas and related products.

By an agreement dated 1 December 1999 between Mr. Xiao Bing and his mother, Mrs. Xiao Yao Wen Li, Mr. Xiao Bing transferred his entire interest in Xi'an Haitian Communications, being RMB600,000 in the registered capital of Xi'an Haitian Communications, to Mrs. Xiao Yao Wen Li at a consideration of RMB600,000 based on the book value of the 60% equity interest in Xi'an Haitian Communications. After the transfer, Mr. Xiao Bing ceased to be a beneficial owner of Xi'an Haitian Communications. The beneficial owners of Xi'an Haitian Communications then became Professor Xiao and Mrs. Xiao Yao Wen Li. On the same day, Mr. Xiao Bing ceased to be the sole director and manager of Xi'an Haitian Communications and Mrs. Xiao Yao Wen Li was appointed as the sole executive director and manager and responsible for the general management of Xi'an Haitian Communications. The above changes were registered with the Xi'an Municipal Administration of Industry and Commerce on 7 January 2000. At the shareholders' meeting of Xi'an Haitian Communications held on 10 January 2000, a resolution was passed pursuant to which Mrs. Xiao Yao Wen Li was appointed as the senior consultant of Xi'an Haitian Communications and at the same time, Mrs. Xiao Yao Wen Li had authorised Professor Xiao to act as the executive director and manager of Xi'an Haitian Communications and Mr. Xiao Bing as the deputy manager. Mrs. Xiao Yao Wen Li remained to be the sole executive director of Xi'an Haitian Communications until July 2000, when Professor Xiao was formally appointed as the sole executive director by a resolution passed at the then shareholders' meeting of Xi'an Haitian Communications on 3 July 2000. Mrs. Xiao Yao Wen Li ceased to be a director and manager of Xi'an Haitian Communications with effect from 3 July 2000.

In October 1999, Professor Xiao led a group of retired experts and technicians and developed base station antennas. Two advanced proprietary technologies, namely, WLL/PHS base station antennas and the GSM/CDMA antennas system, were developed by Professor Xiao and certified as a scientific technology achievement by the Science and Technology Committee of Shaanxi Province (陝西省科學技術委員會) in August 2000. In 2000, Xi'an Haitian Communications was able to achieve sales which amounted to approximately RMB25 million in the PHS antenna market which was then dominated by foreign or foreign-invested mobile communication equipment vendors/system integrators.

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On 3 July 2000, as an initial step to increase the shareholder base of Xi'an Haitian Communications, Professor Xiao transferred to the first and the second transferees below such portion of his shareholdings in Xi'an Haitian Communications representing in aggregate 4% of the registered capital in Xi'an Haitian Communications, while Mrs. Xiao Yao Wen Li transferred to the third to the eighth transferees below such portion of her shareholdings in Xi'an Haitian Communications as set out in the second column below at the respective considerations set out in the third column below:

<b>Name of transferee</b>	<b>Percentage of registered capital acquired (%)</b>	<b>Consideration RMB</b>
Xi'an Zhengheng Investment	3.0	1,065,000
Shaanxi Mant	1.0	355,000
Xi'an Jiefang Group	20.0	6,200,000
XITIC	14.8	5,254,000
BJ Holdings	12.0	5,160,000
Shaanxi Silk	10.0	3,550,000
Mr. Wu	2.0	760,000
Mr. Chen	1.2	426,000
	<b>Total</b>	<b>64</b>
		<b>22,770,000</b>

The transfers and considerations were arrived from arm's length negotiations between the respective transferors and the respective transferees. Since each of such shareholders has its own view on the value of the Company after taking into account factors such as the net asset of the Company, the business carried on by the Company, the potential development of the business of the Company and the intangible asset injected by Professor Xiao to the Company, the basis of the consideration reached with each of such shareholders after negotiation is different. The above transfers were registered with the Xi'an Administration of Industry and Commerce on 1 August 2000. For details of each of the transferees, please refer to the paragraph headed "Corporate Structure" in this section of the Prospectus.

After the above transfers of shareholdings in July 2000, Mrs. Xiao Yao Wen Li ceased to be a shareholder of Xi'an Haitian Communications. The shareholders of Xi'an Haitian Communications were Professor Xiao, who was interested in 36.0% of the registered capital of Xi'an Haitian Communications at that time, and the above 8 transferees whose interests in the registered capital of Xi'an Haitian Communications at that time are set out in the second column of the above table respectively.

In July 2000, Professor Xiao became the sole executive Director of Xi'an Haitian Communications.

By a shareholders' resolution dated 3 August 2000, the registered capital of Xi'an Haitian Communications was increased from RMB1 million to RMB50 million through contribution by investors on a pro-rata basis for future development. Professor Xiao injected the technological know-how used for developing and manufacturing of WLL/PHS antennas and the base station antenna for GSM/CDMA mobile telecommunication system into the Company at a value of RMB10 million as part of his contribution to the increase in the registered capital. The increase in registered capital was registered with the Xi'an Administration of Industry and Commerce on 8 September 2000.

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On 11 October 2000, Xi'an Haitian Communications was converted into the Company with its shareholding structure as follows:

Name of Shareholder	Number of Domestic Shares of RMB1.00 each held	Percentage in registered capital
Professor Xiao	18,000,000	36.0%
Xi'an Jiefang Group	10,000,000	20.0%
XITIC	7,400,000	14.8%
BJ Holdings	6,000,000	12.0%
Shaanxi Silk	5,000,000	10.0%
Xi'an Zhengheng Investment	1,500,000	3.0%
Mr. Wu	1,000,000	2.0%
Mr. Chen	600,000	1.2%
Shaanxi Mant	500,000	1.0%
	<u>50,000,000</u>	<u>100.0%</u>

By using part of the proceeds raised through the Restructuring, the Company developed its new product line, namely the GSM/CDMA antenna system. As a result of such development, the Company was able to expand its product range. Prior to the implementation of the Technical Specifications of Base Station as the industry standard for domestically produced antennas, there were no technical specifications of base station antenna for domestic manufacturers to follow. The market was then predominated by foreign manufacturers. After the implementation of Technical Specifications of Base Station, domestic manufacturers were able to follow such specifications for producing GSM/CDMA antenna system. Hence, the Company was able to enter into the market of equipment for GSM/CDMA antenna system in the PRC. According to the "2002 Analysis Report on the PRC Mobile Telecommunication Equipment Market" (2002 年中國移動設備市場分析報告) compiled by Winfor Consulting, the Company ranked fourth in the market for base station antennas in the PRC in 2001, behind three foreign or foreign-invested mobile communication equipment vendors/system integrators. As confirmed by Jingtian & Gongcheng, some of the products manufactured and sold by the Company are obliged to meet the requirements of Technical Specification of Base Station. The State Supervisory and Test Center of Quality of Communication Navigation Device (國家通信導航設備質量監督檢驗中心) inspects the quality of the products of the Company on a random basis. According to the "Test Report" of such Center, with the narration of its senior management, none of the Company's products randomly inspected by such Center has failed to conform to the industrial standards up to the Latest Practicable Date.

By a shareholders' resolution dated 8 October 2000, Professor Xiao, Mr. Xiao Bing, Mr. Guo Weisheng, Mr. Luo Maosheng, Mr. Mi Yunping, Mr. Wang Quanfu, Mr. Liu Yongqiang, Mr. Li Wenqi, Mr. Zhou Tianyou, Mr. Gong Shuxi and Mr. Deng Yuanming were appointed as Directors, among whom Mr. Zhou Tianyou, Mr. Gong Shuxi and Mr. Deng Yuanming were independent non-executive Directors. Pursuant to the legal opinion issued by Jingtian & Gongcheng, Xi'an Haitian Communications was a legally established enterprise in effective subsistence. The procedures of equity transfers and capital increase were legal and effective and have complied with the Company Law and the requirements of the articles of association of Xi'an Haitian Communications. After the capital increase, Xi'an Haitian Communications was transformed into a joint stock limited company (namely, the Company) on 11 October 2000 with its net asset value being transformed into total equity at a ratio of 1:1. Accordingly, there is no question of whether the capital has been paid up. The procedures of establishing the Company by way of transforming Xi'an Haitian Communications have complied with the requirements (including procedural requirements) of the current PRC laws and regulations as well as certain relevant regulatory documents, thus there is no evidence indicating violation of PRC laws and regulations.

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On 17 June 2002, a resolution was passed by the Shareholders to sub-divide each Domestic Share of RMB1.00 into 10 Domestic Shares of RMB0.10 each. Such share subdivision was approved by the CSRC on 22 April 2003.

On 22 April 2003, the CSRC issued an approval document ZJGHZ: 2003 No. 13 (證監國合字(2003)13號) authorising the Company to issue the Company's H Shares for listing on GEM.

### *Shareholders of XITIC*

As at the Latest Practicable Date, XITIC was interested in 14.8% of the registered capital of the Company. The following briefly described some of the recent changes in the shareholders of XITIC:

西安海星現代科技股份有限公司 (Xi'an Seastar Modern-tech Co., Ltd.) ("Xi'an Seastar") used to be a shareholder of XITIC which was interested in approximately 14.0% of its registered capital. By an agreement dated 16 January 2003 entered into between Xi'an Seastar and 陝西保升國際投資有限公司 (Shaanxi Baosheng International Investment Company Limited) ("Baosheng"), Xi'an Seastar transferred its 14.0% equity interests in XITIC to Baosheng at a consideration of RMB43,890,000. After the transfer, Xi'an Seastar ceased to be a shareholder of XITIC and the equity interests of Baosheng in XITIC increased to approximately 34.3% of the registered capital of XITIC.

西安高新技術產業開發區創業服務中心 (Xi'an High New Technology Asset Development Service Centre) ("HNT Centre") used to be a shareholder of XITIC which was interested in approximately 1.7% of its registered capital. By an agreement dated 13 April 2000 entered into between HNT Centre and 西安高新技術產業開發區科技投資服務中心 (Xi'an National Hi-tech Industrial Development Zone Science and Technology Investment Service Centre) ("Zone STIS Centre"), HNT Centre transferred its 1.7% equity interests in XITIC to Zone STIS Centre at a consideration of RMB5,000,000. After the transfer, HNT Centre ceased to be a shareholder of XITIC and Zone STIS Centre became interested in approximately 1.7% of the registered capital of XITIC.

Xi'an Jiefang Group used to be a shareholder of XITIC which was interested in approximately 5.0% of its registered capital. By a shareholder's resolution of XITIC dated 23 February 2003, Xi'an Jiefang Group transferred its 5.0% equity interests in XITIC to 陝西百川興業投資有限公司 (Shaanxi Baichuan Xingye Investment Company Limited) ("Baichuan Investment") at a consideration of RMB16,500,000. After the transfer, Xi'an Jiefang Group ceased to be a shareholder of XITIC and Baichuan Investment became interested in approximately 5.0% of the registered capital of XITIC. According to the Directors, the above-mentioned considerations of each of the transfers of equity interest in XITIC were based on the net asset value of XITIC and after negotiation between the respective transferors and transferees.

The above transfers of equity interests were approved by the shareholders of XITIC on 23 February 2003 and the PBOC (Xi'an Branch) on 11 April 2003.

Xi'an Jiefang Group used to be a shareholder of Baichuan Investment which was interested in approximately 51% of its registered capital. By an agreement dated 15 May 2003 entered into between Xi'an Jiefang Group and 陝西眾興企業集團有限公司 (Shaanxi Zhongxing Enterprise Holdings Company Limited) ("Zhongxing Enterprise"), Xi'an Jiefang Group transferred its 51% equity interests in Baichuan Investment to Zhongxing Enterprise. After the transfer, Xi'an Jiefang Group ceased to be a shareholder of Baichuan Investment and Zhongxing Enterprise became interested in approximately 51% of the registered capital of Baichuan Investment.

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### MILESTONES

The Directors believe that the strategy of product divergence implemented by the Company has been the main reason for the Company's growth. Since the establishment of the Company in October 1999, the Company has gone through four principal stages of development:

- First stage: In 2000, the Company offered about 22 models of PHS antennas.
- Second stage: In October 2000, the Company was converted into a joint stock limited company and increased its registered capital from RMB1 million to RMB50 million. With the newly raised capital, the Company expanded its research and development capacity which enabled it to develop for bulk-production of its own GSM/CDMA antennas.
- Third stage: In 2001, as the competition in WLL/PHS base station antenna system market intensified, the Company shifted its focus to the GSM/CDMA antenna system market that was predominated by foreign or foreign-invested companies.
- Fourth stage: The Company commenced the launching of its new product line, the repeater and indoor distribution system series, in December 2001. In 2002, the Company strengthened its research and development capability by purchasing equipment for research and development of approximately RMB3.7 million and employing 42 additional research and development staff.

As at the Latest Practicable Date, the Company had three commercialised product lines:

	<b>Research and development commenced</b> ( <i>Note</i> )	<b>Trial production commenced</b>	<b>First launch date</b>
WLL/PHS base station antenna series	October 1999	November 1999	November 1999
GSM/CDMA antenna series	May 2000	August 2000	March 2001
Indoor distribution system series	May 2001	August 2001	December 2001

*Note:* Research and development for this purpose refers to the stage after the completion of the following: (i) relevant market research; (ii) preliminary design of the products; and (iii) making of the prototype.

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### STATEMENT OF ACTIVE BUSINESS PURSUITS

	For the period from 1 January 2001 to 31 December 2001	For the period from 1 January 2002 to 31 December 2002	For the period from 1 January 2003 to the Latest Practicable Date
<b>Corporate development</b>	<ul style="list-style-type: none"> <li>• In November 2000, the Company began its export business to Saudi Arabia through import/export agents. The Company was granted the foreign trade right by MOFTEC to conduct import and export business on 8 February 2001.</li> <li>• The Company's "GSM/CDMA-base station antenna" project was granted a financial support of RMB800,000 under the Small and Medium Enterprise Innovation Fund for Small Technology-based Firms set up under the approval of the State Council. Such fund was received and used for the payment of bank loan interest and was in line with the uses specified in the agreement between the Small and Medium Enterprise Innovation Fund and the Company.</li> </ul>	<ul style="list-style-type: none"> <li>• With the progress of plant construction (approximately 13,400 sq.m.) at the new plant area, the Company started to move into the existing production plant and commenced production of base station antennas and related products in January 2002.</li> <li>• In July 2002, the Company's mobile communication 3G antenna system series was accredited as the key new product of the State by the 中華人民共和國科學技術部 (Ministry of Science and Technology).</li> <li>• In July 2002, the Company's mobile communication system base station antennas was accredited as 國家級火炬計劃項目 (Torch Plan of the State) by the 中華人民共和國科學技術部 (Ministry of Science and Technology).</li> <li>• In December 2002, the Company was accredited with the Certificate of Conformity of Quality System (GB/T 19001: 2000 (idt ISO9001: 2000)) and Environmental Management System (GB/T 24001: 1996 (idt ISO14001: 1996)) by China Xinshidai Quality Certification Body.</li> </ul>	<ul style="list-style-type: none"> <li>• In January 2003, the project of the Company namely "Technical modification for the base station antennas of mobile communication and related equipment" (移動通信基站天線及輔助設施) was admitted as "The project of the third batch national focus of technical modification" (第三批國家重點技術改造「雙高一優」項目導向計劃) by 中華人民共和國國家經濟貿易委員會 (the State Economic and Trade Commission, PRC).</li> <li>• In June 2003, the Company was accredited as a 綠色企業 (Environmental Friendly Enterprise) by 西安高新技術開發區管委會 (Administrative Committee of Xi'an National Hi-tech Industrial Development Zone)</li> </ul>

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	For the period from 1 January 2001 to 31 December 2001	For the period from 1 January 2002 to 31 December 2002	For the period from 1 January 2003 to the Latest Practicable Date
<b>Research and development</b>	<ul style="list-style-type: none"> <li>• In August 2001, the GSM digital cellular repeaters of the Company was granted the Network Access Licence by the MII. In December 2001 the Company commenced to launch the GSM/CDMA repeaters the market that represented the Company's product development from passive products to active products.</li> <li>• The Company lodged five applications for patents in the PRC for the following products/technologies: <ul style="list-style-type: none"> <li>• 寬頻中饋縫隙耦合套筒偶極子共線天線陣 (Broad-band Slit-coupling Sleeve Dipole Co-linear Antenna Array with Mid-feeding)</li> <li>• 超寬頻帶室內全向吊頂天線 (Super-broad-band Ceiling-mount Antenna)</li> <li>• 波束下傾寬帶全向中饋共線天線陣 (Broad-band Mid-feeding Co-linear Omnidirectional Antenna Array with Electrical Down Tilt)</li> <li>• 波束下傾寬帶全向共線天線陣及實現方法 (Broad-band Co-linear Omnidirectional Antenna Array with Electrical Down Tilt and Ways to Realise it)</li> <li>• 寬頻帶微帶貼片天線 (Broad-band Micro-strip Patch Antenna)</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• In January 2002, the Company's CDMA repeaters were granted the Network Access Licence by the MII, the expiry date of which was January 2003. The Company had not renewed such Network Access Licence and did not sell such CDMA repeaters after its expiry in January 2003.</li> <li>• The Company lodged nine applications for patents in the PRC for the following products/technologies: <ul style="list-style-type: none"> <li>• H型偶極子輻射器 (H-type Dipole Radiator)</li> <li>• 寬頻帶中增益前饋拋物面天線的饋源 (Feeder Source for Broad-band Medium-gain Parabolic Front-fed Antenna)</li> <li>• 一種前饋拋物面天線的微帶饋源 (Feeder Source for Front-fed Parabolic Antenna)</li> <li>• 單極化波束賦形基站天線 (Single-Polar Beam Forming Base Station Antenna)</li> <li>• 雙極化波束賦形基站天線 (Dual-Polar Beam Forming Base Station Antenna)</li> <li>• 連續可調移相器 (Continuously Adjustable Phase Shifter)</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Patent certificates for the following products/technologies were obtained: <ul style="list-style-type: none"> <li>• 寬頻帶中增益前饋拋物面天線的饋源 (Feeder Source for Broad-band Medium-gain Parabolic Front-fed Antenna)</li> <li>• 寬頻中饋縫隙耦合套筒偶極子共線天線陣 (Broad-band Slit-coupling Sleeve Dipole Co-linear Antenna Array with Mid-feeding)</li> <li>• 寬頻帶微帶貼片天線 (Broad-band Micro-strip Patch Antenna)</li> <li>• 一種前饋拋物面天線的微帶饋源 (A Little Feeder Source for Parabolic Front-fed Antenna)</li> <li>• 雙極化波束賦形基站天線 (Dual-Polar Beam Forming Base Station Antenna)</li> <li>• 天線陣可調移相器 (Adjustable Phase Shifter for Antenna Array)</li> <li>• 單極化波束賦形基站天線 (Single-Polar Beam Forming Base Station Antenna)</li> <li>• 寬頻雙向天線及雙向天線陣 (Broad-band Dual-directional Antenna and Antenna Array)</li> <li>• 寬頻帶垂直安裝全向天線 (Broad-band Omnidirectional Antenna for Vertical Installation)</li> </ul> </li> <li>• In May, the Company has started the construction work for its expansion of existing test centre so as to enhance its capability in research and development</li> <li>• In June, the Company completed the design of 直放站網絡管理系統 (Management system for repeater network) and 直放站監控系統 (Repeater supervision system)</li> </ul>

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	For the period from 1 January 2001 to 31 December 2001	For the period from 1 January 2002 to 31 December 2002	For the period from 1 January 2003 to the Latest Practicable Date
	<ul style="list-style-type: none"> <li>• As at the end of 2001, the Company installed 1 anechoic chamber</li> </ul>	<ul style="list-style-type: none"> <li>• 天線陣可調移相器 (Adjustable Phase Shifter for Antenna Array)</li> <li>• 寬帶雙向天線及雙向天線陣 (Broad-band Dualdirectional Antenna and Antenna Array)</li> <li>• 寬頻帶垂直安裝全向天線 (Broad-band Omnidirectional Antenna for Vertical Installation)</li> <li>• In June 2002, Haitian Research Institute established a separate product research and development team for mobile communication RF system.</li> <li>• In September 2002, the Company's CDMA trunk amplifier was granted the Network Access Licence by the MII.</li> <li>• The patent certificates for the following three products/ technologies were obtained:               <ul style="list-style-type: none"> <li>• 超寬頻帶室內全向吊頂天線 (Super-broad-band Ceiling-mount Antenna)</li> <li>• 波束下傾寬帶全向中饋共線天線陣 (Broad-band Mid-feeding Co-linear Omnidirectional Antenna Array with Electrical Down Tilt)</li> <li>• H型偶極子輻射器 (H-type Dipole Radiator)</li> </ul> </li> <li>• In December 2002, number of anechoic chambers increased to 20 which is equipped with specialised high-end instrument (eg. vector network analysers) and managed by experienced experts, forming an independent platform of research and development, to strengthen its research and development capability.</li> </ul>	<ul style="list-style-type: none"> <li>• In July 2003, the Company lodged an application for patent in the PRC for its product, namely一種圓極化手機天線 (Circular Polarized Handset Antenna)</li> <li>• In September, the number of anechoic chambers increased to 22.</li> </ul>



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	For the period from 1 January 2001 to 31 December 2001	For the period from 1 January 2002 to 31 December 2002	For the period from 1 January 2003 to the Latest Practicable Date
<b>Strategic alliance and membership in international organisations</b>		<ul style="list-style-type: none"> <li>Entered into an agreement with Datang Mobile, a member of Datang Telecom, for joint development of intelligent antenna arrays in TD-SCDMA mobile communication system in October 2002.</li> </ul>	
<b>Sales and marketing activities</b>	<ul style="list-style-type: none"> <li>In March 2001, the Company was invited to attend the “First Session of China Blue-Tooth Technology International Seminar” in Guangzhou.</li> <li>In May 2001, the Company attended the Fifth Taiwan Trade Fair and the 89th Guangzhou Trade Fair.</li> <li>In June 2001, the Company participated in the 2001 Asian Telecommunication Exhibition in Singapore and the China International Telecommunication Exhibition 2001.</li> </ul>	<ul style="list-style-type: none"> <li>In March 2002, the Company attended the Second Session of the International Seminar for Strategic Development of Mobile Communication Technology (at the Forum for Senior Management).</li> <li>In April 2002, the Company attended the “2002 China Mobile Communication High Level Seminar” Seminar for Senior Management. Professor Xiao gave a speech on the topic of base station antenna development for mobile communication in the PRC.</li> <li>In June 2002, the Company participated as an exhibitor in the Communic Asia 2002 Summit in Singapore.</li> </ul>	<ul style="list-style-type: none"> <li>In February 2003, the Company reallocated its staff in the department of international business to two divisions of the same department so as to enhance its sales force in international market.</li> <li>In March 2003, the Company set up a network optimisation center under the sales and marketing department so as to coordinate with telecommunication operators which plan to enhance the quality of antennas.</li> <li>In March 2003, the Company attended a conference, namely “The development and policy of the China telecommunication industry in 2003” (2003年中國電信業發展與政策通報會) which was held by Planning Department of MII (信息產業部綜合規劃司) and Renmin Youdian (人民郵電報).</li> </ul>

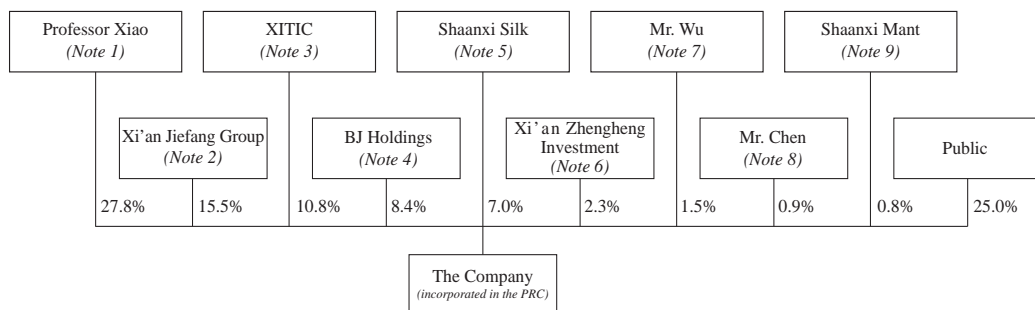
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	For the period from 1 January 2001 to 31 December 2001	For the period from 1 January 2002 to 31 December 2002	For the period from 1 January 2003 to the Latest Practicable Date
	<ul style="list-style-type: none"> <li>The Company's GSM/CDMA antennas were first purchased and installed by members of China Mobile Group in March 2001 and in April 2001 respectively. China Unicom Group first purchased and installed the Company's GSM/CDMA antennas in June 2001.</li> </ul>	<ul style="list-style-type: none"> <li>In July 2002, the Company was invited to attend the "China Unicom Zhangjiajie Hunan International Seminar on Wireless Network (GSM &amp; CDMA) Optimization Technologies." Professor Xiao was invited to deliver a report on the topic of "Antennas in Wireless Network Optimisation".</li> <li>In December 2002, the Company participated in ITU Telecom Asia 2002 which was held by International Telecommunication Union.</li> </ul>	<ul style="list-style-type: none"> <li>In April 2003, the Company attended the Caspian Telecoms Exhibition 2003 which was held in Turkey.</li> <li>In May 2003, the Company attended the 15th Moscow International Exhibition Telecoms Exhibitions (SVIAZ-EXPO COMM MOSCOW), a telecom and information technology exhibition, which was held in Moscow, Russia.</li> </ul>
<b>Deployment of human resources</b>	<ul style="list-style-type: none"> <li>As at 31 December 2001, the Company employed approximately 510 staff.</li> </ul>	<ul style="list-style-type: none"> <li>As at 31 December 2002, the Company employed approximately 500 staff.</li> </ul>	<ul style="list-style-type: none"> <li>As at 31 May 2003, the Company employed approximately 530 staff.</li> </ul>

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## CORPORATE STRUCTURE

The following chart sets out the shareholding and corporate structure of the Company, which does not have any subsidiaries, immediately after completion of the Placing (without taking into account any H Shares which may be issued or sold pursuant to the exercise of the Over-allocation Option):



*Note 1:* Professor Xiao is an executive Director. He is also a Promoter and an Initial Management Shareholder. Professor Xiao has undertaken to the Company and the Stock Exchange that he will not dispose of (or enter into any agreement to dispose of) his equity interests in the Company for a period of 12 months from the Listing Date.

*Note 2:* Xi'an Jiefang Group is a joint stock limited company established through the reorganisation of Xi'an Jiefang Department Store on 4 December 1986. On 9 August 1993 it became a listed company with its domestic A shares trading on the Shenzhen Stock Exchange with stock code 000516. It is principally engaged in retailing business. It is a Promoter and an Initial Management Shareholder. As at the Latest Practicable Date, Xi'an Jiefang Group has nominated Luo Maosheng and Wang Quanfu as Directors and Shi Ping as a Supervisor. Save for being a shareholder of the Company and the appointment of two Directors and a Supervisor, Xi'an Jiefang Group is an Independent Third Party. Xi'an Jiefang Group has undertaken to the Company and the Stock Exchange that it will not dispose of (or enter into any agreement to dispose of) its equity interests in the Company for a period of 12 months from the Listing Date.

As at the Latest Practicable Date, Shi Ping, one of the Supervisors, and Li Zhong Min, one of the shareholders of Shaanxi Mant, are independent directors of Xi'an Jiefang Group.

Based on the half-yearly report for the six months ended 30 June 2003 and an announcement issued by Xi'an Jiefang Group on 29 July 2003 and 7 August 2003 respectively, as at 2 August 2003, about 33% of the registered capital in Xi'an Jiefang Group was held by public shareholders. The shareholders who were interested in 5% or more of the registered capital in Xi'an Jiefang Group are as follows:

Name of shareholder	Approximate percentage in the registered capital of Xi'an Jiefang Group (%)
西安高新醫院有限公司 (Xi'an Gao Xin Hospital Co., Ltd.)	23.11
西安市財政局 (Xi'an Finance Bureau)	21.51

Xi'an Gao Xin Hospital Co., Ltd. is a sino-foreign joint venture established in the PRC on 29 September 2002 with a registered capital of RMB700 million. The shareholders of Xi'an Gao Xin Hospital Co., Ltd are 西安申信風險投資有限公司 (Xi'an Shen Xin Risk Investment Company Limited) and (英屬維爾京群島) 賽博國際有限公司 ((BVI) Success Harbour International Limited), which are interested in 53.71% and 46.29% respectively of its registered capital. The scope of business of Xi'an Gao Xin Hospital Co., Ltd. is the provision of medical treatment to local and foreign patients and the provision of health and related consultancy services. Each of Xi'an Gao Xin Hospital Co., Ltd., Xi'an Shen Xin Risk Investment Company Limited and (BVI) Success Harbour International Limited is an Independent Third Party and is not involved in the management of the Company.

Xi'an Finance Bureau is a PRC government authority empowered by the Xi'an Government to exercise on its behalf, among other matters, the rights and obligations of the Xi'an Government as an investor. Xi'an Finance Bureau is an Independent Third Party. It is not, and has no intention to be, involved in the management of the Company.

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*Note 3:* XITIC is a limited liability company established in the PRC on 28 December 1999 with a registered capital of RMB300 million. The scope of business of XITIC includes entrusted operation of capital trust business, entrusted operation of trust business of movable, immovable and other property, fund investment operation as trustee in accordance with the laws and regulations of the PRC; fund investment as a founder of a fund management entity; community chest trustee; corporate intermediary businesses such as asset reconstruction, acquisition and merger, corporate finance, financial consultancy; distribution of treasury bonds and corporate bonds as an agent approved by the relevant departments under the State Council; asset management, deployment and disposal as an agent; custody; credit witness, credit inquiry and economic consultancy; allocating its fund resources by way of bank deposit, intra-sector lending, lease finance and investment; providing third party guarantee with its fund resources; intra-sector lending and borrowing; other financial businesses authorised by the PBOC. Based on XITIC's confirmation in April 2003, XITIC's investment in the Company accounted for approximately 11.3% of its total investment portfolio as at 29 April 2003. It is a Promoter and an Initial Management Shareholder. XITIC does not have any business that competes with the Company. None of the shareholders of XITIC has appointed any nominee director or supervisor in the Company. As at the Latest Practicable Date, XITIC has nominated Liu Yongqiang as a Director and Gu Linqiang as a Supervisor. However, Liu Yongqiang and Gu Linqiang are not involved in the day-to-day management and daily operation of the Company. Save for being a shareholder of the Company and the appointment of a Director and a Supervisor, XITIC is an Independent Third Party. XITIC has undertaken to the Company and the Stock Exchange that it will not dispose of (or enter into any agreement to dispose of) its equity interests in the Company for a period of 12 months from the Listing Date. As at the Latest Practicable Date, the shareholding structure of XITIC was as follows:

Name of shareholder	Approximate percentage in the registered capital of XITIC (%)
西安市財政局 (Xi'an Finance Bureau)	39.6
陝西保升國際投資有限責任公司 (Shaanxi Baosheng International Investment Company Limited)	34.3
陝西鼓風機(集團)有限公司 (Shaanxi Blower (Group) Limited Company)	7.0
西安明威(集團)經濟技術發展有限公司 (Xi'an Mingwei (Group) Economic Technology Development Company Limited)	6.7
陝西百川興業投資有限公司 (Shaanxi Baichuan Xingye Investment Company Limited)	5.0
西安秦驪置業(集團)有限責任公司 (Xi'an Qinli Property (Group) Company Limited)	4.5
西安高新技術產業開發區科技投資服務中心 (Xi'an National Hi-tech Industrial Development Zone Science & Technology Investment Service Centre)	1.7
西安有線電視台 (Xi'an Television Broadcast)	0.7
西安藍溪科技企業(集團)有限責任公司 (Xi'an Lanxi Technology Enterprise (Group) Company Limited)	0.5
<b>Total</b>	<b>100.0</b>

Xi'an Finance Bureau is a PRC government authority empowered by the Xi'an Government to exercise on its behalf, among other matters, the rights and obligations of the Xi'an Government as an investor. Save for being a shareholder of XITIC, Xi'an Finance Bureau is an Independent Third Party and is not involved in the management of the Company.

Shaanxi Baosheng International Investment Company Limited is a limited liability company established in the PRC on 1 November 1999 with a registered capital of RMB283,060,000. Based on its articles of association adopted during its establishment, its shareholders are 陝西眾興企業集團有限公司 (Shaanxi Zhongxing Enterprise Holdings Company Limited), 陝西龍昌實業開發有限責任公司 (Shaanxi Longchang Industrial Development Company Limited), 陝西百業基礎工程有限公司 (Shaanxi Baiye Foundation Engineering Company Limited), 鄺三紅 (Kuang San Hong), 李肇儀 (Li Zhao Yi) and 潘安生 (Pan An Sheng), which/who are interested in approximately 41.71%, 15.19%, 0.70%, 23.74%, 9.33% and 9.33% respectively of its registered capital. Save for being an indirect shareholder of the Company, each of Kuang San Hong, Li Zhao Yi and Pan An Sheng is an

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Independent Third Party and is not involved in the management of the Company. Each of Shaanxi Zhongxing Enterprise Holdings Company Limited, Shaanxi Longchang Industrial Development Company Limited, Shaanxi Baiye Foundation Engineering Company Limited, Kuang San Hong, Li Zhao Yi and Pan An Sheng has undertaken to the Company and the Stock Exchange that it/he/she will not dispose of (or enter into any agreement to dispose of) its/his/her equity interests in Shaanxi Baosheng International Investment Company Limited for a period of 12 months from the Listing Date. The scope of business of Shaanxi Baosheng International Investment Company includes the comprehensive real estate development; commodity building sales and related services; interior decoration and renovation; real estate agency; property management; wholesale and retail of building materials and engineering machinery; consultancy services relating to the introduction of capital, projects, technology and management; human resources development; economic information consultancy service; development of high technology; development of scientific and technological investments; analysis of investment environment; feasibility study on investments; market investment consultancy service; sale of non-ferrous metal materials; development of cultural market; the export business of products manufactured by the enterprise and its members and related technology; the import and export business of auxiliary materials, machinery and equipment, instruments and meters, spare parts and related technology required for the production and scientific research of the enterprise's members; and the business of processing supplied materials and "processing arrangement"(三來一補), (which means original engineering manufacture, original material manufacture, original design manufacture and compensation trading). Save for being a shareholder of XITIC, Shaanxi Baosheng International Investment Company Limited is an Independent Third Party and is not involved in the management of the Company. Shaanxi Baosheng International Investment Company Limited has undertaken to the Company and the Stock Exchange that it will not dispose of (or enter into any agreement to dispose of) its equity interests in XITIC for a period of 12 months from the Listing Date.

Based on its business licence issued in 2002, Shaanxi Zhongxing Enterprise Holdings Company Limited is a limited liability company established in the PRC on 20 August 1997 with a registered capital of RMB249,050,000. Based on its articles of association (as amended on 30 July 2002), its shareholders are 鄺勁松(Kuang Jing Song), 吳海泉(Wu Hai Quan), 李文峰(Li Wen Feng), 張桂蘭(Zhang Gui Lan), 吳玉炯(Wu Yu Jiong) and Shaanxi Longchang Industrial Development Company Limited who/which are interested in 41.2%, 15%, 13.8%, 13.8%, 3.7% and 12.5% respectively of its registered capital. Save for being an indirect shareholder of the Company, each of Kuang Jing Song, Wu Hai Quan, Li Wen Feng, Zhang Gui Lan and Wu Yu Jiong is an Independent Third Party and is not involved in the management of the Company. Each of Kuang Jing Song, Wu Hai Quan, Li Wen Feng, Zhang Gui Lan, Wu Yu Jiong and Shaanxi Longchang Industrial Development Company Limited has undertaken to the Company and the Stock Exchange that he/she/it will not dispose of (or enter into any agreement to dispose of) his/her/its equity interests in Shaanxi Zhongxing Enterprise Holdings Company Limited for a period of 12 months from the Listing Date. The scope of business of Shaanxi Zhongxing Enterprise Holdings Company Limited includes the development of computer software; property management; interior decoration and renovation; sale of renovation materials, light industrial products, textile products, garments, chemical products (except those under exclusive control), products of hardware and electric appliance; general merchandise, home appliance, electromechanical products (except automobiles), domestic and sundry products, automobile parts and development of new products; market development and operation. Shaanxi Zhongxing Enterprise Holdings Company Limited has undertaken to the Company and the Stock Exchange that it will not dispose of (or enter into any agreement to dispose of) its equity interests in Shaanxi Baosheng International Investment Company Limited and Shaanxi Baichuan Xingye Investment Company Limited respectively for a period of 12 months from the Listing Date.

Shaanxi Longchang Industrial Development Company Limited is a limited liability company established in the PRC on 27 June 1997 with a registered capital of RMB60,000,000. Its shareholders are 吳曉音(Wu Xiao Yin), 劉雋楚(Liu Juan Chu), 潘安生(Pan An Sheng) and 韋應娥(Wei Ying E) who are interested in 53%, 21%, 21% and 5% respectively of its registered capital. Save for being an indirect shareholder of the Company, each of Wu Xiao Yin, Liu Juan Chu, Pan An Sheng and Wei Ying E is an Independent Third Party and is not involved in the management of the Company. Each of Wu Xiao Yin, Liu Juan Chu, Pan An Sheng and Wei Ying E has undertaken to the Company and the Stock Exchange that he/she will not dispose of (or enter into any agreement to dispose of) his/her equity interests in Shaanxi Longchang Industrial Development Company Limited for a period of 12 months from the Listing Date. The scope of business of Shaanxi Longchang Industrial Development Company Limited includes the interior decoration and renovation engineering; real estate agency and consultancy service; development of new technology and market development and operation; wholesale and retail of decoration materials, electromechanical equipment (except automobiles), metallic materials, instrument and meters, products of hardware and electric appliance, general merchandise, chemical products (except those under special restriction by the State), agricultural products and by-products (except grain, cotton and oil); leasing of real estate. Shaanxi Longchang Industrial Development Company Limited has undertaken to the Company and the Stock Exchange that it will not dispose of (or enter into any agreement to dispose of) its equity interests in Shaanxi Baosheng International Investment Company Limited and Shaanxi Zhongxing Enterprise Holdings Company Limited respectively for a period of 12 months from the Listing Date.

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Shaanxi Baiye Foundation Engineering Company Limited is a limited liability company established in the PRC on 10 January 2001 with a registered capital of RMB3,000,000. Its shareholders are 鄺勁松(Kuang Jin Song), 張建賓(Zhang Jian Bin), 劉小彬(Liu Xiao Bin) and 喬東生(Qiao Dong Sheng) who are interested in 40%, 40%, 10% and 10% respectively of its registered capital. Save for being an indirect shareholder of the Company, each of Kuang Jin Song, Zhang Jian Bin, Liu Xiao Bin and Qiao Dong Sheng is an Independent Third Party and is not involved in the management of the Company. Each of Kuang Jin Song, Zhang Jian Bin, Liu Xiao Bin and Qiao Dong Sheng has undertaken to the Company and the Stock Exchange that he will not dispose of (or enter into any agreement to dispose of) his equity interests in Shaanxi Baiye Foundation Engineering Company Limited for a period of 12 months from the Listing Date. The scope of business of Shaanxi Baiye Foundation Engineering Company Limited includes the implementation of earthwork projects and foundation and infrastructure construction; engineering machinery and equipment; sale of hardware tools (within the above scope of business, those regulated by the laws and regulations shall be operated with relevant licenses.) Shaanxi Baiye Foundation Engineering Company Limited has undertaken to the Company and the Stock Exchange that it will not dispose of (or enter into any agreement to dispose of) its equity interests in Shaanxi Baosheng International Investment Company Limited for a period of 12 months from the Listing Date.

Shaanxi Blower (Group) Limited Company is a State-owned enterprise established on 13 May 1996 with a registered capital of RMB130 million. The scope of business of Shaanxi Blower (Group) Limited Company is the research and development, manufacture, sale, maintenance and repair and servicing of large compressor, blower, ventilator and turbine; the design, installation, testing, construction and facility installation of common (turbine) machines and stone processing machine; the sale and manufacture of handicraft; the manufacture and sale of cleaning equipment; technical consultancy, services, transfer and training; transportation; catering. Save for being a shareholder of XITIC, Shaanxi Blower (Group) Limited Company is an Independent Third Party and does not involve in the management of the Company. Shaanxi Blower (Group) Limited Company has undertaken to the Company and the Stock Exchange that it will not dispose of (or enter into any agreement to dispose of) its equity interests in XITIC for a period of 12 months from the Listing Date.

Xi'an Mingwei (Group) Economic Technology Development Company Limited ("Xi'an Mingwei") is a limited liability company established in the PRC on 21 October 1997 with a registered capital of RMB100 million. Based on a resolution passed by its shareholders in November 2002 to amend its articles of association, its shareholders are 邵光明 (Shao Guang Ming), 范振君 (Fan Zhen Jun) and 沈季華 (Shen Ji Hua) who are interested in 44.8%, 39.2% and 16% respectively of its registered capital. Save for being an indirect shareholder of the Company, each of Shao Guang Ming, Fan Zhen Jun and Shen Ji Hua is an Independent Third Party and is not involved in the management of the Company. Each of Shao Guang Ming, Fan Zhen Jun and Shen Ji Hua has undertaken to the Company and the Stock Exchange that he/she will not dispose of (or enter into any agreement to dispose of) his/her equity interests in Xi'an Mingwei (Group) Economic Technology Development Company Limited for a period of 12 months from the Listing Date. The scope of business of Xi'an Mingwei (Group) Economic Technology Development Company Limited includes the wholesale and retail of automobiles (including sedan), communication facilities (excluding those under specific control), metals and current electricity, mechanical and electrical products, office automation facilities, audio and video instrument, motorcycle, instruments and meters, electronic components, machinery facilities, construction materials, knitting products, general merchandise, metallic materials (excluding those under specific control) and chemical products (excluding those requiring specific license) and the leasing of office automation facilities and machinery facilities. Save for being a shareholder of XITIC, Xi'an Mingwei (Group) Economic Technology Development Company Limited is an Independent Third Party and is not involved in the management of the Company. Xi'an Mingwei (Group) Economic Technology Development Company Limited has undertaken to the Company and the Stock Exchange that it will not dispose of (nor enter into any agreement to dispose of) its equity interests in XITIC for a period of 12 months from the Listing Date.

Based on its business licence issued in 2003, Shaanxi Baichuan Xingye Investment Company Limited is a limited liability company established in the PRC on 25 September 1995 with a registered capital of RMB79,000,000. Based on a resolution passed by its shareholders to amend its articles of association, its shareholders are 陝西翠興企業集團有限公司(Shaanxi Zhongxing Enterprise Holdings Company Limited), 李元(Li Yuan), 韋應娥(Wei Ying E), 劉小彬(Liu Xiao Bin) and 潘安生(Pang An Sheng) who are interested in approximately 51%, 12.4%, 6.3%, 19.8% and 10.5% respectively of its registered capital. For details of Shaanxi Zhongxing Enterprise Holdings Company Limited, please refer to page 90 of this prospectus. Save for being an indirect shareholder of the Company, each of Li Yuan, Wei Ying E, Liu Xiao Bin and Pang An Sheng is an Independent Third Party and is not involved in the management of the Company. Each of Shaanxi Zhongxing Enterprise Holdings Company Limited, Li Yuan, Wei Ying E, Liu Xiao Bin and Pang An Sheng has undertaken to the Company and the Stock Exchange that it/he/she will not dispose of (or enter into any agreement to dispose of) its/his/her equity interests in Shaanxi Baichuan Xingye Investment Company Limited for a period of 12 months from the Listing Date. The scope of business of Shaanxi Baichuan Xingye Investment Company Limited includes the development of high and new technology and investment in scientific and technology sectors and projects. Shaanxi Baichuan Xingye Investment Company Limited has voluntarily undertaken to the Company and the Stock Exchange that it will not dispose of (or enter into any agreement to dispose of) its equity interests in XITIC for a period of 12 months from the Listing Date.

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Based on its business licence issued in 1999, Xi'an Qinli Property (Group) Company Limited is a limited liability company established in the PRC on 30 April 1996 with a registered capital of RMB67 million. Based on a resolution passed by its shareholders in November 2001 to amend its articles of association, its shareholders are 孫志剛 (Sun Zhi Gang), 趙勇 (Zhao Yong), 羅文 (Luo Wen) and 朱德剛 (Zhu De Gang) who are interested in 57%, 19.1%, 13.9% and 10% respectively of its registered capital. Save for being an indirect shareholder of the Company, each of Sun Zhi Gang, Zhao Yong, Luo Wen and Zhu De Gang is an Independent Third Party and is not involved in the management of the Company. Each of Sun Zhi Gang, Zhao Yong, Luo Wen and Zhu De Gang has undertaken to the Company and the Stock Exchange that he will not dispose of (or enter into any agreement to dispose of) his equity interests in Xi'an Qinli Property (Group) Company Limited for a period of 12 months from the Listing Date. The scope of business of Xi'an Qinli Property (Group) Company Limited includes exterior and interior renovation; the wholesale, retail and agency distribution of ordinary machinery, electrical appliance and equipment, general merchandise, metals and electricity current electric appliance, metallic materials, construction materials and decoration materials and the development of property. Save for being a shareholder of XITIC, Xi'an Qinli Property (Group) Company Limited is an Independent Third Party and does not involve in the management of the Company. Xi'an Qinli Property (Group) Company Limited has undertaken to the Company and the Stock Exchange that it will not dispose of (or enter into any agreement to dispose of) its equity interests in XITIC for a period of 12 months from the Listing Date.

Based on its certificate of institutional entity issued in 2003, Xi'an National Hi-tech Industrial Development Zone Science and Technology Investment Service Centre is an institutional entity (事業法人) established in the PRC in January 1999 with a founding capital of RMB83,787,500. The founding capital of Xi'an National Hi-tech Industrial Development Zone Science and Technology Investment Service Centre is promoted by 西安高新技術產業開發區管理委員會 (Administrative Committee of Xi'an National Hi-tech Industrial Development Zone). The Administrative Committee of Xi'an National Hi-tech Industrial Development Zone has undertaken to the Company and the Stock Exchange that it will not dispose of (nor enter into any agreement to dispose of) any of its equity interests in Xi'an National Hi-tech Industrial Development Zone Science and Technology Investment Service Centre for a period of 12 months from the Listing Date. The scope of business of Xi'an National Hi-tech Industrial Development Zone Science and Technology Investment Service Centre includes the provision of investment and financing services to enterprises in Xi'an National Hi-tech Industrial Development Zone and the provision of guarantee services to small and medium sized enterprises in the Xi'an National Hi-tech Industrial Development Zone. Save for being a shareholder of XITIC, Xi'an National Hi-tech Industrial Development Zone Science and Technology Investment Service Centre is an Independent Third Party and is not involved in the management of the Company. Xi'an National Hi-tech Industrial Development Zone Science and Technology Investment Service Centre has voluntarily undertaken to the Company and the Stock Exchange that it will not dispose of (or enter into any agreement to dispose of) its equity interests in XITIC for a period of 12 months from the Listing Date.

Based on its business licence issued in 1997, Xi'an Television Broadcast is a State-owned enterprise established in the PRC on 27 March 1997 with a registered capital of RMB3,800,000. The scope of business of Xi'an Television Broadcast includes the design, production and broadcast of television advertisement, design and implementation of cable television project, the development of new products and the wholesale and retail of cable television equipment. Save for being a shareholder of XITIC, Xi'an Television Broadcast is an Independent Third Party and is not involved in the management of the Company. Xi'an Television Broadcast has voluntarily undertaken to the Company and the Stock Exchange that it will not dispose of (or enter into any agreement to dispose of) its equity interests in XITIC for a period of 12 months from the Listing Date.

Based on its business licence issued in 2001, Xi'an Lanxi Technology Enterprise (Group) Company Limited is a limited liability company established in the PRC on 26 March 1995 with a registered capital of RMB65 million. Based on its articles of association, its shareholders are 王武 (Wang Wu), 常春 (Chang Chun), 張秦 (Zhang Qin), 王曉霞 (Wang Xiao Xia), 夏民 (Xia Min), 李康 (Li Kang), 陶三定 (Tao San Ding), 盧宇 (Lu Yu), 陳紹京 (Chen Shao Jing) and 郝樹平 (Hao Shu Ping) who are interested in its registered capital as to approximately 82.92%, 2.48%, 2.15%, 2.0%, 1.85%, 1.72%, 1.72%, 1.72%, 1.72% and 1.72% respectively. Save for being an indirect shareholder of the Company, each of Wang Wu, Chang Chun, Zhang Qin, Wang Xiao Xia, Xia Min, Li Kang, Tao San Ding, Lu Yu, Chen Shao Jing and Hao Shu Ping is an Independent Third Party and is not involved in the management of the Company. Each of Wang Wu, Chang Chun, Zhang Qin, Wang Xiao Xia, Xia Min, Li Kang, Tao San Ding, Lu Yu, Chen Shao Jing and Hao Shu Ping has undertaken to the Company and the Stock Exchange that he/she will not dispose of (or enter into any agreement to dispose of) his/her equity interests in Xi'an Lanxi Technology Enterprise (Group) Company Limited for a period of 12 months from the Listing Date. The scope of business of Xi'an Lanxi Technology Enterprise (Group) Company Limited is the research and development and sale of computer software and hardware, optomechatronic products and solar power products; the development of nuclear technology; the sale, maintenance and provision of technical consultancy services of computer and instruments and meters; the export business of products and related technology of the company and its members (excluding products restricted from operation or prohibited from export by the State); the import of raw materials, machinery, facilities, instruments and meters, spare parts and related technology required for the production and scientific development for the operation of the company or its members (excluding products restricted from operation or prohibited from import by the State);

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the processing of the company's imported materials and "processing arrangement" (三來一補) business (which means original engineering manufacture, original material manufacture, original design manufacture and compensation trading); the sale of automobiles (excluding sedan). Save for being a shareholder of XITIC, Xi'an Lanxi Technology Enterprise (Group) Company Limited is an Independent Third Party and is not involved in the management of the Company. Xi'an Lanxi Technology Enterprise (Group) Company Limited has voluntarily undertaken to the Company and the Stock Exchange that it will not dispose of (or enter into any agreement to dispose of) its equity interests in XITIC for a period of 12 months from the Listing Date.

*Note 4:* Based on its business licence issued in 2001, BJ Holdings is a State-owned enterprise established in the PRC on 20 April 1999 with a registered capital of RMB300 million and is managed and invested by Beijing Holdings Limited (京泰實業(集團)有限公司). BJ Holdings is principally engaged in investment management, economic information consultancy, storage and management of self-owned real property. It is a Promoter and an Initial Management Shareholder. As at the Latest Practicable Date, BJ Holdings has nominated Mi Yunping as a Director. Save for being a shareholder of the Company and the appointment of a Director, BJ Holdings is an Independent Third Party. Its registered capital is solely owned by Beijing Holdings Limited. BJ Holdings has undertaken to the Company and the Stock Exchange that it will not dispose of (or enter into any agreement to dispose of) its equity interests in the Company for a period of 12 months from the Listing Date.

Beijing Holdings Limited is a window company incorporated in Hong Kong, the company status of which is approved by the then 對外貿易經濟合作部 (Ministry of Foreign Trade and Economic Co-operation of the PRC), and which is under the auspices of the Beijing People's Government. According to the 2002 annual return of Beijing Holdings Limited, the issued capital of Beijing Holdings Limited is HK\$80 million. It is principally engaged in import and export trading, investment, finance, securities and real property.

*Note 5:* Based on its business licence issued in 1995, Shaanxi Silk is a State-owned enterprise established in the PRC on 17 October 1987 with a registered capital of RMB54,576,000 under the auspices of 陝西省對外貿易經濟合作廳 (Shaanxi Foreign Trade and Economic Co-operation Office). It is principally engaged in the import and export business. It is a Promoter and an Initial Management Shareholder. As at the Latest Practicable Date, Shaanxi Silk has nominated Li Wenqi as a Director. Save for being a shareholder of the Company and the appointment of a Director, Shaanxi Silk is an Independent Third Party. Shaanxi Silk has undertaken to the Company and the Stock Exchange that it will not dispose of (or enter into any agreement to dispose of) its equity interests in the Company for a period of 12 months from the Listing Date.

*Note 6:* Based on its business licence issued in 2000, Xi'an Zhengheng Investment is a limited liability company established in the PRC on 18 July 2000 with a registered capital of RMB3.0 million. The scope of business of Xi'an Zhengheng Investment is the provision of consultancy service in relation to enterprise investment project and preparation of feasibility study reports; the provision of corporate finance management consultancy service and devising of marketing strategy for its clients. It is a Promoter and an Initial Management Shareholder. Save for being a shareholder of the Company, Xi'an Zhengheng Investment is an Independent Third Party and does not involve in the management of the Company. Xi'an Zhengheng Investment has undertaken to the Company and the Stock Exchange that it will not dispose of (or enter into any agreement to dispose of) its equity interests in the Company for a period of 12 months from the Listing Date. Based on its articles of association, holders of the registered capital in Xi'an Zhengheng Investment are set out below:

Name of shareholder	Approximate percentage in the registered capital of Xi'an Zhengheng Investment (%)
雷華鋒 (Lei Hua Feng)	33.4
高惠民 (Gao Hui Min)	33.3
高旭 (Gao Xu)	33.3
Total	<u>100.0</u>

The Company became acquainted with Lei Hua Feng, Gao Hui Min and Gao Xu, the common shareholders of Xi'an Zhengheng Investment and Xi'an Zhengheng Asset Appraisal Company Limited (西安正衡資產評估有限責任公司) ("Xi'an Zhengheng Asset Appraisal"), during the share capital restructuring exercise of the Company. During the exercise, Xi'an Zhengheng Asset Appraisal was a valuer and rendered asset valuation services to the Company. Messrs Lei Hua Feng, Gao Hui Min and Gao Xu established confidence in the development and future of the Company as well as the telecommunication industry in the PRC. Accordingly, Messrs Lei Hua Feng, Gao Hui Min and Gao Xu invested in the Company through Xi'an Zhengheng Investment.

Xi'an Zhengheng is not a market participant in the base station antennas and related products industry. The Directors believe that it has no intention to participate in the management of the Company.



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Three of the shareholders of Xi'an Zhengheng Asset Appraisal are also shareholders of Xi'an Zhengheng Investment, one of the Initial Management Shareholders. During the Track Record Period, Xi'an Zhengheng Asset Appraisal prepared three valuation reports for the Company. Potential conflict of interests may arise in Xi'an Zhengheng Asset Appraisal's discharge of its duties as a valuer for PRC reporting. Xi'an Zhengheng Asset Appraisal valued a plot of State-owned land with an area of 48.003 mu located at No. 36 Gao Xin Liu Road in Xi'an together with the construction in progress as set out in a valuation report, 西正衡評報字(2002)第007號(XJHPBZ: (2002) No. 007), dated 28 January 2002. The Directors believe that the valuation services rendered by Xi'an Zhengheng Asset Appraisal, which has been granted 國家批准正式資產評估資格 (approved asset valuers), was conducted fairly and reasonably in accordance with the standards promulgated by the State namely, "PRC Law on the Real Estate Administration", "Regulations for the Land in Urban Areas" for industrial standard TD of the People's Republic of China and "PRC Law on the Land Administration".

Save as disclosed above, each of Lei Hua Feng, Gao Hui Min and Gao Xu is an Independent Third Party and does not involve in the management of the Company. Each of Lei Hua Feng, Gao Hui Min and Gao Xu has undertaken to the Company and the Stock Exchange that he/she will not dispose of (or enter into any agreement to dispose of) his/her equity interests in Xi'an Zhengheng Investment for a period of 12 months from the Listing Date.

*Note 7:* Mr. Wu is a Promoter and an Initial Management Shareholder. Other than such relationship, he is an Independent Third Party and is not involved in the management nor has held any other position in the Company. Mr. Wu has undertaken to the Company and the Stock Exchange that he will not dispose of (or enter into any agreement to dispose of) his equity interests in the Company for a period of 12 months from the Listing Date.

The Company became acquainted with Mr. Wu during the share capital restructuring exercise of the Company in May 2000 through the introduction by the local government. Since Mr. Wu is not a market participant in the base station antennas and related products in PRC, the Directors believe that he has no intention to participate in the management of the Company. Mr. Wu invested in the Company because he has confidence in the development and future of the Company as well as the telecommunication industry in the PRC.

*Note 8:* Mr. Chen is a Promoter and an Initial Management Shareholder. Other than such relationship, he is an Independent Third Party and is not involved in the management nor has held any other position in the Company. Mr. Chen has undertaken to the Company and the Stock Exchange that he will not dispose of (or enter into any agreement to dispose of) his equity interests in the Company for a period of six months from the Listing Date.

The Company became acquainted with Mr. Chen during the share capital restructuring exercise of the Company in May 2000 through the introduction by local government. Since Mr. Chen is not market participant in the base station antennas and related products in PRC, the Directors believe that he has no intention to participate in the management of the Company. Mr. Chen invested in the Company because he has confidence in the development and future of the Company as well as the telecommunication industry in the PRC.

*Note 9:* Based on its business licence issued in 2000, Shaanxi Mant is a limited liability company established in the PRC on 14 January 2000 with a registered capital of RMB5.6 million. The scope of business of Shaanxi Mant is the provision of enterprise diagnosis and consultancy service; corporate reengineering and design; enterprise marketing and image planning; financial consultancy service; analysis of investment projects; head-hunting service (valuation and training of human resources); education business (school, college); development and industrialisation of high and new technology; intellectual property transfer agency and product sale (the operation of controlled business being subject to the grant of license) and communication network business. It is a Promoter and an Initial Management Shareholder. Save for being a shareholder of the Company, Shaanxi Mant is an Independent Third Party and does not involve in the management of the Company. Shaanxi Mant has undertaken to the Company and the Stock Exchange that it will not dispose of (or enter into any agreement to dispose

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of) its equity interests in the Company for a period of six months from the Listing Date. Based on its articles of association, holders of the registered capital of Shaanxi Mant are set out below:

<b>Name of shareholder</b>	<b>Approximate percentage in the registered capital of Shaanxi Mant (%)</b>
李忠民 (Li Zhong Min)	70.0
吳娟 (Wu Juan)	<u>30.0</u>
Total	<u><u>100.0</u></u>

According to the Directors, the Company became acquainted with Li Zhong Min and Wu Juan when Shaanxi Mant participated in the share capital restructuring exercise of the Company as documented in an agreement between the Company and Shaanxi Mant dated 12 May 2000. Shaanxi Mant invested in the Company because they have confidence in the development and future of the Company as well as the telecommunication industry in the PRC. The Directors believe that Shaanxi Mant is not a market participant in the base station antennas and related products industry in PRC. Accordingly, it has no intention to participate in the management of the Company.

According to Xi'an Jiefang Group's half-yearly report for the six months ended 30 June 2003, Li Zhong Min is an independent non-executive director of Xi'an Jiefang Group.

Save as disclosed above, each of Li Zhong Min and Wu Juan is Independent Third Party and does not involve in the management of the Company. Each of Li Zhong Min and Wu Juan has undertaken to the Company and the Stock Exchange that he/she will not dispose of (or enter into any agreement to dispose of) his/her equity interests in Shaanxi Mant for a period of six months from the Listing Date.

### DESCRIPTION OF THE BUSINESSES

#### Scope of business

The Company is principally engaged in the research and development, production and sale of base station antennas and related products. In connection with such principal business, the Company also provides technical support, system integration and installation services of base station antennas. The products and services of the Company are provided to corporate clients comprising mobile communication network operators in the PRC (namely, members of China Mobile Group and China Unicom Group) and mobile communication equipment vendors/system integrators (such as UTstarcom, Lucent Qingdao, Shanghai Bell and Datang Telecom).

The scope of business of the Company set out under its business licence includes:

- (a) research and manufacture, sale and installation of the mobile communication antenna and related products, microwave technology products, telecommunication electronic products, digital telecommunication products, office automation, devices and gauges and related system engineering;
- (b) export of self-developed products and the related technologies from the Company and its members (the export products represent the machinery and electric products which are manufactured by the Company, excluding those restricted solely for the Company's operations or those prohibited by the State from export);
- (c) import and export of the ancillary materials, machineries, equipment, devices and gauges, parts and components and the related technologies for the production and research of the Company and its members (excluding those restricted solely for the Company's operations or those prohibited from export by the State); and
- (d) original material manufacturing business and other "processing arrangement" (三來一補) (which means original engineering manufacturers, original material manufacture, original design manufacture and compensation trading.)

According to the Directors, since its establishment, the Company has only exported electrical products and related technologies, which are the base station antenna and related products. According to Jingtian & Gongcheng, the PRC implements a Network Access Licence system for access to public telecommunications networks by 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. Base station antenna series, including the WLL/PHS system and GSM/CDMA system, do not fall under the regulation of the Network Access Licence system and thus do not require the Network Access Licence for their manufacture and sale. Repeaters and other RF devices, which in the Company's case are used for GSM/CDMA system, are products which fall under the regulation of the Network Access Licence system and therefore require Network Access Licences. 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) (Network Access Licence No. 17-4838-011176, the validity period of which is from 21 August 2001 to 21 August 2004) and CDMA trunk amplifier HTZF-880GIII (Network Access Licence No. 17-4838-022101, the validity period of which is from 23 September 2002 to 23 September 2005). The Network Access Licence granted is generally valid for a term of three years and the Company is required to apply for renewal of the respective Network Access Licences as and when they are expired. The principal operating activities currently carried on by the Company are within the scope of business as set out above and are consistent with its legal capacity.

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The Company obtains its business through the following ways:

- negotiating with the customers directly and entering into supply contracts; and
- public tenders

When carrying on its business, the Company is required to hold a valid business licence and, in some cases, to provide to its customers quality testing report and the Network Access Licence for the relevant products (which are within the scope of The Measures for Administration of Network Access for Telecommunication Equipment and, in relation to the Company, refers to its GSM/CDMA repeater and RF device products). According to Jingtian & Gongcheng, the Company has obtained all necessary licenses or permits to conduct its business. The business actually carried on by the Company is within that as set out in its business licence.

According to the relevant regulations of the Foreign Trade Law of the PRC (中華人民共和國對外貿易法), permission from the Foreign Economic Trade authority of the State Council is required for conducting foreign trade business. Prior to the obtaining of its export licence, the Company conducted its foreign trade through foreign trade agents in the PRC with foreign trade right and such trade activities were in compliance with the Foreign Trade Law of the PRC. After the Company obtained its export licence on 8 February 2001, the Company can conduct export trading on its own. The Company's export licence is presently valid.

According to the Foreign Trade Law of the PRC (中華人民共和國對外貿易法), and other implementation regulations promulgated by the Ministry of Commerce, a quota or permit management system has been implemented on goods which are subject to import or export restrictions. As at the Latest Practicable Date, according to Jingtian & Gongcheng, none of products manufactured and sold by the Company are subject to prohibition or restriction from export or subject to quota management.

### **The main products**

The Company's antenna products include:

- WLL/PHS base station antenna series;
- GSM/CDMA antenna series; and
- indoor distribution system series.

The Company also distributes feeder system in connection with its GSM/CDMA antenna products. It is also in the process of research and development of intelligent antennas which form one of the core technologies in 3G base station antenna system. The Company plans to launch its 3G base station antenna system when the mobile communication operators proceed with the 3G network construction. The Company expects to launch the 3G base station antenna system during the second quarter of 2004.

The Company is currently capable of producing base station antennas which may be broadly classified into three categories with over 100 specifications which are distributed both in the PRC and overseas. The antenna products of the Company are generally used by its customers in the wireless communication field, including digital systems of GSM, CDMA, PAS/PCS, PHS, WLL/PHS with frequency from 400MHz to 2,000MHz. The Company has not produced PAS/PCS, PHS, WLL/PHS digital systems and accordingly no Network Access Licences were applied for in respect of such systems.

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According to the Directors, the Company has not experienced any material claims arising from defective products up to 31 May 2003. Accordingly, no provision has been made for product warranty.

### Other services provided to customers

Ancillary to the principal businesses mentioned above, the Company provides services of inspecting the networks operated by some of the Company's customers. When providing the network inspection services, the Company will evaluate the performance of the networks and identify areas of improvement, and usually making recommendation on the necessary improvement. The Company charges its customers based on the size of areas contracted for inspection.

The Company also provides testing services by acting as an independent testing agent for testing the performance of antennas and/or related products. Such services are usually required when a network operator needs technical parameters of an antennas or wants to evaluate individual antennas in an environment separated from a network. For example, in cases where the operator is considering the installation of antennas of a new model in their network. The test is performed not only on antennas produced by the Company but also on those produced by other manufacturers.

For each of the two years ended 31 December 2002 and the five months ended 31 May 2003, income from services provided to the customers amounted to nil, approximately RMB2 million and approximately RMB23,000 respectively. These services are provided by the Company upon customer's request and thus the income is non-recurring. Accordingly, such service income fluctuates during the Track Record Period.

## PRODUCTS

### Summary of the principal products of the Company

Name of the product	Nature of the product	Application of the product and development status	Time when it was launched to the market
WLL/PHS base station antenna series	Antenna for mobile communication base station	Transmission of signals in WLL/PHS communication system, which antenna products were self-developed by the Company	November 1999
GSM/CDMA antenna series	Antenna for mobile communication base station	Transmission of signals in GSM/CDMA communication system, which antenna products were self-developed by the Company	March 2001
Indoor distribution system series	Products designed to enhance mobile communications coverage capability	Provision of signal coverage for indoor or outdoor "out-of-signal" coverage ("blind") areas, which products were self-developed by the Company	December 2001

Currently, the products in respect of which the Company has obtained Network Access Licence issued by the MII include "GSM digital cellular repeater HTZF-900 (Network Access Licence No. 17-4838-011176, the validity period of which is from 21 August 2001 to 21 August 2004)" and "CDMA trunk amplifier HTZF-880GIII (Network Access Licence No. 17-4838-022101, the validity period of which is from 23 September 2002 to 23 September 2005)". Except for products within the scope of "administration of network access for telecommunication equipment"

as stipulated in the “The Measures for Administration of Network Access for Telecommunication Equipment” which requires the Network Access Licence issued by the MII, the research and development, manufacture and sale of other products of Haitian is not restricted by the relevant laws and regulations of the PRC. The Company has independently developed the following products:

### *WLL/PHS base station antenna series*

WLL/PHS base station antennas include omnidirectional antenna; directional antenna; dual-polarized omnidirectional antenna, ceiling mount omnidirectional antenna, wall mount antenna and high-way dual directional antenna. These antennas are equipped with 2.2 to 15 dB gain offering horizontal-beam width such as 360°, 180°, 70°, 65°, 45° or 30° for 1900MHz PHS bands.

WLL/PHS system combines PHS terminal technology to form an extension to a fixed telephone system and wireless equipment. Since the voice encoding system uses adaptive differential pulse code modulation, speech quality on a par with that of fixed telephone is obtained.

In the PRC, WLL/PHS system is also called “Xiaolingtong”.

### *GSM/CDMA antenna series*

GSM/CDMA antennas include Omnidirectional Antenna, Vertical-Polarized Panel Antenna, Vertical-Polarized Directional Panel Antenna, Dual-Polarized Panel, Dual Band Ceiling Mount Antenna, Adjustable Electrical Tilt Antenna, Parabolic Antenna and Dual Band Wall Mount Antenna. These antennas are equipped with 4.5 to 20 dB gain offering horizontal-beam width, such as 360°, 33°, 65°, 90°, 105° or 120° for 900/1800MHz GSM bands and 800/1900MHz CDMA bands.

### *Indoor distribution system series*

In order to satisfy the increasing level of demand of customers for quality mobile communications system, the Company’s indoor distribution systems product series are the solution to optimal mobile communications coverage capability. Repeater system and indoor distribution system are offered for indoor or outdoor out-of-signal coverage (“blind”) areas to provide signal coverage. These products can be used in supermarket, subway, hotel, airport, gymnasium, office building, parking lot, exhibition hall, railway station, express way, tunnel and entertainment area, and they may be installed in different locations of a building to improve telecommunications quality. They solve various signal transmission problems such as blind or weak area of signal and interrupted session.

Products and systems under this series include multi-band ceiling-mount omnidirectional antenna, dual-band wall-mount antenna, dual-polar indoor patch antenna, 800/900/1800 MHz Yagi antenna and RF device systems.

RF device mainly includes splitter, coupler, duplexer, combiner/divider and other components, and is an essential component of indoor distribution system. A splitter is used to bring divided input power to each of its output port. A coupler is used to take proportional power from main transmission line via sub-line output. A duplexer is used to receive/transmit RF signal from a common single-source transmission (omnidirectional) cable (or antenna). Combiner/divider is used to combine both GSM 900MHz system signal and CDMA 800MHz system signal into the same indoor distribution system.

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During the Track Record Period, the approximate number of sets of antennas sold was as follows:

	For the year ended 31 December		For the five months ended 31 May	
	2001	2002	2003	Total
WLL/PHS base station antenna series	216,900	355,160	435,860	1,007,920
GSM/CDMA antenna series	15,880	46,100	8,470	70,450

### Antennas

Different kinds of networks (e.g. GSM/CDMA and WLL/PHS) require different kinds of antennas and related products. In addition, the antennas have different features, components, shapes, functions, capacity and coverage. Each of the products of the Company, depending on the network (e.g. 900 MHz or 1,800 MHz) and usage, is equipped with different equipment of varying shapes and performance. Some of the Company's products are shown below:



Omnidirectional Antenna



High-Way & Town Directional Antenna



Vertical Polar Panel Antenna



Vertical Polar Panel Antenna



Vertical Polar-Directional Antenna



Adjustable Electric-downtilt for  
Panel Antenna



Grid Parabolic Antenna



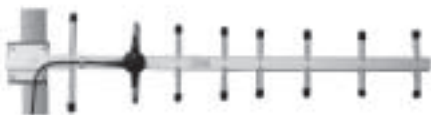
Dual Polar Patch Antenna



Dual Band Dual Polar Panel Antenna



Dual Band Ceiling Mount Antenna



Yagi Antenna



Three Band Ceiling Mount Omnidirectional Antenna



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Certain key features of the Company's products are summarised below:

<b>Description</b>	<b>Features/applications</b>
Omnidirectional Antenna	a kind of antenna used in remote suburban area and rural areas with even radiation intensity in all directions
High-Way Dual Directional Antenna	a kind of antenna used in highway and railway, with radiation in two opposite directions
High-Way & Town Directional Antenna	a kind of antenna used in highway and town
Vertical Polar Panel Antenna	a kind of space diversity antenna used in urban cellular network
Dual Polar Panel Antenna	a kind of polarity diversity antenna (two in one) used in city and cellular network
Remote-control Adjustable for Wave Packets Declinate Panel Antenna	mainly used in city for network optimization
Grid Parabolic Antenna	mainly used in needle wave beam repeater
Dual Polar Patch Antenna	mainly used in indoor distribution system
Dual Band Dual Polar Panel Antenna	mainly used in urban areas with high population of mobile telecommunication subscribers to minimise multi-path effects
Dual Band Ceiling Mount Antenna	a kind of antenna used for 900 MHz/1800 MHz indoor distribution system
Dual Band Wall Mount Antenna	a kind of antenna used for 900 MHz/1800 MHz indoor distribution system
Yagi Antenna	a kind of antenna used for wireless access
Three Band Ceiling Mount Omnidirectional Antenna	a kind of antenna used for 800 MHz ~3000 MHz indoor distribution system

The following table sets out the Network Access Licence obtained by the Company as at the Latest Practicable Date:

<b>Name</b>	<b>Model no.</b>	<b>Issue date</b>	<b>Expiry date</b>
GSM digital cellular repeater	HTZF-900	August 2001	August 2004
CDMA trunk amplifier	HTZF-880GIII	September 2002	September 2005

### **Production facilities**

The Company owns the land use right of a site located at No. 36 Gao Xin Liu Road, the Xi'an National Hi-Tech Industrial Development Zone, Xi'an, Shaanxi Province, the PRC, with a site area of approximately 32,000 sq.m.. The land premium has been paid in its entirety and the period for land use rights is 50 years, up to 4 August 2050. Built on that site is the Company's industrial complex with transportation and communication facilities, comprising production plants, test centre, warehouses, ancillary offices and auxiliary facilities such as power station and air conditioning system. It is also connected with public utilities including the supply of water, power

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and gas. The construction of the industrial complex with a gross floor area of 13,400 sq.m. of two factories, a scientific research tower, an energy generation centre, a guard room and an office was completed in December 2001.

According to the valuation reports prepared by Vigers Hong Kong Ltd., as at 31 August 2003, the Company currently had three production lines in this industrial complex with a variety of production equipment, including but not limited to domestic made assembly belt and roller conveyors, hydraulic shears, hydraulic bender, power presses, lathe machines, vertical and radial drills, milling machines, numerically controlled electric discharge wire-cut machine, humidity and temperature testing chamber, mechanical vibration machine, tapping and bench drills. Plant utilities include air-conditioning and heating system, compressed air system, pumps, transformer, electric distribution system and controls, alarm system, ventilation system, elevators, blowers, gas system, water supply system, telephone system, yard and production lighting system. The utilisation rate of the Company's production facilities for GSM/CDMA antenna series is approximately 70%. On 3 July 2001, the Company obtained the State-owned Land Use Right Certificate for a site of approximately 32,000 sq.m. located at No. 36 Guo Xin Liu Road, Xi'an National Hi-tech Industrial Development Zone, Xi'an, Shaanxi Province, the PRC for a period commencing on 4 August 2000 until 4 August 2050. In order to ensure the proper functioning of the Company's equipment, a three-tier equipment maintenance system is adopted, comprising daily maintenance, quarterly maintenance and annual or biennial overhaul.

In 2002, there were modification works and installation of new equipment in the existing test centre which were provided by different constructors/suppliers. The estimated total cost of the modification and equipment installation was RMB1.1 million. The modification work and installation were completed in the fourth quarter of 2002 and have been put into operation since June 2003 after inspection and testing.

Considering further development in the future, the Company plans to build two more structures at No. 36 Gao Xin Liu Road, Xi'an National Hi-tech Industrial Development Zone, Xi'an, Shaanxi Province, the PRC. Such two structures will be used for research and development purposes and as antenna test centre as set out in the implementation plan in the section headed "Statement of Business Objectives and Strategies" in the prospectus. The construction of these structures is planned to be funded by the net proceeds of the Placing.

According to Jingtian & Gongcheng, save that the Company has pledged its land use right of the site at No. 36 Gao Xin Liu Road, Xi'an National Hi-tech Industrial Development Zone, Xi'an, Shaanxi Province, the PRC and all the buildings erected thereon, the Company is not subject to any mortgage or other security interests in respect of other production facilities. (For further details about the land use right and mortgage in respect of the site, please refer to the valuation report set out in appendix II of this prospectus). As at the Latest Practicable Date, the Company has lawfully occupied and controlled the production facilities. The Company has obtained the ownership documents for such production facilities, such as the State-owned land use rights certificate of the PRC (西高科技國用 [2001] 字第37746號) issued by Xi'an Municipal People's Government on 3 July 2001 and the building ownership certificate of the PRC (西安市房權証高新區字第105010407-20-1號) issued by Xi'an Municipal Building Administration Bureau (西安市房產管理局) on 17 July 2002.

### Testing equipment

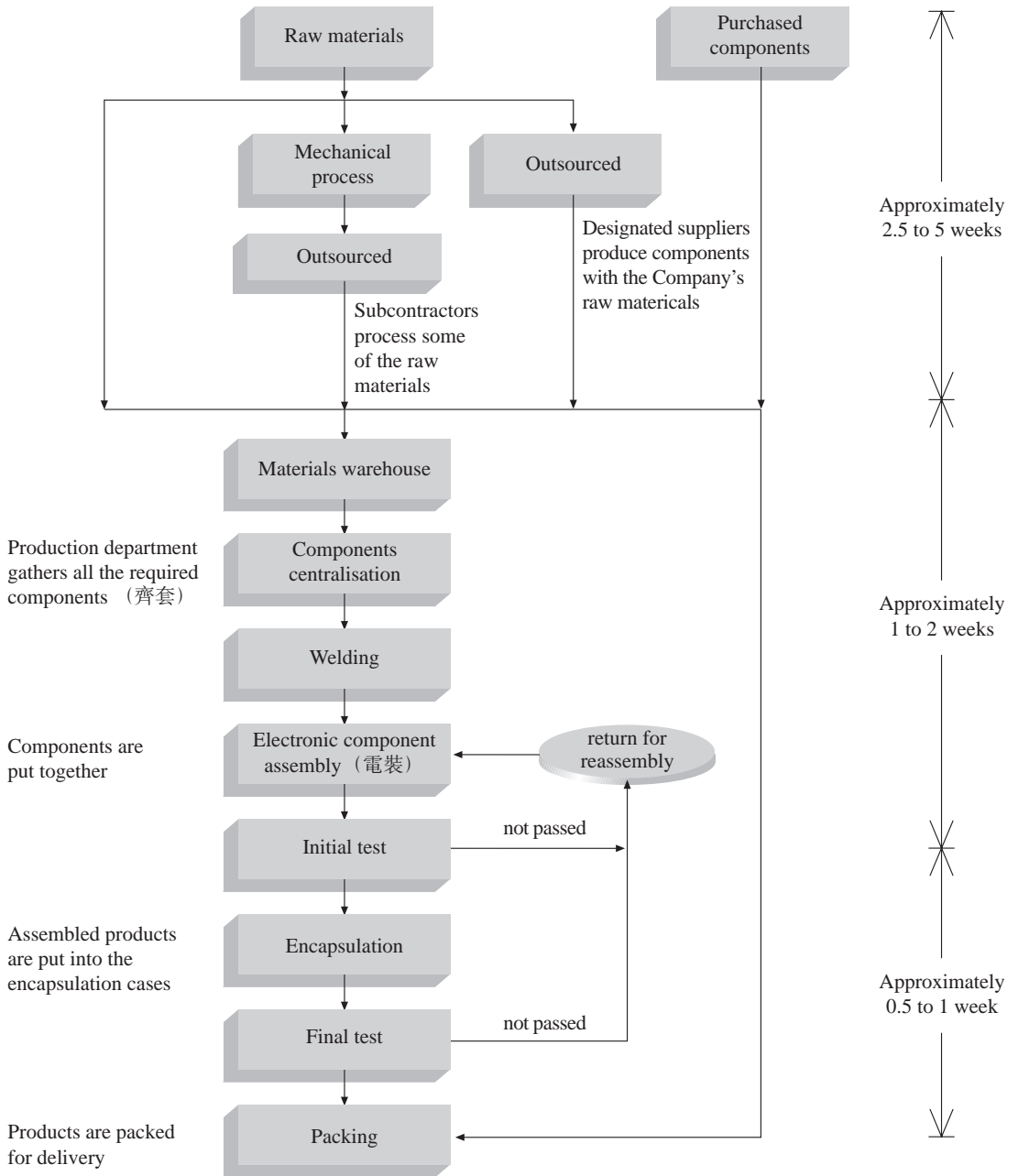
Base station antenna is one of the high-tech products in telecommunication industry. Specialized instruments are needed to conduct testing and quality control. The Company is equipped with advanced testing instrument such as vector network analysers imported from the U.S., passive intermodulation distortion analysers, spectrum analysers and anechoic chambers to test parts and components of the semi-finished products and final products throughout the production process, so as to monitor and control the quality and performance of its antenna products.

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The Company's production facilities are designed to have an annual production capacity of approximately 500,000 to 750,000 sets of WLL/PHS base station antenna and 100,000 to 120,000 sets of GSM/CDMA antenna on the basis of one shift of 8-hour a working day and 250 working days a year. The Company has not been operating in full capacity. The level of production will be adjusted to coincide with customers' orders.

## Production process

The production process of the Company's products are illustrated below:



### RESEARCH AND DEVELOPMENT

The Directors consider that the success of the Company relies on the research and development ability of the Company.

#### In-house research and development

The Company has been involved in the research and development of base station antennas and related products since its establishment in October 1999. All of the research and development activities are carried out by its in-house research and development team, Haitian Research Institute, comprising experts and experienced technicians who are employed by the Company. As at the Latest Practicable Date, the Company's research and development team had 149 members which was headed by the Company's senior management.

Different kinds of mobile communication networks require different antennas that have different features, components, shapes, functions and coverage. For this reason, the Company's research and development team is divided into a number of research units to carry out different research and development subjects. Each research unit is led by a specialist to perform the research and development of a particular type of base station antennas or related products.

To keep abreast of the latest technological and market development in the base station antenna sector, the Company actively participates in trade exhibitions and seminars of telecommunication and base station antenna industries, which include the following:

- |                |   |
|----------------|---|
| June–July 2000 | The Company was invited to visit Thailand and signed a cooperation agreement with AWC   |
| March 2001     | The Company was invited to attend the “Forum on Network Optimization in Wireless Local Telephone Technology Development (無線市話技術發展網絡優化研討會)” sponsored by the Science and Technology Intelligence Research Institute of the MII   |
| March 2002     | The Company was invited by the China Information Industry Association to attend the “Senior Round-Table Meeting (高層圓桌座談會)” of the “2nd Session of International Seminar on New Generation Mobile Communication Technology Development Strategy (第二屆新一代移動通信技術發展戰略國際研討會)”   |
| April 2002     | The Company attended the “2002 China Mobile Communication High Level Seminar (2002年中國移動通信高級論壇)” and Professor Xiao, Chairman of the Board, delivered a report on the development in the base station antenna in the PRC   |
| July 2002      | The Company attended the “China Unicom Zhangjiajie Hunan International Seminar on Wireless Network (GSM&CDMA) Optimisation Technologies” (“中國聯通·湖南張家界無線網絡(GSM&CDMA)優化技術國際研討會”) and delivered a report of “Antennas in Wireless Network Optimisation”  |
| August 2002    | The Company attended a conference in Beijing on the “Application and development communication antenna in China” and Professor Xiao delivered a research report on opportunities and challenges of PRC antenna manufacturer in the base station antenna industry with PRC's accession to WTO (“進入WTO的移動通信基站天線市場，國產品牌機遇大於挑戰”). |

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- March 2003      The Company attended a conference, namely “The development and policy of the China telecommunication industry in 2003” (2003年中國電信業發展與政策通報會) which was held by Planning Department of MII (信息產業部綜合規劃司) and Renmin Youdian (人民郵電報).
- April 2003      The Company attended the Caspian Telecoms Exhibition 2003 which was held in Turkey.
- May 2003        The Company attended the 15th Moscow International Telecoms Exhibition (SVIAZ-EXPO COMM MOSCOW), a telecom and information technology exhibition, which was held in Moscow, Russia.

For the two years ended 31 December 2002 and the five months ended 31 May 2003, research and development costs amounted to approximately RMB5.3 million, RMB9.1 million and RMB5.1 million respectively. As at the Latest Practicable Date, the Company’s research and development department was equipped with 22 anechoic chambers and other high-end specialised instrument (e.g. vector network analysers) to carry out the research and development activities of the Company. Most of the products which the Company currently distributes are researched and developed by the Company. The Company has not developed feeders, which connect the base station antenna system and indoor distribution system and repeater series to other electronic device.

### **Technological know-how of WLL/PHS base station antenna and GSM/CDMA antenna**

By a shareholder’s resolution dated 3 August 2000, it was resolved that Professor Xiao injected the technological know-how used for developing and manufacturing WLL/PHS base station antennas and the antenna for GSM/CDMA mobile telecommunication system into the Company at a value of RMB 10 million as part of his contribution to the increase in registered capital. The technological know-how injected by Professor Xiao is the one based on which the Company has been developing various models of WLL/PHS base station antenna series and GSM/CDMA antenna series which are major products of the Company. The upgraded model of these antenna products will still be one of the major sources of revenue of the Company. Based on the technological know-how, the Company is able to develop antennas (WLL/PHS base station antenna series and GSM/CDMA antenna series) and related products for 3G communication system (WCDMA and CDMA2000 system). In addition, by applying such technological know-how, the Company is able to develop intelligent antenna for TD-SCDMA system. On such basis, the Directors consider that the aforesaid technological know-how is important to the Company’s business and operation and even though technology is rapidly changing in the telecommunication industry, it could be of use to the Company up to 2010 at the earliest. The Directors further consider that as there is no significant technological obsolescence to further develop the antenna products of the Company based on such technological know-how, it is appropriate to amortise the aforesaid technological know-how over a period of ten years which is a better way to reflect the cost allocated on a systematic basis and less any impairment, if any, when identified.

Based on the valuation report issued by Xi’an Zhengheng Asset Appraisal Co. Ltd. (an Independent Third Party as at the date of the valuation report and a qualified valuer in the PRC) dated 16 June 2000, the value of this technological know-how was approximately RMB36,410,000 as at 30 April 2000. The valuation was made based on the estimated future income generated by products developed based on such technological know-how. As advised by Jingtian & Gongcheng, according to the Company Law, the intangible assets used for contribution shall not be over 20% of the registered capital. Accordingly, the technological know-how that Professor Xiao injected into the Company at the time of the Restructuring could only be booked up to a value of RMB10 million as the registered capital for the Company. In light of the foregoing, the Directors believe that the valuation of RMB10 million, which was agreed by all the Promoters upon the Restructuring for the technological know-how being injected to Xi’an Haitian Communications is fair and reasonable and is in the interest of the Company taken as a whole. According to the Directors, the value of the technological know-how is and will be reviewed at every balance sheet date. As at the Latest Practicable Date, the Directors have not identified any impairment loss for such technological know-how.

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### SALES AND MARKETING

During the Track Record Period, the turnover of the Company by geographical locations are as follows:

<i>(in RMB million)</i>	For the year ended 31 December				For the five months ended 31 May	
	2001	%	2002	%	2003	%
PRC	73.2	97.7	151.1	91.8	76.3	96.2
Asia other than the PRC						
<i>(Note 1)</i>	1.7	2.3	13.3	8.1	1.3	1.7
<i>(Note 2)</i>	–	–	0.1	0.1	1.7	2.1
<b>Total</b>	<b>74.9</b>	<b>100.0</b>	<b>164.5</b>	<b>100.0</b>	<b>79.3</b>	<b>100.0</b>

*Notes:*

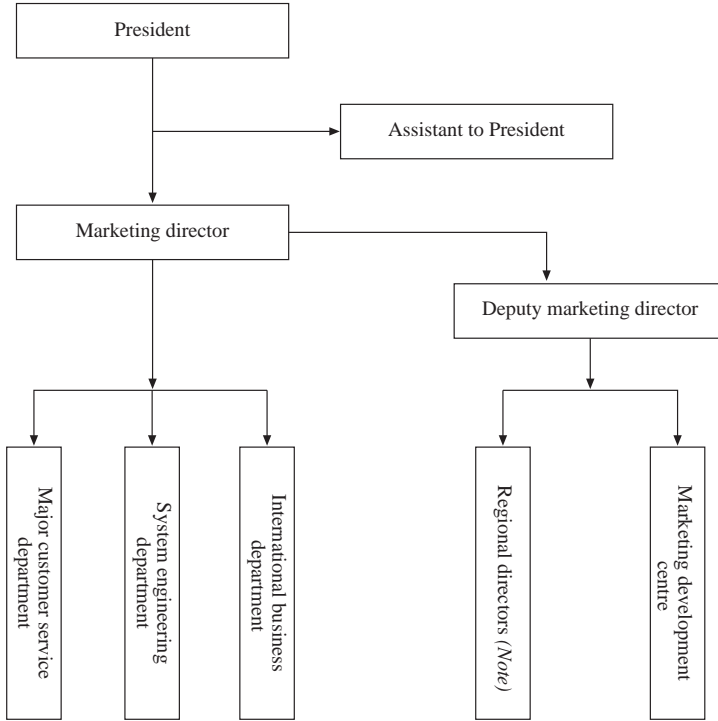
1. These countries/regions include Taiwan, Thailand, Indonesia, India, Singapore, Saudi Arabia, Sri Lanka and United Arabian Emirates.
2. These countries include the U.S., Germany and Tanzania.

### The PRC market

The Directors consider that an extensive and efficient distribution network of the Company's products is crucial to the success of the Company. The Company's sales and marketing activities in the PRC are carried out by its employees. They are divided into various teams and serve customers based on geographic delineation. As at the Latest Practicable Date, the Company had 6 sales contact points in the PRC, where some of the official staff of the Company's sales and marketing department are stationed. These cities include Beijing, Hangzhou of Zhejiang, Nanjing of Jiangsu, Wuhan of Hubei, Fuzhou of Fujian and Xi'an of Shaanxi. The Company established the sales contact points across the country with a view to facilitating communications with nationwide customers, the provision of timely services as well as reducing marketing expenses. The sales contact points in various districts is an integral part of the marketing department, an internal functional division of the Company, with all their staff being appointed by the Company. The Company's sales contact points do not have the status of an enterprise legal status nor a branch office. As such, they are not allowed to conduct any business activities and they do not keep independent accounts. It is not necessary for the sales contact points to obtain any approval and permit from any authorities, nor complete any registration and filing procedures. As at the Latest Practicable Date, the Company has not set up any branches in the PRC nor any sales office overseas.

The sales contact points are staffed by the Company's executives and trained engineers and are responsible for initiating, negotiating, coordinating and providing after-sale services and technical support services. Details of such services are described under the paragraph headed "Product warranty, after-sale services and technical support" below. These sales contact points are not separate legal entity independent from the Company and only perform some preliminary coordination and negotiation works for making sales and cannot conclude sales and purchase agreement by themselves.

Organisation chart for sales and marketing department



Note: As at the Latest Practicable Date, there were four regional directors.

As at the Latest Practicable Date, the Company employed a total of 83 employees to carry out the sales and marketing activities of the Company. The following map illustrates the regions where the sales contact points established by the Company mainly focus on:



★ Regions in which the Company’s sales contact points are located

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When a mobile communication network operator in the PRC decides to build or expand a network in a province, region or municipality, it usually procures the major constituent parts from the approved or recommended telecommunication equipment vendors. The procurement usually involves tendering, which the mobile communication network operator considers, among others, the price and quality of the products and/or services delivered by the respective mobile communication equipment vendors. Telecommunication network operators do not necessarily conduct all purchases through tendering.

The Company currently adopts a direct distribution strategy in the PRC. The sales and marketing teams in the sales contact points of the Company actively seek business opportunities with mobile communication network operators. When mobile communication network operators commence the tender process, the sales and marketing teams will report to the Company's Xi'an head office. Staff in the sales and marketing department, after discussion with officers of other departments on the profitability, availability of production capacity and other relevant factors, will arrive at a "bid price". The Directors will then submit the Company's tender through its designated officers located at respective sales contact points to the mobile communication network operators. The sales agreements made with the Company's customers are signed by a Director or authorised representative of the Company from the sales and marketing department in Xi'an. If awarded a contract, the Company will then, according to customers' orders, deliver the products on or before the agreed time. The Company prescribes sales target for each sales contact point and conducts annual appraisal at the sales meetings which are held once or twice a year. The achievement of the sales target is linked with the remuneration and bonus of the staff working in the sales contact points.

In relation to international distribution, the Company in contrast adopts both strategies of direct distribution and sales through agents.

### **Export market**

Through the participation in international seminars and trade conventions, the Company has established business relationships with foreign mobile communication network operators and mobile communication equipment vendors/system integrators. The membership in PHS MoU Group also enabled the Company to have access to global information on recent technological and market changes in PHS.

The Company has appointed a company having its address in India, an Independent Third Party, in November 2001 in respect of its antenna products on an exclusive basis in respect of the territories of India, Nepal, Bhutan and Bangladesh for a term of one year, subject to renewal on terms as mentioned below. Under the agency agreement, a minimum target sales amount in the said territories for the year ended 31 December 2002 is prescribed. According to the agency agreement, the agent's commission is accrued at the rate of 10% on the free on board ("FOB") value and becomes payable at the end of every quarter of the year. The Company does not sell directly to the agent. The Company directly sells its products to the end customers, including those introduced by the agent. At the end of each quarter, the Company calculates and pays the agency fee payable to the agent based on FOB value of sales to the customers. Sales referred by the Indian agent amounted to nil, approximately RMB6.2 million and RMB0.6 million and commission paid amounted to nil, RMB0.6 million and RMB60,000 for the two years ended 31 December 2002 and the five months ended 31 May 2003 respectively. As the sales target of US\$600,000 for 2002 was met, the agency agreement was renewed on 29 January 2003. The minimum sales target was revised to US\$1.0 million for the period between 1 January 2003 and 31 December 2003. Due to the success of the Company's marketing activities, sales to countries in Asia other than the PRC in the second half of 2002 was significantly increased from approximately RMB1.31 million for the first half of 2002 to RMB12 million.

According to the Directors, the Company has only appointed one agent and such agent is in India. For the other companies to which commission in the aggregate sum of RMB1.4 million was paid during the five months ended 31 May 2003, they acted as "middlemen" which introduced customers to the Company and a one-off lump sum payment was made to them. The amount paid was negotiated between the middlemen and the Company and were agreed orally with no fixed commission rate. The Company then deals directly with the customers and the middlemen would have no involvement in the business relationship. For the five months ended 31 May 2003, the aggregate sales attributable to the customers referred from the middlemen amounted to approximately RMB2.7 million.



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According to the legal opinion issued by Jingtian & Gongcheng, as at the Latest Practicable Date, there is no export quota restriction in relation to the Company's products.

### Breakdown of customers

During the Track Record Period, the Company sold its products to over 140 customers. The following shows the breakdown of the customers:

#### By category (no. of customers):

	For the two years ended 31 December 2002 and the five months ended 31 May 2003	For the period from 1 January 2003 to the Latest Practicable Date
Mobile communication network operators ( <i>Note 1</i> )	2	2
Mobile communication equipment vendors/ system integrators	142	66
Total ( <i>Note 4</i> )	144	68

	For the two years ended 31 December 2002 and the five months ended 31 May 2003	For the period from 1 January 2003 to the Latest Practicable Date
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#### By geographical location (no. of customers):

PRC	122	48
Overseas		
Asia other than the PRC ( <i>Note 2</i> )	18	14
Others ( <i>Note 3</i> )	4	6
Total	144	68

#### Notes:

1. For the above purpose, each of China Mobile Group or China Unicom Group is considered to be an individual customer.
2. These countries include Taiwan, Thailand, Indonesia, India, Singapore, Saudi Arabia, Sri Lanka and United Arabian Emirates.
3. These countries include the U.S., Germany and Tanzania.
4. Among the 144 customers as at 31 May 2003, 118 of them are repeat customers (i.e. those who placed two or more orders with the Company during the Track Record Period).

### Sales policy

The Company's products are sold to both PRC customers and overseas customers mainly in India, Taiwan, the United States and Thailand. Except for the agent appointed in India, as at the Latest Practicable Date, the Company had not appointed any other distributor or agent. The Company directly sells its products to the customers in the PRC. Since 8 February 2001, when the Company obtained the foreign trade right, the Company has started to sell its products directly to overseas customers. The Company determines the selling price of its products on a case-by-case basis

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subject to negotiation with its customers. It is the Company's practice that it only agrees to sell its products above the estimated cost. In general, domestic sales are all settled in Renminbi while export sales are generally settled in U.S. Dollars. The Company has not entered into any futures contracts to hedge its foreign exchange exposure. The Company's export sales which were settled in U.S. Dollars for the two years ended 31 December 2002 and the five months ended 31 May 2003 represented approximately 1%, 8% and 4% of the Company's total turnover for the respective years or period. Payments for domestic sales and exports are usually settled by telegraphic transfers, cheque or letters of credit:

	<b>For the year ended 31 December 2001</b>	<b>For the year ended 31 December 2002</b>	<b>For the five months ended 31 May 2003</b>
By letter of credit	–	2.6%	1.4%
By telegraphic transfers	82.8%	85.5%	93.1%
By cheque	17.2%	11.8%	5.4%
By cash ( <i>Note</i> )	–	0.1%	0.1%
	<b>100%</b>	<b>100%</b>	<b>100%</b>

*Note:* Cash settlement is allowed only if a customer comes to the Company's premises and requests for immediate delivery of a small quantity of products, say one or two pieces of antenna. The upper limit of cash sales value is RMB20,000.

According to the Directors, when the Company accepts the settling of trade debts owing from UTStarcom with bills of exchange, the Company usually agrees with the customer on settling the whole amount of trade debt outstanding at a certain date. As further advised by the Directors, the bills issued by UTStarcom are usually due six months after the issue date.

### *Credit policy*

For sales to members of China Unicom Group and China Mobile Group, including for the sales of products for indoor distribution system, the Company requests payments of its products in instalments which are to be settled within credit terms granted and the portion of each instalment under each contract is different, depending on the results of negotiations between the parties. For other mobile equipment vendors, such as UTStarcom and Lucent Qingdao, customers are required to pay the whole amount of an invoice within a fixed time after the related products have been delivered to location(s) designated by the customers. When considering credit terms to be offered to individual customer, the Company takes into account the customers' payment history, financial position, size of their orders and the result of negotiation with the customers. Each executive Director has been assigned a different responsibility and Mr. Xiao Bing, an executive Director, has been assigned to authorise credit terms on behalf of the Company. Under its current policy and practice, the Company categorises its customers by business nature: mobile communication network operators and mobile communication equipment vendors/system integrators. The Company then sub-categorises its customers by their annual sales volume: (i) above RMB2 million; (ii) between RMB500,000 and RMB2 million; and (iii) below RMB500,000. The customers falling in different sub-groups are granted various credit periods ranging from 90 days to 240 days based on their business nature and their annual sales volume. The Directors are not aware of, and believe that there is no publicly available information in relation to the industry practice of credit periods. Customers under the category of mobile communication network operators (e.g. members of China Mobile Group and China Unicom Group) and having more than RMB2 million sales with the Company a year are granted 240 days credit period. The credit period is so granted because customers of such categories are in a stronger financial position and represent important customers to the Company in terms of the size of their orders.

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Settlement from customers are made by three to four instalments. The first one or two instalments, which amounted to 10% to 50% of the purchase price, are usually made after the signing of contracts and delivery of goods. Another instalment, which amounted to 30% to 45% of the purchase price, are usually paid after the preliminary testing of the customers' networks where the antennas are installed and related acceptance report are issued by customers. The final instalment which amounted to 5% to 20% of the purchase price, are usually paid after the final testing of the customers' networks and related acceptance report are issued by customers. The credit period starts from the date of delivery of products for sale of antennas and related products or from the day of completion of primary testing of installation for indoor distribution system series. Such settlement process is usually completed within 240 days from the date when the products are delivered and the title and risk of ownership are passed to the customers or the services provided, as the case may be.

If the settlement process takes a longer time than expected, the credit period may be further extended to 365 days subject to the approval from the Director responsible for sales and marketing, Mr. Xiao Bing after taking into the consideration the reasons for delay and the payment history of the customer.

The sales contracts usually specify the time or event at which the sales amount or the relevant instalment should be paid by the customers. However, there is no provision in the sales contracts specifying penalty to be charged on the amount which is paid later than the prescribed time or event. In order to protect the interest of the Company, its management and staff will continue to monitor the position of trade receivables so as to ensure that the customers pay in accordance with the agreed schedule.

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. As at 31 May 2003, the trade receivables before allowance from the members of China Unicom Group and China Mobile Group were approximately RMB50.6 million and RMB12.7 million. In general, the credit period granted to them is 240 days. For the trade receivables of approximately RMB35.8 million from other customers, the credit period granted by the Company ranges from 90 days to 240 days under normal circumstances.

### *Basis of making allowance*

Allowance is made by the Company on specific basis instead of on general basis based on ageing of the account receivables, when the management of the Company identifies a doubtful debt on an individual basis during their quarterly review on its outstanding trade receivables. The amount of trade receivables before allowance as at 31 December 2001, 31 December 2002 and 31 May 2003 were approximately RMB26.2 million, RMB104.2 million and RMB99.1 million respectively. The management of the Company assesses the provision based on (i) the age of the particular trade receivable; (ii) whether the outstanding amount has been overdue, compared with the credit period granted for that particular trade receivable; (iii) the subject customer's payment history and also repayment pattern in accordance with the agreements; (iv) the subject customer's current financial strength; and (v) the business relationship between the respective customer and the Company. No general provision based on ageing has been made for each of the two years ended 31 December 2002 and the five months ended 31 May 2003.

The allowance for doubtful debts made by the Company for the two years ended 31 December 2002 and the five months ended 31 May 2003 amounted to approximately RMB0.7 million and 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 years or period. The amount of allowance for doubtful debts provided for are not considered by the Directors to be material in terms of the Company's business scale.

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### *Collection of overdue payment*

When an invoice is found overdue for payment, the responsible salesperson will remind the customer by sending email, facsimile, making telephone calls and/or visiting the customer personally. If the invoice is still outstanding for payment, one of the management members, namely the regional directors, the deputy marketing director, the marketing director, the assistant to president and the president will be assigned to follow up. The assigned person will make telephone calls to and/or visit personally the senior management (e.g., the general manager) of the customer to enquire the customer's repayment plan. If there is a proper reason for the delay of payment, e.g., the delay of construction of the customer's networks due to weather condition, the executive Director responsible for the sales and marketing department, Mr. Xiao Bing, will decide whether to extend the credit period granted. The extension of credit period is granted based on factors such as the reasons for the delay of payment and the customer's payment history and financial position. In the event that Mr. Xiao Bing finds a customer which refused to pay a trade debt, the Company will issue a demand letter and/or take other forms of legal action to collect the debt. As at the Latest Practicable Date, a law firm representing the Company has issued demand letters to six customers which have overdue debts for the purpose of collecting trade receivables. Trade receivables due from such six customers, which in aggregate amounted to approximately RMB2.1 million, have been fully provided for in the Company's income statements.

When a customer fails to pay a trade debt within the credit terms granted, Mr. Xiao Bing will also decide whether to deliver a new batch of products to that customer, if there is an order. The decision on restriction on delivery is made based on factors such as the reasons for the delay of payment and the customer's payment history and financial position. If such a restriction is imposed, the Company's related staff will be notified.

### *Adequacy of the allowance for doubtful debts*

During the two years ended 31 December 2002 and the five months ended 31 May 2003, no trade receivable has turned into bad debt of the Company. As at 31 May 2003, allowance for doubtful debts amounted to approximately RMB7.3 million, all of which were attributable to trade receivables. All doubtful debts have been fully provided for during the Track Record Period.

The major customers of the Company, such as the top 5 customers in terms of the amount of purchases from the Company in the respective accounting periods (for purpose of calculating turnover attributable to the top five customers, each of China Mobile Group or China Unicom Group is considered to be a collectively independent customer), including UTStarcom, members of China Mobile Group and China Unicom Group, have business relationships with the Company for more than two years. Considering that none of the major customers has history of default in payment and based on the Directors' study on publicly announced financial information of UTStarcom Inc. (a company listed on the NASDAQ and is the holding company of UTStarcom), China Mobile (Hong Kong) Limited (a company listed on the Main Board and the New York Stock Exchange and which is a subsidiary of China Mobile and a fellow subsidiary/the holding company of various members of China Mobile Group) and China Unicom Limited (a company listed on the Main Board and the New York Stock Exchange and which is a subsidiary of China Unicom and a fellow subsidiary/the holding company of various members of China Unicom Group), the Directors perceive low credit risks associated with such sales. As at 31 May 2003, trade receivable before allowance from China Mobile Group, China Unicom and UTStarcom was approximately RMB12.7 million, RMB50.6 million and RMB18.8 million respectively. According to the Directors, during the Track Record Period, no bad debts had been made by China Mobile Group, China Unicom Group and UTStarcom. However, as the Directors have been taking a more prudent approach in assessing the doubtfulness of trade receivables, as at 31 May 2003, the Company provided allowance for doubtful debts amounted to approximately RMB2.4 million and RMB1.1 million for trade receivable due from China Unicom Group and China Mobile Group respectively.

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The following table shows the details of trade receivable outstanding as at 31 May 2003:

	<i>RMB'Million</i>
Trade receivable, before allowance	99.1
Allowance for doubtful debts	(7.3)
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	91.8
Settlement up to 31 August 2003	(24.1)
	<hr/>
Balance not provided for and unsettled up to 31 August 2003	<u>67.7</u>
Analysis on the balance not provided for and unsettled up to 31 August 2003	
Not yet due for payment	18.0
Due but credit period extended	28.9
Overdue	20.8
	<hr/>
	<u>67.7</u>
Analysis on overdue balance	
UTStarcom	18.8
An Indian customer	1.4
China Mobile Group (six members)	0.6
	<hr/>
	<u>20.8</u>

For the trade receivables not provided for as at 31 May 2003, approximately RMB24.1 million or 26.3% thereof have been settled up to 31 August 2003. Up to 31 August 2003, approximately RMB18.0 million of trade receivables as at 31 May 2003 are not yet due for payment and approximately RMB28.9 million are due according to original credit period but have been granted extension of the period after taking into the consideration the reasons given by customers for the delay payment and the satisfactory payment history of such customers. According to the extended settlement terms, approximately RMB1.6 million will be paid before the end of October 2003, approximately RMB15.7 million will be paid in November and December of 2003, approximately RMB7.2 million will be paid in by the end of May 2004 and approximately RMB4.4 million, being retention monies under the relevant contracts, will be paid by the end of the year 2004. When considering granting extension of credit terms to any customer, the Director responsible for sales and marketing, Mr. Xiao Bing, considers the reasons for the delayed payment and the payment history of the customer. To ensure that the customers are not abusing the reason of delay in delivery of main equipment, upon the request by customers for extension of payment dates, the Company's technicians will visit the base station areas, understand the progress of the installation and the reason for the delay and then assess whether the extended completion dates are feasible. Subsequently, they will report to the management of the Company the result of their assessment. For those overdue unsettled balances of approximately RMB20.8 million as at 31 May 2003 from the three customers as stated in the table above (for this purpose, each of China Mobile Group or China Unicom Group is considered to be an individual customer), satisfactory payment history of customers is noted and the management is taking steps (including sending reminders, making telephone calls and visiting the relevant customers personally) to follow up with the customers for immediate settlement. All these three customers have confirmed to the Company that they have trade debts due to the Company and promised to pay. Amongst the approximately RMB20.8 million overdue, (i) approximately RMB18.8 million is due from a customer which is arranging payment; among such RMB18.8 million approximately RMB7.9 million has been settled in September 2003 and the customer has agreed to settle the remaining balance of approximately RMB10.9 million by the end of October 2003; (ii) approximately RMB1.4 million is due from a customer who found technical problem in using the antenna and held the trade debt as retention money until the problem is solved; among such RMB1.4 million approximately RMB0.8 million has agreed to be settled by the end of October 2003 and the remaining balance of approximately RMB0.6 million is expected to be settled by the end of December 2003; and (iii) the balance of

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approximately RMB0.6 million was due from a customer mainly because of discrepancy in the records of the customers and the Company and the customer has agreed to settle such amount by the end of October 2003. Accordingly, the Directors consider that no additional allowance is considered necessary and that the allowance for doubtful debts was adequate as at 31 May 2003.

Up to 31 August 2003, approximately RMB24.6 million of the outstanding trade receivables before allowance of RMB99.1 million as at 31 May 2003 have been settled.

The ageing analysis of trade receivable is as follows:

	As at 31 December		As at 31 May
	2001 RMB	2002 RMB	2003 RMB
0 – 60 days	14,725,644	52,047,788	38,029,916
61 – 120 days	7,255,380	26,447,585	5,597,881
121 – 180 days	2,427,617	14,618,542	12,736,440
181 – 240 days	1,750,888	2,660,295	11,879,433
241 – 365 days	–	7,681,177	25,678,458
Over 365 days	–	747,449	5,165,581
	26,159,529	104,202,836	99,087,709
Less: Allowance for doubtful debts	(1,356,693)	(5,608,908)	(7,305,380)
	24,802,836	98,593,928	91,782,329

*Note:* As at 31 May 2003, there was no trade receivables aged for more than two years.

### *Pledging 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 of 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 utilised by the Company amounted to approximately RMB18 million.

Pursuant to the terms of the Factoring Agreement, the Company requires the customers from whom trade receivables have been pledged by the Company to deposit the Company’s trade receivables due from them into a designated account (“Designated Account”) at the Shanghai Pudong Development Bank from which the Shanghai Pudong Development Bank will debit from the Designated Account such amount as shall be required to repay the facility utilised by the Company when due. The Company formally informed the customers to remit their payment to the Designated Account. However, some of the customers deposited the trade receivables due from them into the other bank accounts of the Company instead of the Designated Account. In order to deal with such circumstances, a supplemental agreement was entered into between the Company and Shanghai Pudong Development Bank dated 20 August 2003 pursuant to which the Company shall transfer any such trade receivables, which have been deposited into other accounts of the Company, to the Designated Account. The Company also agreed that the trade receivables pledged to the Shanghai Pudong Development Bank but received by the Company in its other accounts

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shall be used to repay the facility utilised by the Company first before they are used for other purposes. The limit of the revolving facility will be automatically restored if the facility utilised by the Company is repaid as it falls due. The Directors have confirmed that during the Track Record Period, there was no default of payment of the facility utilised by the Company when they fell due and no legal action has been taken by the Shanghai Pudong Development Bank against the Company in relation thereto.

### *Measures to minimise the credit risk*

The Company adopts the following measures to minimise credit risk:

1. Credit terms are granted only when the relevant executive Director is satisfied that the customers satisfy the criteria set out in the Company's credit policy, such as payment history, background and financial strength.
2. The Directors instruct the finance department to prepare regular report on ageing trade receivables on monthly basis and settlement of trade receivable and identify any long outstanding receivables. Ms. Sun Guilian, a Supervisor, with the support of her subordinates, is assigned to highlight the overdue receivables and inform the sales person in charge of the respective sales transactions in order to pursue immediate settlement. Regular debtors and sales meetings at which all management staff, head of all departments and above will attend, will be held on a weekly basis, to discuss any outstanding receivables, repayment by customers and potential new sales.
3. The respective salesperson is appraised, among other things, on his/her ability to collect the trade receivables.

### **Sales data**

The following table shows the breakdown of the Company's sales of GSM/CDMA antennas and WLL/PHS base station antennas and related products (excluding PRC value added tax) for each of the two years ended 31 December 2002 and the five months ended 31 May 2003:

(in RMB million)	For the year ended 31 December				For the five months ended 31 May	
	2001	%	2002	%	2003	%
WLL/PHS base station antenna series	28.4	37.9	47.4	28.8	51.7	65.2
GSM/CDMA antenna series	41.2	55.0	93.7	56.9	21.3	26.8
Indoor distribution system series	–	0.0	21.5	13.1	4.6	5.8
Others (Note)	5.3	7.1	1.9	1.2	1.7	2.2
<b>Total</b>	<b>74.9</b>	<b>100.0</b>	<b>164.5</b>	<b>100.0</b>	<b>79.3</b>	<b>100.0</b>

*Note: Sales grouped under "Others" are sales of antenna products which were specifically produced for certain low volume orders such as 450 MHz Yagi antenna.*

For the sales of antennas, the turnover and profit is recognised upon the delivery of antennas to the customers as the title and ownership has been passed to the customers upon the delivery of antennas. For indoor distribution system, the turnover and profit is recognised as the installation is certified as completed.

### **Marketing strategy**

The Company adopts a proactive strategy in marketing its products, which includes the following activities:

- (a) Advertising the Company's products in professional journals which the Directors believe have a high subscription rate or readership in the telecommunication industry.
- (b) Launching of the Company's website <http://www.xaht.com> and <http://www.htantenna.com>, in both Chinese and English versions.

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- (c) Participation in local and foreign telecommunication business conventions and trade forums.
- (d) Exchange of technology know-how with other operators such as members of the China Unicom Group and China Mobile Group.

### **Distribution strategy**

The Company has not yet engaged any distributors in PRC, but has only engaged an agent, who is an Independent Third Party, in India for distribution of its GSM/CDMA antennas.

### **Major customers**

UTStarcom is the largest customer of the Company for the five months ended 31 May 2003. For the two years ended 31 December 2002 and the five months ended 31 May 2003, sales to UTStarcom amounted to 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. The Company has entered into a general sale and purchase agreement with UTStarcom. The agreement specified, without a fixed validity period, that (i) selling price of models of antennas will be renewed by both parties every year; (ii) credit period granted to UTStarcom is three months; and (iii) quantity of products to be delivered is determined by actual orders placed by UTStarcom. UTStarcom, as a mobile communication equipment vendor/system integrator, is required to pay the whole amount of an invoice within a fixed time after the related products have been delivered to the location(s) designated by this customer. This method of settlement is the same as other mobile communication equipment vendors/system integrators. Credit period granted to UTStarcom is 90 days from delivery, the same as those granted to other major mobile communication equipment vendors/system integrators such as Qingdao Lucent.

China Mobile is one of the mobile communication network operators in PRC and it operates via a network of subsidiary companies in various provinces in PRC. The Company has maintained ongoing business relationships with China Mobile Group. China Unicom is another existing mobile communication network operator in PRC. Each provincial office of China Unicom acts as an individual entity under China Unicom. The Company has gradually developed and maintained ongoing business relationships with the China Unicom Group.

Members of China Mobile Group and the China Unicom Group are major customers of the Company. Sales to the China Mobile Group and China Unicom Group (each being treated as a single customer) amounted to approximately RMB23.0 million and RMB7.3 million respectively, representing approximately 30.8% and 9.8% respectively of the total turnover of the Company for the year ended 31 December 2001, amounted to approximately RMB31.3 million and RMB60.0 million respectively, representing approximately 19.0% and 36.5% respectively of the total turnover of the Company for the year ended 31 December 2002, amounted to approximately RMB7.0 million and RMB16.6 million respectively, representing approximately 8.8% and 20.9% respectively of the total turnover of the Company for the five months ended 31 May 2003. Members of China Unicom Group and China Mobile Group, both of which are mobile communication network operators, are required to pay the contract amount by instalments within credit periods of up to about 240 days from the day of delivery of products, depending on the terms of the respective contracts. In respect of sales of antennas to UTStarcom, the usual payment term is to settle the whole amount within credit period of 90 days. For the other mobile communication equipment vendors/system integrators, the usual term of payment is to settle the whole amount of an invoice within a fixed period of time of about 90 days after related products are delivered to the location(s) designated by the customers.

### **Sales to top five customers**

The sales to the top five customers of the Company in aggregate accounted for approximately 88.7%, 88.1% and 95.0% respectively of the Company's total turnover for each of the two years ended 31 December 2002 and the five months ended 31 May 2003. The sales to the largest customer of the Company for the five months ended 31 May 2003, UTStarcom, accounted for approximately 61.8% for the Company's total turnover for the period. The sales to 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. The sales to 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 the year.



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The Company has entered into master sale and purchase agreements with some of its customers, including UTStarcom and Lucent Qingdao. The agreement signed with Lucent Qingdao is valid for two years from 10 November 2002 and the one signed with UTStarcom does not specify a specific term. Actual delivery of products are made according to the terms of the respective orders.

The top five customers for the five months ended 31 May 2003 have maintained business relationships with the Company for over 12 months. The Directors believe that the good quality of the Company's products, the Company's understanding of the needs of its customers and its ability to deliver products of prescribed standards and specifications at a competitive price attribute to its good business relationship with its customers.

None of the Directors, chief executive of the Company or shareholders who hold more than 5% of the issued share capital of the Company immediately following the Placing nor any of their respective associates have any interest in any of the top five customers of the Company's products during each of the two years ended 31 December 2002 and the five months ended 31 May 2003.

### *Previous interest of a director in a customer*

In 1999, 西安市海天通訊設備廠 (Xian Haitian Communication Equipment Plant) ("HCE Plant") was a collectively-owned enterprise established in the PRC with Mr. Xiao Bing, an executive Director, acted as its legal representative and with a registered capital of RMB200,000 and its scope of business being the production and sale of antenna, mobile communication (network) facilities, office automation and the sale of instruments and meters. On 30 March 1999, HCE Plant formed a joint venture, 深圳海天泰通訊設備有限公司 (Shenzhen Haitiantai Communication Equipment Co., Ltd.) ("Shenzhen Haitiantai") with 深圳市泰立康電子有限公司 (Shenzhen Tailikang Electronics Co., Ltd), an Independent Third Party in Shenzhen. On 20 July 1999, HCE Plant entered into an agreement to transfer its 50% equity interest in Shenzhen Haitiantai to 譚啟英 (Tan Qiyang), an Independent Third Party at a consideration of RMB350,000. Such consideration was paid by Tan Qiyang in August 1999. HCE Plant was approved to be deregistered and dissolved in 13 December 1999. At the time when the transfer of equity interest in Shenzhen Haitiantai took place in 1999, Tan Qiyang was not aware of the requirement to register the transfer of equity interest at the relevant Administration for Industry and Commerce in order for the transfer to be legally effective. Subsequently, when it came to the attention of Tan Qiyang and Shenzhen Haitiantai that there was such a requirement, Shenzhen Haitiantai undertook the registration of the transfer of equity interest at the Shenzhen Municipal Administration for Industry and Commerce (深圳市工商行政管理局). The transfer was completed on 4 April 2003 and the registration of the transfer took place on 4 April 2003. Since the transfer was not registered with the Shenzhen Municipal Administration for Industry and Commerce until 4 April 2003, the transfer between HCE Plant and Tan Qiyang was not legally effective during the period from 20 July 1999 to 4 April 2003. Although Tan Qiyang had obtained the rights of an equity holder under the transfer agreement, she was not the shareholder of Shenzhen Haitiantai in the legal sense and her rights could not be asserted against third parties. Before the transfer was duly registered, HCE Plant and Shenzhen Tailikang Electronics Co., Ltd. remained as the beneficial owner of Shenzhen Haitiantai, holding 50% of the registered capital of Shenzhen Haitiantai respectively. As advised by Jingtian & Gongcheng, there are no on-going liabilities in connection with the said transfer being borne by Mr. Xiao Bing. In addition, there will not be any contingent liabilities for Mr. Xiao Bing and HCE Plant if there happens any involency or liquidation of Shenzhen Haitiantai.

According to the confirmation given by Shenzhen Haitiantai, during the period from 20 July 1999 and 4 April 2003, no third parties have raised any request or objections in relation to the equity interests transferred. At the same time, according to the confirmation from Tan Qiyang, the 50% equity interest acquired from HCE Plant was absolute during the period from 20 July 1999 to 4 April 2003, and no charge was created over such equity interest nor were there any circumstances which may result in a defect in the ownership of such equity interest, and no third party claims or objections whatsoever in relation to the equity interest transferred. Accordingly, the delay of Shenzhen Haitiantai to arrange for registration of the relevant transfer would not prejudice HCE Plant to any extent.

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According to Jingtian & Gongcheng, the delay to arrange for registration of the transfer is the liability of Shenzhen Haitiantai and HCE Plant should not be liable for such delay. As the legal representative of HCE Plant, Mr. Xiao Bing does not have any responsibility in relation thereto. Accordingly, Jingtian & Gongcheng is of the view that such delay of registration would not affect Mr. Xiao Bing's suitability to become an executive Director of the Company. Although HCE Plant was still a shareholder of Shenzhen Haitiantai from a legal point of view when HCE Plant was deregistered, the deregistration of HCE Plant would not be constrained by the delay of Shenzhen Haitiantai in arranging for the registration of the transfer of equity interests. The Sponsor believes that Haitiantai's delay in registration of transfer would not affect Mr. Xiao Bing's suitability to become an executive Director.

As advised by Jingtian & Gongcheng, according to Articles 57 and 58 of the Company Law regarding the appointment of persons to act as directors of a joint stock limited company, the delay of the registration of the share transfer of Shenzhen Haitiantai will not affect the suitability of Mr. Xiao Bing to be an executive Director. Articles 57 and 58 of the PRC Company Law set out the following circumstances under which a person will be disqualified from acting as a director of a joint stock limited company:

- (i) None of the following persons may serve as a director, supervisor or manager of a company established in the PRC:
  - (i) persons without civil capacity or with restricted civil capacity;
  - (ii) persons who have committed the offence of corruption, bribery, taking of property, misappropriation of property or destruction of the social economic order, and have been sentenced to criminal punishment, where less than five years have elapsed since the date of completion of the sentence; or persons who have been deprived of their political rights due to criminal offense, where less than five years have elapsed since the date of the completion of implementation of this deprivation;
  - (iii) persons who are former directors, factory managers or managers of a company or enterprise which has become bankrupt and been liquidated due to a mismanagement and who are personally liable for the bankruptcy of such company or enterprise, where less than three years have elapsed since the date of the completion of the bankruptcy and liquidation of the company or enterprise;
  - (iv) persons who were legal representatives of a company or enterprise which had its business licence revoked due to violation of the law and who are personally liable, where less than three years have elapsed since the date of the revocation of the business licence;
  - (v) persons who have a relatively large amount of debt due and outstanding; or
  - (vi) persons who are State civil servants.

If a company elects or appoints directors or supervisors or engaged a manager in violation of the preceding paragraph, such election, appointment or engagement shall be invalid.

After the entering into the above transfer agreement in July 1999 and the establishment of the Company in October 1999, Shenzhen Haitiantai has become one of the Company's customers. For each of the two years ended 31 December 2002 and the five months ended 31 May 2003, the sales to Shenzhen Haitiantai amounted to approximately RMB1.1 million, RMB3.4 million and RMB1.0 million respectively, representing approximately 1.5%, 2.1% and 1.2% of the total turnover of the Company respectively. After the transfer of equity interest in Shenzhen Haitiantai by HCE Plant, Mr. Xiao Bing has not had any relationship with Shenzhen Haitiantai. According to the Directors, up to 30 June 2003, all trade receivables from Shenzhen Haitiantai as at 31 May 2003 have been fully settled.

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### **Product warranties**

Most of the sales contracts entered into by the Company contain commercial terms and specifications prescribed by its customers, which include product warranties. If the products delivered by the Company do not conform to the terms and/or specifications set out in the sales contracts, the Company is liable to replace the non-conforming goods or, failing such replacement, to pay compensation to the customers for the losses which they may suffer arising from such non-conforming goods. Since the establishment of the Company, the percentage of replacement goods to the Company's annual turnover has amounted to not more than 1% and the Company has not received any claim for compensation. Accordingly, the Company has not made any provision for product warranty.

The Company's sales and technical staff pays regular visits to the existing customers. One of the aims of such visits is to follow up on product warranties. These activities not only reinforce the Company's business relationship with its existing customers (who may order antenna products for constructing new base stations or for expanding or upgrading its existing base station networks), but also provide information for the Company to improve its existing products.

### **PURCHASES AND INVENTORIES**

#### **Purchases for base station antenna system**

A typical base station antenna comprises of the following main parts and components:

1. metal backplane (skeleton) and dipole units;
2. feeding network of co-axial wires;
3. co-axial RF connector;
4. encapsulation cases (antenna shade); and
5. mounting kits.

In terms of direct material purchase for a typical directional base station antenna, during the Track Record Period, the costs of metal backplane and dipole units normally account for approximately 52% to 70% of such costs, encapsulation cases account for approximately 22% to 25% while each of the co-axial wires, co-axial RF connector, and mounting kits in aggregate account for about 8% to 14% of such costs. The breakdown of direct costs for other parts/components of antenna products varies depending on their different material requirements.

Telecommunication signals are transmitted by electromagnetic waves without any physical medium. Base station antennas and related products are devices to transmit and receive such electromagnetic waves, through which such waves are transformed and transmitted to other physical devices such as base station switching centre and mobile phones.

Metal backplane and dipole units are the skeleton of a base station antenna. Different numbers, combination and shapes of dipole units, different distances between the dipole units, and different lengths and shapes of the metal backplane will receive and transmit electromagnetic waves of different frequencies, patterns and other parameters. During the research and development stage, metal backplane and dipole units are made by the Company. During the commercial production stage, the Company normally engages any one of its three designated specialist metallic equipment manufacturers to produce moulds for the production of metal backplane and/or dipole units to be used by the Company, and also the relating metal backplane and dipole units. The production costs for such moulds are usually borne by the Company and accordingly, such moulds are owned by

the Company. For each of the two years ended 31 December 2002 and the five months ended 31 May 2003, the Company's purchases of metal backplane and dipole units amounted to nil, approximately RMB3.3 million and RMB2.5 million respectively.

A feeding network of co-axial wires is composed of interior copper wires and exterior flexible conductors. Interior copper wires are common products which may be sourced readily from the market. Exterior conductors, due to the flexible requirements, are normally ordered from a designated specialised electrical wire manufacturer. For each of the two years ended 31 December 2002 and the five months ended 31 May 2003, the Company's purchases of co-axial wires amounted to approximately RMB1.0 million, RMB8.6 million and RMB0.6 million respectively.

A co-axial RF connector is the interface between the base station antenna and the feeder (which connects the base station antenna and the base station RF equipment), the Company purchases from manufacturers which specialise in co-axial connecting parts in accordance with the international interface standards. For each of the two years ended 31 December 2002 and the five months ended 31 May 2003, the Company's purchases of various co-axial RF connectors amounted to approximately RMB2.4 million, RMB3.1 million and RMB0.6 million respectively.

Most of the Company's base station antenna products are encapsulated in encapsulation cases made of PVC. Such encapsulation cases are required for protection under outdoor environment. PVC is used because of its relatively strong mechanical strengths, waterproof nature and high transmissibility for electromagnetic waves. The Company normally designates a specialised PVC equipment manufacturer to produce moulds for the production of such encapsulation cases. The Company also intends to look for other PVC manufacturer to share part of such manufacturing work. The production costs for such moulds are usually borne by the Company and in such cases, the ownership of such moulds are vested in the Company. For each of the two years ended 31 December 2002 and the five months ended 31 May 2003, the Company's purchases of encapsulation cases amounted to approximately RMB1.3 million, RMB4.1 million and RMB0.9 million respectively.

### **Purchases for feeders**

Feeders are common devices which may be sourced from other manufacturers. The Company, upon the request of its customers, will source feeders from such manufacturers whose feeder products meet customers' specifications and the Company's quality requirements and supply to customers such feeders as part of the Company's base station antennas and related products.

### **Subcontracting**

Since late 2002, the Company has outsourced to certain sub-contractors some of the steps involved in the manufacture of the WLL/PHS base station antenna. Such outsourcing has been made in order to allow the Company to allocate more of its resources to research and development and marketing and sale of base station antennas and to train some designated sub-contractors to deal with bulk orders given with short notice from the Company's customers. As at the Latest Practicable Date, there were two major sub-contractors, which are Independent Third Parties (collectively, the "Sub-contractors"). Purchase from the Sub-contractors for each of the two years ended 31 December 2002 and the five months ended 31 May 2003 amounted to nil, approximately RMB12.0 million and RMB36.4 million respectively. The Company has not entered into any long-term sub-contracting agreements with any of the Sub-contractors. Since January 2003, the Company has outsourced to the Sub-contractors a substantial portion of the production steps involved in the manufacture of the WLL/PHS base station antenna. Under the current arrangement, the Company is responsible for providing the Sub-contractors with design documents and technical specifications of certain semi-finished products of the WLL/PHS base station antenna series and overall quality control of the WLL/PHS base station antenna. The Sub-contractors are responsible for manufacturing the relevant semi-finished products of the WLL/PHS base station antenna products in accordance

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with the specifications given in those documents. The Company has assigned its technicians to conduct on-site monitor and quality control of each Sub-contractor's manufacturing process on a daily basis. Upon completion of manufacturing of the relevant products, the Company's technicians will conduct on-site tests for quality control purpose.

Under confidentiality agreements made between the Sub-contractors and the Company, the Company keeps possession of the intellectual property rights of the information regarding design documents and technical specifications used in the sub-contracting. The Sub-contractors are obliged to keep confidential the information and other intellectual property rights in respect of the Company's WLL/PHS base station antenna products.

### **Purchases settlement**

As the raw materials of the Company are purchased in PRC, purchases are all denominated in Renminbi which are mostly settled on an open account basis. When the Company first started business relationships with a supplier, the Company is usually required to settle payment upon delivery of goods. After the Company has built up a longer relationship with the supplier, a credit term, usually of 90 days, is granted to the Company. All payments to the suppliers are settled by way of bank cheques and telegraphic transfer. The Company only imports raw materials, machinery and parts for the production and research of the Company.

The raw material expenses for the two years ended 31 December 2002 and the five months ended 31 May 2003 accounted for approximately 55.7%, 55.0% and 59.8% respectively of the total expenses (which are the total of cost of sales and all expenses of the Company). The Company has not entered into any written long-term contract or agreement with its suppliers.

For the two years ended 31 December 2002 and the five months ended 31 May 2003, purchases from the top five suppliers of the Company accounted for approximately 36.6%, 36.0% and 99.0% of the Company's total purchases respectively. Purchases from the largest suppliers 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 for the respective periods. During the five months ended 31 May 2003, the percentage of purchase from the largest supplier increased as such supplier is the largest supplier for the parts and semi-finished goods of WLL/PHS based station antennas which accounted for approximately 65% of the turnover of the Company for the five months ended 31 May 2003. None of the Directors, the chief executive of the Company or Shareholders who hold more than 5% of the issued share capital of the Company immediately following the completion of the Placing (assuming that the Over-allocation Option is not exercised at all) nor any of their respective associates have any interest in any of the top five suppliers of the Company for each of the two years ended 31 December 2002 and the five months ended 31 May 2003. The Company has maintained business relationship with such suppliers for periods ranging from two years to more than four years.

### **Inventory**

Considering that the orders from customers usually require delivery to be made within a short period of time, the Company purchases materials not only based on volume of tender but also based on the historical trend of sales from customers. The Company maintains a sufficient level of raw material inventory for the Company's production even though the Company's raw materials are easily obtainable in the PRC market. In anticipation of the forthcoming orders, the Company usually requests in advance its suppliers to produce and stock sufficient quantity of the requisite raw materials and parts for the Company's production plans. Delivery of the raw materials from the suppliers to the Company's production facilities usually takes approximately four to eight weeks.

The Company uses a rolling production plan which is updated once there is new information available in relation to the expected investment and purchase plan of the members of China Mobile Group and China Unicom Group. The Company's production plan is based on (i) the

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expected investment and purchase plan of the members of PRC market-leading mobile communication network operators, namely China Mobile Group and China Unicom Group, as anticipated by the Company's management, based on the information gathered from public announcement of the mobile communication network operators and on the historical pattern of the investment and the purchase such telecommunication operators made, and (ii) the respective historical orders in the past years from the said operators. As the Directors understand, these operators generally invite base station antenna and feeder system manufacturers to tender for such projects, after the key base station equipment has been tendered. Invitations to tender for key base station equipment are usually made in the first and second quarters of a calendar year, while the invitations to tender for antennas and feeders system are usually made in the third and fourth quarters. As the whole process, from tender invitations, tender submission, award of tender, placement of order to delivery of goods, usually takes less than one month and the order is often in large quantity, the Company has to produce the expected amount of products/orders in advance during the slack seasons, which is the first half of a calendar year. To minimise the risk of overstocking, products produced in advance are only commonly used products. The Directors consider that the sale of base station antennas and related products is, to a certain extent, subject to seasonal fluctuations.

As base station antennas and related products may become defective or be worn out over time, it is the Company's policy to maintain a certain level of finished goods for customers' replacements when such circumstance arises. Furthermore, the mobile communication operators in PRC often place order on an emergency basis, and therefore the Company usually maintains a certain amount of finished goods as inventories to fill such orders. The percentage of inventory of finished goods maintained by the Company to the cost of sales by the Company for the two years ended 31 December 2002 and the five months ended 31 May 2003 were approximately 31.4%, 22.6% and 63.7% respectively.

All sales contact points, except the one in Hangzhou, do not keep any inventory. The Hangzhou sales contact point mainly serves the customer which is regarded by the Company as the biggest customer, UTStarcom. The Hangzhou sales contact point operates a warehouse and keeps a record of inventory in the warehouse. Stock taking is performed every half-year, the same day as stock taking performed in the Company's head office. During the stock taking, the actual quantity is reconciled with the record. As at 31 December 2001, 31 December 2002, 31 May 2003 and 31 August 2003, the value of inventory in Hangzhou sales contact point amounted to approximately RMB2.3 million, RMB2.8 million, RMB8.1 million and RMB2.6 million respectively.

The Company's policy is to keep a perpetual inventory ledger at its warehouse. Inventories are checked and reconciled with the ledger kept by the finance department on a quarterly basis.

To improve the management of inventory, the Company has (i) improved production planning system by continuously updating the production plan with the latest information concerning the market; and (ii) lowered the level of reserve inventory, especially after the Company started subcontracting certain parts of production process of WLL/PHS base station antenna series. The number of inventory turnover days for the two year ended 31 December 2002 and the five months ended 31 May 2003 were approximately 243 days, 164 days and 151 days respectively.

### *Basis of provision for obsolete or slow-moving inventory*

The making of provision for inventory is based on consideration of the management of the Company on both the ageing and physical condition of the inventory and market demand and market price of the products. The amount of inventory being considered obsolete or slow-moving has been specifically provided for and recognised as a part of cost of sales in the income statement. The amount of inventory being obsolete or slow-moving for the two years ended 31 December 2002 and the five months ended 31 May 2003, is nil, approximately RMB488,000 and RMB192,000 respectively, representing nil, approximately 0.3% and 0.2% of the total turnover of the Company

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for the respective years/period. No general provision based on ageing of inventory has been made. The Directors are of the view that such provision is sufficient and appropriate for the possible loss of value of inventory due to obsolescence or slow-moving, on the basis that (i) inventory turnover days have been improved to a relatively large extent during the Track Record Period; (ii) parts and products of antenna are not goods becoming defective nor worn out in a short period of time; and (iii) the Directors have not found any inventory of material amount which are obsolete or slow-moving during the inventory taking in September 2003.

### *Measures to minimise possible loss from obsolete inventory*

The Company adopts the following measures to minimise the possible loss from obsolete inventory:

1. Production commences according to forecast market demand.
2. The Company's management, based on historical data and forecast seasonal fluctuations in market demand, to formulate production plans to avoid over-production. Notwithstanding the aforesaid, the Company produces spare inventory during the slack seasons.
3. Physical inventory taking is performed quarterly. Obsolete and/or slow-moving inventory are identified and provided for based on the result of the quarterly inventory taking.
4. Some of the suppliers allow the Company to return unused goods and the Directors plan to add such terms in the supply agreement in the future.

## QUALITY CONTROL

The Directors believe that in order to expand its market share and to outperform its competitors, not only the quality of the products manufactured by the Company has to meet the national standards but should also exceed minimum expectation of customers. The Company's base station antennas series meet the requirements of YD/T1059-2000 of 《移动通信系统基站天线技术条件》(Mobile telecommunication base station antennas technical requirements). The Company has exceeded the basic standards required by its customers based on the customer interviews conducted by the Company. The Company has established a quality control department to oversee the formulation and implementation of the policy, standards, disciplines and practices of its quality control system.

At present, the quality control department is under the direct supervision of the Company's vice-president.

### **Quality control department**

The key functions of the quality control department include the following:

1. to define and formulate the Company's quality standard policy, control process, quality testing criteria and quality assurance practices during production;
2. to ensure a comprehensive quality control;
3. to educate and train staff on the Company's quality control requirements, standards, practices and disciplines;
4. to inspect quality of raw materials and the Company's products; and
5. to set up an inspection programme for maintaining the standard of the production facilities and testing equipment of the Company.

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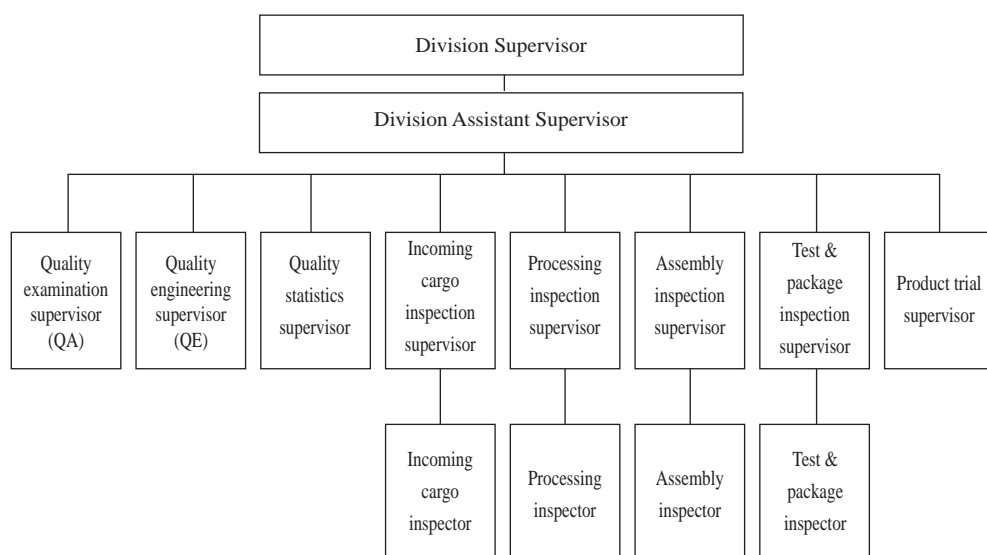
As at the Latest Practicable Date, the Company's quality control department had 28 members. Among them, there were six management staff, a majority of whom hold university degrees in the respective subjects of electronic and information systems, computer application, wireless physics and material chemistry.

The Company has adopted a complete quality assurance system to implement strict quality control over its products and services provided. The Company was awarded the Certificate of Conformity of Quality System Certification by China Xinshidai Quality System Certification Body (中國新時代質量認證中心) in December 2002, certifying that the Company's quality system is in conformity with GB/T19001-2000 (idt ISO9001: 2000) standard.

The Company's major testing equipment includes:

- 29 sets of vector network analyzers imported from the U.S.
- four sets of passive intermodulation distortion analyzers imported from the U.S.
- base station antennas testing centre (which is able to test the full performance and environmental influence of base station antennas and related products)

### Structure of Quality Control Department



### PRODUCT WARRANTY, AFTER-SALE SERVICES AND TECHNICAL SUPPORT

The Directors adopt a marketing philosophy that a sale transaction does not end when the products are delivered to the customers. The Directors believe that after-sale services of good quality are vital to building a long-term customer relationship. The Company sets out procedures to ensure the provision of business related consultations to its customers in addition to giving timely responses to customer's enquiries and complaints. For products under the WLL/PHS base station antenna series, the Company will, if so agreed under the relevant contracts, 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 within which includes a 6-year product warranty from the day 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, but if such product cannot be repaired, the Company will replace a new one to its customers.



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For products of the GSM/CDMA antenna series which are subject to the 15-year after-sale services warranty, the Company provides the following after-sale services (including technical support services) on a cost basis:

1. repair and maintenance services for defective products not due to craftsmanship; and
2. solution to technical problems within one to two business days to avoid material disruption to customer services.

Based on the information provided by the Company's customers to the Company's salespersons, the product warranty/after-sale services period offered by the Company is longer than that normally provided by overseas manufacturers which are usually not longer than 18 months.

### 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. After the relocation of the Company to the current address in January 2002, the Company 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 the whole day. According to the Directors, there was no material financial impact on the business operation of the Company and loss of customers caused by the suspension of electricity supply since such suspension only happened a few times and does not occur frequently. In addition, in order to minimise the effect of the suspension of electricity supply, the Company usually makes up the loss of production time by shifting production schedule to the weekend immediately before and/or after the days on which electricity supply was suspended or by extending working hours as remedial action.

### INSURANCE

As at the Latest Practicable Date, the Company maintained insurance policies in respect of its inventories, equipment and employee compensation. The insurance currently covers loss of fixed assets up to approximately RMB53 million (at cost of acquisition), representing approximately 85.5% of the value of the Company's fixed assets as at 31 May 2003. Additional insurance policies are also currently effected to cover loss of fixed assets due to damage and robbery up to approximately RMB13.8 million and RMB10.5 million (at cost of acquisition) respectively, representing approximately 22.3% and 16.9% respectively of the value of the Company's fixed assets as at 31 May 2003. A general insurance policy is currently effected to cover loss of inventory up to approximately RMB28.5 million, representing approximately 71.4% of the value of the Company's inventory as at 31 May 2003. Except for employee compensation insurance, insurance policies are usually renewable on an annual basis. Given that there were no significant claims during the two years ended 31 December 2002 and the five months ended 31 May 2003, the Directors believe that the Company's insurance coverage to its assets is adequate.

The Company has sought from an insurance company in the PRC premium quotation for insurance of product quality assurance, covering risks of repair, replacement and return of goods. The calculation of the insurance premium is generally determined at a rate of 0.4% of the projected annual turnover of the Company for the relevant year, subject to adjustments having regard to factors such as previous rate of return of goods, economic nature of the enterprise concerned and quality assurance certificates obtained. Based on the Company's actual turnover, the insurance

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premium payable for the entire Track Record Period could have been over RMB1 million should the insurance have been obtained. As the actual repair expenses during the Track Record Period was approximately RMB0.4 million, the Directors are of the view that it is not economically justifiable to effect such insurance as at 31 May 2003. The Directors will closely monitor the actual claims filed and will consider to effect such insurance when necessary. However, as an additional quality assurance measure to international mobile communication equipment vendors, the Company would consider effecting an insurance policy covering a selected range of the Company's products.

Apart from product quality assurance insurance, considering that the Company's products are not consumer goods, the Directors believe that no insurance coverage on product liability is necessary.

### COMPETITION

The manufacturing of base station antennas and related products involves precise calibration and testing procedures. In particular, different degrees of welding or minor changes in the connection or ceiling of the co-axial wires may affect the normal operations of a base station antenna. As such, examination and calibration by technicians with precise instrument is essential. In the team of research and development which is responsible for setting up guidelines and procedures for examination and calibration of antennas, over 80% of the 149 persons as at the Latest Practicable Date have tertiary educational background. Accordingly, the Directors believe that the Company is ahead of other local manufacturers of base station antennas and related products manufacturers. However, the Company faces competition from local mobile communication equipment vendors mainly in terms of pricing.

The Directors believe that the Company faces keen competition from foreign manufacturers, in particular, in terms of technology and capital. However, the Directors believe that the Company has a competitive edge over foreign manufacturers owing to its familiarity with the PRC market, lower cost of production and availability of on-site service.

None of the Directors, Supervisors, the chief executive of the Company, the Management Shareholders and the Substantial Shareholders and their respective associates has any business or interest that competes or may compete with the Company's business.

### IMPACT OF PRC'S ACCESSION TO THE WTO

After the PRC's accession to the WTO, restrictions on foreign investments in various sectors will be relaxed and the PRC telecommunication market will be gradually opened to foreign investors. Although the Company will continue to face strong competition from global base station antenna manufacturers who have advanced technologies, capital and strong managements, the Directors believe that a greater amount of foreign investment (apart from the telecommunication industry) will generally stimulate the PRC economy and also the demand for better mobile communication services. These will in turn bring about demand for a greater number of base stations, and hence base station antennas and related products. As the base station antenna market expands, the Directors believe that the Company may capitalise on its own competitive strengths to expand its market share.

### EFFECT OF SARS ON THE COMPANY

The outbreak, exacerbation, continuance or reoccurrence of SARS in the PRC may have negative effect on the business operation of the Company. For the five months ended 31 May 2003, gross profit margin for the indoor distribution system series decreased from 60.1% to 51.8% when compared with that for the whole year of 2002 because the certification of completion of the installation of indoor distribution systems was delayed due to the outbreak of SARS in the PRC in the first few months of 2003 and the implementation of the related quarantine measures. Costs for installation of indoor distribution systems mainly consist of staff expenses in relation to installation

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works, material cost and subcontracting fee. Though some of the installation projects have been completed, certification of completion could not be finalised due to the implementation of quarantine measures as a result of the outbreak of SARS. Therefore, those indirect costs have been recorded as expenses in the income statement while related revenue has not been recognised. Accordingly, gross profit margin for indoor distribution system was lower. The Company provides guidance and supervision to installation of antennas purchased by the customers and performs inspection on the customers' networks as a service additional to products sold and charge a fee for the service provided. The service fee is receivable when the related service is certified complete. For the five months ended 31 May 2003, due to the outbreak of SARS, certification of completion of the service was delayed and, as a result, the recognition of the Company's service income has been delayed. Nevertheless, the Directors are of the view that the impact of SARS on the Company was not significant as a whole.

### **STRATEGIC ALLIANCE AND MEMBERSHIP IN INTERNATIONAL ORGANISATION**

The Directors believe that collaboration with strategic partners can enhance the Company's profile as well as its technological know-how and experience. Accordingly, the Company formed a strategic alliance with Datang Mobile (an enterprise which is in possession of core technology for TD-SCDMA development and is proposed to be engaged in the provision of 3G mobile communication services in the PRC) pursuant to an agreement dated 15 October 2002 ("Datang Agreement") for the joint development of intelligent antenna arrays in TD-SCDMA mobile communication system with Datang Mobile.

Under the Datang Agreement, Datang Mobile will be responsible for, among other things, the research and provision of technology support in relation to the intelligent antenna array and its experiment and testing. The Company will be responsible for, among other things, the design, manufacture and tuning of the intelligent antenna array and sample products, and the investment in anechoic chambers for, testing and research of 3G intelligent antenna system.

The cost incurred in relation to remuneration, travel expenses and research and development instrument shall be borne by the party incurring them. The costs arising from the respective research subjects of the parties as set out in the Datang Agreement shall be borne by the relevant party. Costs incurred during the joint development process shall be shared by the parties in such proportion as to be agreed.

The intellectual property rights arising as a result of the joint development pursuant to the Datang Agreement shall be owned by the parties jointly. The parties to the Datang Agreement and companies in which the Company or Datang Mobile is interested in more than 50% of the shareholdings or voting rights can manufacture, use, sell and import such intellectual property rights without the permission of the other party to the Datang Agreement. However, the parties are not allowed to license the intellectual property rights without the prior written consent of the other party.

The Datang Agreement is the only strategic alliance the Company has entered into up to the Latest Practicable Date.

Based on a brochure of Datang Mobile published in July 2002, Datang Mobile was established in February 2002 and is a subsidiary of Datang Telecom. Datang Mobile is principally engaged in the development of TD-SCDMA, a proposed standard for 3G mobile communication. Datang Mobile employed approximately 1,000 staff with headquarters located in Beijing and has branches in Shanghai and Xi'an.

Currently, the Company is a manufacturer member of the PHS MoU Group. The Directors consider that membership in PHS MoU Group will facilitate the research and development and sale of the PHS base station antenna products of the Company through its access to more recent information of technical development and market information of PHS products.

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### AWARDS, RECOGNITIONS AND HONOURS

The following is a selection of recognitions and awards conferred to the Company:

Year	Awards/prizes
2000	<p>“Outstanding High-tech Enterprise” and “Significant Tax Payer” (納稅大戶) in Yanta Technology Industry Park of Xi’an National Hi-tech Industrial Development Zone granted by Administrative Office of Yanta Technology Industry Park of Xi’an National Hi-tech Industrial Development Zone (西安高新技術產業開發區雁塔科技產業園管理辦公室)</p> <p>“Award for Technical Innovation” in Xi’an National Hi-tech Industrial Development Zone granted by Administrative Committee of Xi’an National Hi-tech Industrial Development Zone (西安高新技術產業開發區管理委員會)</p>
2001	<p>“Star Enterprise of Technology” (明星科技企業) in Xi’an National Hi-tech Industrial Development Zone granted by Administrative Committee of Xi’an National Hi-tech Industrial Development Zone (西安高新技術產業開發區管理委員會)</p> <p>“Top 100 Enterprises” (百強企業) in Xi’an National Hi-tech Industrial Development Zone granted by Administrative Committee of Xi’an National Hi-tech Industrial Development Zone (西安高新技術產業開發區管理委員會)</p> <p>“Outstanding High-tech Enterprise” of Xi’an Municipality during the period of “the State Ninth Five-year Plan” granted by Committee of Science and Technology of Xi’an (西安市科學技術委員會)</p> <p>The “Mobile Communication System Base Station Antenna (移動通信系統基站天線)” project of the Company was granted funding by the Technology SME Innovation Fund Administration Centre under the Ministry of Science and Technology (科技部科投型中小企業創新基金管理中心).</p>
2002	<p>“Star Enterprise of Technology”, “Significant Tax Payer” and “Top 100 Enterprises” in Xi’an National Hi-tech Industrial Development Zone granted by Administrative Committee of Xi’an National Hi-tech Industrial Development Zone (西安高新技術產業開發區管理委員會)</p> <p>Second level award for “First Session Outstanding Enterprises on Intellectual Property Rights Work” in Xi’an National Hi-tech Industrial Development Zone granted by Administrative Committee of Xi’an National Hi-tech Industrial Development Zone (西安高新技術產業開發區管理委員會)</p> <p>“Key New Product of the State” for the Company’s Mobile Communication 3G Antenna System (移動通信3G系列天線系統) granted by Ministry of Science and Technology of the PRC (中華人民共和國科學技術部) and other ministries</p> <p>“Torch Plan Project of the State” for the Company’s mobile communication system base station antennas granted by the Development Centre for Torch Hi-tech Industry of Ministry of Science &amp; Technology (中華人民共和國科學技術部火炬高技術產業開發中心)</p>

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Year	Awards/prizes
2003	“Certificate of Good Standing Enterprise” (誠信企業證書) granted by the Shaanxi Association of Banks  “Good Standing in Tax Levy” (納稅守信用企業) granted by Xi’an State Tax Bureau (西安市國家稅務局).  “Important Enterprise” (重點企業) granted by Xi’an Economic and Trade Committee.  “Environmental Friendly Enterprise” (綠色企業) granted by Administrative Committee of Xi’an National Hi-tech Industrial Development Zone (西安高新技術產業開發區管理委員會).

### GOVERNMENT SUBSIDIES

The Company was granted subsidies of RMB1.2 million and RMB0.12 million respectively by Shaanxi Provincial Bureau of Science and Technology (陝西省科學技術廳) and Xi’an Finance Bureau (西安市財政局) for research and development and industrialisation of antenna for the 3G mobile communication. So long as the Company has developed the antenna(s) fulfilling the technical parameters specified by the Government and established production capacity for the antenna(s), the subsidies need not be repaid to the Government.

As at 31 December 2002 and 31 May 2003, the development of a new product is not yet completed; as such, the amount has not yet been recognised in the income statement and is included as other payables in the balance sheet.

### PRINCIPAL STRENGTHS OF THE COMPANY

Since its establishment in October 1999, the Company has been developing rapidly and its turnover for each of the two years ended 31 December 2002 and the five months ended 31 May 2003 amounted to approximately RMB74.9 million, RMB164.5 million and RMB79.3 million respectively. The Directors believe that in 2001, the Company was a leading domestic manufacturer of base station antennas based on a report compiled by Winfor Consulting. Since 2001, the Company, as one of the suppliers, has been supplying base station antennas and related products to the members of China Mobile Group and China Unicom Group, who are currently the two major licensed mobile communication network operators in the PRC. For each of the two years ended 31 December 2002 and the five months ended 31 May 2003, sales to China Mobile Group amounted to approximately RMB23.0 million, RMB31.3 million and RMB7.0 million respectively and sales to China Unicom Group amounted to approximately RMB7.3 million, RMB60.0 million and RMB16.6 million respectively. According to the “2002 Analysis Report on the PRC Mobile Telecommunication Equipment Market” (2002年中國移動設備市場分析報告) compiled by Winfor Consulting, the Company ranked fourth in the market for base station antennas in the PRC in 2001, following three foreign or foreign-invested mobile communication equipment vendors/system integrators.

The Directors believe that the Company’s principal strengths are as follows:

**More than 10 years’ experience of its professional and key management staff in researching and developing base station antennas and related products and solving related technical problems:** The key management and production staff of the Company have more than 10 years of experience in antenna research and/or manufacturing and are experienced with the practical applications in wireless communication technology. They are able to solve technical problems in a timely fashion and in manufacturing products of high precision and durability. The Company provides after-sales services and technical support services of good quality to ensure customers’ satisfaction and fosters the development of long-term business relationships with customers.

**Advanced production facilities and test instrument:** The Company's production facilities, including 29 vector network analysers imported from the United States, 4 passive intermodulation distortion analysers and 22 anechoic chambers, enable the Company to carry out testing, calibration and adjustment to a high precision during its manufacturing and research processes. The Directors consider that the capability of its production facilities and the reliability of its precise instrument are crucial to quality control and research capability. Details of the production facilities are set out in the paragraph headed "Production facilities" in this section.

**Strong research and development capability in terms of developing new applications of the existing technology and enhancement of the existing products:** As at the Latest Practicable Date, the Company had 535 staff, amongst which 221 held educational qualifications of bachelor degree or higher. Professor Xiao and Mr. Guo Weisheng, both of whom are Directors, and nine professors or experts have more than 10 years of study and research experience in the field of wireless communication. In addition, the Company was recognised by Shaanxi Province Post-Doctorate Management Committee (陝西省博士後管理委員會) as a continuing research-station (博士後流動站) for post-doctorate researchers. Accordingly, the Company may capitalise on the supply of highly educated candidates from science research institutes such as Xidian University, Xi'an Jiaotong University (西安交通大學), Electronic Institutes No. 20 (電子二十所) and other institutions. The Directors consider that its research and development capability, in terms of both human resources and equipment, is one of the most advanced entities in the sector of base station antenna and related products in the PRC.

The Company owns the intellectual property rights of products which are researched and developed in the Haitian Research Institute, the Company's product research and development department. A number of the existing research staff of the Company were previously from Xidian University and Xi'an Jiaotong University. Save for the contractual wages paid to the research staff formerly employed by those institutes, the Company need not pay any fee to nor has business relations with those institutes.

**Pioneer in the base station antenna sector of PRC mobile communication industry:** The Company is a pioneer and a recognised leading enterprise in the sector of PRC base station antenna as demonstrated by the following:

1. in August 2000, two proprietary technologies (namely, WLL/PHS base station antennas and the GSM/CDMA antennas systems) were certified as scientific technology achievement by the Science and Technology Committee of Shaanxi Province (陝西省科學技術委員會);
2. according to the "2002 Analysis Report on the PRC Mobile Telecommunication Equipment Market" (2002年中國移動設備市場分析報告) compiled by Winfor Consulting, the Company ranked fourth in the market of base station antennas in 2001, which was behind three foreign or foreign-invested mobile communication equipment vendors/system integrators;
3. the Company entered into an agreement with Datang Mobile in October 2002 for the joint development of intelligent antenna arrays in TD-SCDMA mobile communication system. Intelligent antenna is a pioneer area for development and application of 3G technology; and
4. the feedback from the Company's customers shows that some of the Company's products have not only attained the standards of those supplied by foreign or foreign-invested mobile communication equipment vendors/system integrators, but have also achieved functions that have not been provided by products supplied by other vendors.

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The key management of the Company has meetings with the officials of MII and senior management of members of China Unicom Group and China Mobile Group occasionally. Such links enable the Company to keep abreast of, and be consulted for, the policies and development in respect of the base station antenna sector. The Company may thereby make strategic decisions and take implementation measures in anticipation of any possible market and/or policy changes.




In July 2000, the Company was admitted, and has been, up to the Latest Practicable Date, the few antenna equipment manufacturer in the PRC so admitted, as a manufacturer member, based on the PHS MoU Group registry of members posted on the website of PHS MoU Group. The Directors consider that membership in PHS MoU Group will facilitate the research and development and sale of the PHS base station antenna products of the Company through its access to more recent information of technical development and market information of PHS products.

**State policy for encouraging local mobile communication industry:** Under the State II Tenth Five-Year Plan, the PRC Government has been encouraging domestic development and production of high-tech products and mobile communication products. In addition, the State has been introducing policies in October 2000 to encourage the development of the western region of the PRC where the Company is based.

The “Law of Promotion of SMEs” promulgated on 29 June 2002 provides for the promotion and development of SMEs. Also, the “Technical Specifications of Base Station” is believed to foster the growth of the base station antenna industry in the PRC.

As the Company is a high-technology company and its base of production is located in the western region of the PRC, the Directors believe that the Company will benefit from such policies.

### INTELLECTUAL PROPERTY RIGHTS

As at the Latest Practicable Date, the Company had registered its trademark  in the name of Xi'an Haitian Communications, the predecessor of the Company, under classes 9 and 38 in the PRC. The Company had also applied for the registration of its trademark  in its name under classes 9 and 38 and had registered its trademark  in its name under classes 9 and 38 in Hong Kong. According to the Directors, save for the WLL/PHS base station antenna provided to UTstarcom, the Company has been using its own trademark to sell its products.

As at the Latest Practicable Date, the Company had submitted three patent applications in the PRC under its name, namely:

1. 波束下傾寬帶全向共線天線陣及實現方法 (Broad-band Co-linear Omnidirectional Antenna Array with Electrical Down Tilt and Ways to Realise It);
2. 連續可調移相器 (Continuously Adjustable Phase Shifter); and
3. 一種圓極化手機天線 (Circular Polarized Handset Antenna).

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As at the Latest Practicable Date, the Company has obtained patent certificates for the following products/technologies:

		Patent certificate issue date	Expiry date
1.	超寬頻帶室內全向吊頂天線 (Super-broad-band Ceiling-mount Antenna);	July 2002	August 2011
2.	波束下傾寬帶全向中饋共線天線陣 (Broad-band Mid-feeding Co-linear Omnidirectional Antenna Array with Electrical Down Tilt);	August 2002	September 2011
3.	H型偶極子輻射器 (H-type Dipole Radiator);	October 2002	January 2012
4.	寬頻帶中增益前饋拋物面天線的饋源 (Feeder Source for Broad-band Medium-gain Parabolic Front-fed Antenna);	January 2003	February 2012
5.	寬頻中饋縫隙耦合套筒偶極子共線天線陣 (Broad-band Slit-coupling Sleeve Dipole Co-linear Antenna Array with Mid-feeding);	January 2003	August 2011
6.	寬頻帶微帶貼片天線 (Broad-band Micro-strip Patch Antenna); and	January 2003	September 2011
7.	一種前饋拋物面天綫的微帶饋源 (A Little Feeder Source for Front-fed Parabolic Antenna).	April 2003	February 2012
8.	雙極化波束賦形基站天線 (Dual-Polar Beam Forming Base Station Antenna)	July 2003	August 2012
9.	天線陣可調移相器 (Adjustable Phase Shifter for Antenna Array)	July 2003	August 2012
10.	單極化波束賦形基站天線 (Single-Polar Beam Forming Base Station Antenna)	July 2003	August 2012
11.	寬帶雙向天線及雙向天線陣 (Broad-band Dual-directional Antenna and Antenna Array)	July 2003	August 2012
12.	寬頻帶垂直安裝全向天線 (Broad-band Omnidirectional Antenna for Vertical Installation)	July 2003	August 2012

As at the Latest Practicable Date, the Company was the registrant of the domain names *www.xaht.com* and *htantenna.com*. Up to the Latest Practicable Date, the Company had not conducted any sales on the Company's website. As at the Latest Practicable Date, the Company had also completed the registration of computer software copyright of 基站天綫分析軟件 V1.0 (Base station antenna analyser software) in its name. Further details of the intellectual property rights of the Company are set out in the paragraph headed "Intellectual property rights" in appendix VI to this prospectus.



**CONTINUING CONNECTED TRANSACTIONS**

The Company expects that the following exempted continuing connected transaction will subsist following the listing of the H Shares. (Certain other related party transactions having subsisted in the past which are noted in the accountants' report in appendix I, will not continue after completion of Placing):

**1. Leasing of office premises in Beijing (the "Beijing Office") (the "Lease")**

Pursuant to an agreement entered into between Ms. Xiao Lei, the daughter of Professor Xiao, and the Company dated 10 January 2003, the Company has agreed to continue to lease the Beijing Office for a term of two years from 1 January 2003 to 31 December 2004 at a monthly rent of RMB5,000 exclusive of management fees and water and electricity charges. The monthly rent is determined with reference to the rental price of similar premises in Beijing. The Directors (including the independent non-executive Directors) have confirmed that the rental of RMB5,000 per month was negotiated and determined on normal commercial terms and in the interest of the Shareholders of the Company.

On 10 January 2003, the Company paid a rent of RMB60,000 for the period from 1 January 2003 to 31 December 2003. The Directors (including the independent non-executive Directors) and the Sponsor are of the view that the Lease was made on a fair and reasonable basis and the aggregate rent will not exceed HK\$1,000,000 (equivalent to approximately RMB1,060,000) for the current financial year. Vigers Hong Kong Ltd., the property valuer of the Company, has confirmed that the monthly rental of RMB5,000 exclusive of management fee and water and electricity charges, is in line with the open market rent of similar type of properties located in its immediate locality.

**2. Processing agreement ("Processing Agreement")**

西安海通天線有限責任公司 (Xi'an Haitong Antenna Company Limited) ("Xi'an Haitong") and the Company entered into a processing agreement dated 20 July 2002 as supplemented by a supplemental agreement dated 3 June 2003, pursuant to which Xi'an Haitong has engaged the Company to provide parts and components processing services to Xi'an Haitong for the year 2002 and thereafter. According to the terms of the Processing Agreement, the Company shall provide the parts and components process services in accordance with the specifications and technology documents provided by Xi'an Haitong. The Company shall not disclose to any third party the relevant technology documents and shall not sell the processed products on its own. The Directors consider that the processing services under the supplemental agreement entered into on 3 June 2003 will more accurately reflect the substance of the transactions between Xi'an Haitong and the Company. The parties have agreed that the processing fees payable under the Processing Agreement shall be calculated using the formula as follows:

The actual cost of processing (*Note*) x (1+10%) x 1.17 (value added tax)

The processing fees are calculated monthly. Xi'an Haitong shall fully settle the processing fees within three months after the Company has issued its invoice. For the two years ended 31 December 2002 and the five months ended 31 May 2003, no transaction has been entered into in accordance with the Processing Agreement.

Xi'an Haitong is a limited liability company established in the PRC on 6 March 1998 with a registered capital of RMB3,000,000. Mr. Li Jun, who is the son-in-law of Professor Xiao, one of the Directors, is the legal representative and one of the shareholders of Xi'an Haitong with an interest of 62%. Accordingly, Xi'an Haitong is a connected person of the Company pursuant to the GEM Listing Rules.

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The Directors (including the independent non-executives Directors) and the Sponsor are of the view that the Processing Agreement was entered into on a fair and reasonable basis and based on the actual cost of processing and management fee. The Directors (including the independent non-executive Directors) and the Sponsor are of the view that the above transactions were entered into in the ordinary course of business of the Company and under normal commercial terms. The Directors expect that the aggregate processing fees receivable under the Processing Agreement will not exceed HK\$1,000,000 (equivalent to approximately RMB1,060,000) each year.

(Note: The actual cost of processing include cost of materials, other direct production cost and other administrative expenses incurred for handling the transaction.)

### **3. Deed in relation to the principal place of business of the Company in Hong Kong (“Deed”)**

Laser Investments Limited and the Company entered into the Deed dated 9 April 2003 pursuant to which Laser Investments Limited had agreed to allow the Company to use the address of a property owned by Laser Investments Limited situated at 34/F., West Tower, Shun Tak Centre, 200 Connaught Road Central, Hong Kong (“Address”) as the principal place of business of the Company for the purpose of the Company’s registration as an oversea company in Hong Kong under Part XI of the Companies Ordinance from the date of the Deed until terminated by either party by two months’ written notice. Laser Investments Limited had also agreed to deliver all postal materials received by it at the Address to the Company’s head office in Xi’an by courier, the cost of which would be reimbursed by the Company. No fees are payable by the Company to Laser Investments Limited for the provision of the Address as referred to above.

Laser Investment Limited is a company incorporated in Hong Kong. Beijing Holdings Limited is the ultimate holding company of Laser Investment Limited and the direct holding company of BJ Holdings, one of the Promoters and Initial Management Shareholders. Accordingly, Laser Investments Limited is a connected person of the Company pursuant to the GEM Listing Rules.

The Directors (including the independent non-executive Directors) and the Sponsor are of the view that the Deed was made on a fair and reasonable basis. The Directors (including the independent non-executive Directors) and the Sponsor are of the view that the above transactions were entered into in the ordinary course of business of the Company and on normal commercial terms.

Each of the connected transactions set out above constitutes a continuing connected transaction of the Company under the GEM Listing Rules. The value of each of the transactions falls below the *de minimis* threshold of the higher of HK\$1,000,000 or 0.03% of the net tangible assets of the Company under Rule 20.25(3) of the GEM Listing Rules. Accordingly, the transactions are not subject to the reporting, announcement or shareholders’ approval requirements under Chapter 20 of the GEM Listing Rules.