西安海天天綫科技股份有限公司

Xi'an Haitian Antenna Technologies Co., Ltd*

PLACING OF H SHARES

Global Co-ordinator and Sponsor

Core Pacific - Yamaichi Capital Limited

Lead Manager

Core Pacific - Yamaichi International (H.K.) Limited

* for identification purposes only

Xi'an Haitian Antenna Technologies Co., Ltd

IMPORTANT

If you are in any doubt about this prospectus, you should consult your stockbroker, bank manager, solicitor, accountant or other professional advisers.

西安海天天綫科技股份有限公司
XI'AN HAITIAN ANTENNA TECHNOLOGIES CO., LTD.*

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

LISTING ON THE GROWTH ENTERPRISE MARKET OF THE STOCK EXCHANGE OF HONG KONG LIMITED

BY WAY OF PLACING OF H SHARES

Number of H Shares under the Placing	**:**	**161,764,706 H Shares comprising 147,058,824 New H Shares and 14,705,882 Sale H Shares (subject to the Over-allocation Option)**
Placing Price	**:**	**not more than HK$1.15 per H Share, and expected to be not less than HK$0.55 per H Share, subject to determination on or about 28 October 2003**
Nominal value	**:**	**RMB0.10 per H Share**
Stock code	**:**	**8227**

Global Co-ordinator and Sponsor

Core Pacific – Yamaichi Capital Limited

Sole Bookrunner and Lead Manager

Core Pacific – Yamaichi International (H.K.) Limited

Co-Lead Managers

Worldwide Finance (Securities) Limited **G.K. Goh Securities (H.K.) Limited** **JS Cresvale Capital Limited**

Underwriters

Asian Capital (Corporate Finance) Limited
Guotai Junan Securities (Hong Kong) Limited
Okasan International (Asia) Limited
Sun Hung Kai International Limited
Polaris Securities (Hong Kong) Limited
Crosby Limited
First Shanghai Securities Limited
China Southern Securities (Hong Kong) Limited
Shenyin Wanguo Capital (H.K.) Limited
SBI E2-Capital Securities Limited
Vinco Capital Limited

The Placing Price (as defined in this prospectus) currently expected to be not less than HK$0.55 and not more than HK$1.15 is expected to be fixed by agreement between Xi'an Haitian Antenna Technologies Co., Ltd. (the "Company") (for itself and on behalf of the Vendors) and the Lead Manager, CPY International (for itself and on behalf of the Placing Underwriters (as defined in this prospectus)), at or before **the Price Determination Time (as defined in this prospectus), which is currently scheduled at or before 6:00 p.m. (Hong Kong time) on 28 October 2003. Pursuant to section 3 of the Price Stabilising Rules, price stabilising action may only take place, among others, where the total value of New H Shares at the Placing Price is not less than HK$100 million. Accordingly, for the purpose of compliance with the Price Stabilising Rules, the Over-allocation Option can only be exercised where the Placing Price is HK$0.70 or above.** If the Lead Manager (on behalf of the Placing Underwriters) and the Company (for itself and on behalf of the Vendors) are not able to reach an agreement on the Placing Price by 6:00 p.m. (Hong Kong time) on 28 October 2003, the Placing will not become unconditional and will lapse.

The Company is incorporated, and its businesses are primarily located, in the PRC. Potential investors in the Company should be aware of the differences in the legal, economic and financial systems between the PRC and Hong Kong and that there are different risk factors relating to investment in a PRC incorporated company. Potential investors should also be aware that the regulatory framework in the PRC is different from the regulatory framework in Hong Kong and should take into consideration the different market nature of the shares of the Company. Such differences and risk factors are set out in the section headed "Risk factors" and appendix V to this prospectus.

Prospective investors of the Placing Shares should note that the Placing Underwriters are entitled to terminate their obligations under the Placing and Underwriting Agreement by notice in writing to the Company given by CPY International (for itself and on behalf of the Placing Underwriters), acting as the lead manager of the Placing, upon the occurrence of any of the events set forth in the paragraph headed "Grounds for termination" in the section headed "Underwriting" in this prospectus at any time prior to 6:00 p.m. (Hong Kong time) on the date immediately preceding the day on which dealings in the H Shares on GEM are expected to first commence, which is currently expected to be 5 November 2003. Such events include, but without limitation to, any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out.

* *for identification purposes only*

24 October 2003

CHARACTERISTICS OF GEM

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website at *www.hkgem.com* in order to obtain up-to-date information on GEM-listed issuers.

Determination of the Placing Price at or before *(Note 1)*	6:00 p.m. on Tuesday, 28 October 2003
Announcement of the Placing Price and the level of indication of interest in the Placing to be published on the GEM website at *www.hkgem.com* on or before	Monday, 3 November 2003
Allocation to placees on or before *(Note 2)*	Monday, 3 November 2003
Deposit of H share certificates into CCASS on or about *(Note 3)*	Monday, 3 November 2003
Dealings in the H Shares on GEM to commence on	Wednesday, 5 November 2003

Notes:

1. The Placing Price is expected to be determined at or before 6:00 p.m. on 28 October 2003. If, for any reason, the Placing Price is not agreed between the Company (for itself and on behalf of the Vendors) and CPY International (for itself and on behalf of the Placing Underwriters) by 6:00 p.m. on 28 October 2003, the Placing will not become unconditional and will not proceed.

2. For details of the structure of the Placing, including the conditions in relation thereto, please see the section headed "Structure and conditions of the Placing" in this prospectus.

3. The share certificate(s) is/are expected to be deposited into CCASS on or about 3 November 2003 for credit to the respective CCASS participants' stock accounts or investor participant stock accounts designated by the Placing Underwriters, the successful placees or their agents, as the case may be. No temporary document or evidence of title will be issued.

4. In the event of any change to the expected timetable(s) as set out above, an announcement will be made by the Company accordingly.

5. All times referred to in this prospectus are Hong Kong local times.

You should rely only on the information contained in this prospectus to make your investment decision.

The Company has not authorised anyone to provide you with information that is different from the information contained in this prospectus.

Any information or representation not made nor contained in this prospectus must not be relied on by you as having been authorised by the Company, the Vendors, the Sponsor, the Lead Manager, the Placing Underwriters, their respective directors or any other persons involved in the Placing.

The contents on the websites www.xaht.com and www.htantenna.com do not form part of this prospectus.

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CONTENTS

This summary aims to give you an overview of the information contained in this prospectus. As it is a summary, it does not contain all the information that may be important to you. You should read the whole prospectus before you decide to invest in the Placing Shares.

There are risks associated with any investment in companies listed on GEM. Some of the particular risks in investing in the Placing Shares are set out in the section headed "Risk factors" in this prospectus. You should read that section before you decide to invest in the Placing Shares.

DESCRIPTION OF THE BUSINESS

The Company is a high-technology enterprise principally engaged in the research and development, manufacture 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 Company has been certified by the Science and Technology Bureau of Xi'an Municipality (西安市科學技術局) on 29 May 2000 as a high-technology enterprise. The predecessor of the Company, Xi'an Haitian Communications, was established on 13 October 1999 as a limited liability company in the PRC and was transformed into the Company on 11 October 2000. Based on the feedback from its customers, the Company provides quality products and services to corporate clients comprising PRC mobile communication network operators and mobile communication equipment vendors/system integrators. The Company's customers include members of China Mobile Group and China Unicom Group, UTStarcom, Lucent Qingdao, Shanghai Bell and Datang Telecom. The feedback from the Company's customers demonstrates that, firstly, the Company is able to provide a stable supply of antenna products; secondly, its products and services are able to attain the prescribed level of quality; thirdly, the Company provides swift response, proper product warranty and after-sale services; and lastly, it has maintained a close working relationship with the customers. Sales to China Mobile Group, China Unicom Group and UTStarcom amounted to approximately RMB23.0 million, RMB7.3 million and RMB22.3 million respectively, representing approximately 30.8%, 9.8% and 29.7% respectively of the total turnover of the Company for the year ended 31 December 2001; amounted to approximately RMB31.3 million, RMB60.0 million and RMB37.6 million respectively, representing approximately 19.0%, 36.5% and 22.9% respectively of the total turnover of the Company for the year ended 31 December 2002; and amounted to approximately RMB7.0 million, RMB16.6 million and RMB49.0 million respectively, representing approximately 8.8%, 20.9% and 61.8% respectively of the total turnover of the Company for the five months ended 31 May 2003.

The Directors consider that the Company's workforce comprises a balanced mix of research and development staff with high educational background, experienced production staff in the base station antenna sector and sales and marketing staff familiar with the mobile communication industry. As at the Latest Practicable Date, the Company employed 535 staff, of which 149 were research and development staff. Among such 149 research and development staff, over 80% of them are university graduates or possess higher academic qualifications.

STRATEGIC ALLIANCE AND MEMBERSHIP IN INTERNATIONAL ORGANISATION

In October 2002, the Company formed a strategic alliance with Datang Mobile (an enterprise which is in possession of the core technology for TD-SCDMA development and is proposed to be engaged in the provision of 3G mobile communication equipment in the PRC) through an agreement to jointly develop intelligent antenna arrays in TD-SCDMA mobile communication system. Currently, the Company is a member of the PHS MoU Group and the Directors consider that membership in the PHS MoU Group will facilitate the research and development and sale of the PHS base station antenna products of the Company by obtaining the up-to-date information on technical development and market information of PHS products. For further details, please refer to the paragraph headed "Strategic alliance and membership in international organisation" in the section headed "Business" in this prospectus.

OVERALL BUSINESS OBJECTIVE AND STRATEGIES

The Company aims to become a leading provider of base station antennas and related products in the PRC and a business partner for foreign mobile communication equipment vendors/ system integrators.

The Company specialises in the production of base station antennas and related products, including, among others, indoor distribution system series and active RF devices. 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 antenna series and the GSM/CDMA base station antenna series, were developed 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. The Directors believe that the Company, with its research capability, is able to develop products equipped with advanced mobile communication technology. As at the Latest Practicable Date, the Company had 6 sales contact points in the PRC which covered the regions of Beijing, Hangzhou of Zhejiang, Nanjing of Jiangsu, Wuhan of Hubei, Fuzhou of Fujian and Xi'an of Shaanxi. The Company plans to establish new sales contact points in the PRC, Hong Kong and Russia during the Forward Looking Period. By expanding the Company's geographic coverage in the PRC and broadening its product range, the Directors believe that the Company will be able to better serve mobile communication network operators and leading mobile communication equipment vendors/system integrators in the PRC and expand its market share through the efficient provision of quality products to meet their demand. Furthermore, the Company aims to expand its overseas sales by establishing strategic partnerships with major foreign mobile communication equipment vendors/system integrators. Currently, the overseas markets of the Company include India, Thailand, the United States and Taiwan.

MARKET POTENTIAL

Mobile communication is one of the fastest growing sectors in the PRC communications industry. According to the statistics compiled by ITU and published at its website (www.itu.int) in April 2003, the number of mobile phone service subscribers in the PRC increased from approximately 3.7 million at the end of 1995 to approximately 207 million at the end of 2002, representing a compound annual growth rate of approximately 78.1%.

The MII promulgated the State II Tenth Five-year Plan in May 2001. The State II Tenth Five-year Plan states that the information industry will become one of the State's fundamental and leading industries in the coming years. Accordingly, the Directors anticipate that mobile communication network operators will need to establish more base stations (and hence demand for more base station antennas) as part of their networks, and as a result, the Directors expect that there will be significant potential growth for the market of the Company.

TRADING RECORD

The following table summarises the Company's audited results for each of the two years ended 31 December 2002 and the five months ended 31 May 2003. The summary should be read in conjunction with the accountants' report set out in appendix I to this prospectus.

	For the year ended 31 December		For the five months ended 31 May
	2001	**2002**	**2003**
	RMB	*RMB*	*RMB*
Turnover *(Note 1)*	74,905,651	164,525,831	79,258,672
Cost of sales	(31,174,702)	(73,091,608)	(40,010,304)
Gross profit	43,730,949	91,434,223	39,248,368
Other operating income	159,362	2,120,260	462,948
Distribution costs	(9,659,559)	(17,974,095)	(11,330,755)
Administrative expenses	(6,976,440)	(11,897,950)	(7,583,129)
Other operating expenses *(Note 2)*	(6,967,389)	(15,095,329)	(7,232,455)
Profit from operations	20,286,923	48,587,109	13,564,977
Finance costs	(671,329)	(4,025,294)	(2,403,029)
Profit before taxation	19,615,594	44,561,815	11,161,948
Taxation *(Note 3)*	–	(8,168,467)	(2,661,209)
Net profit for the year/period	19,615,594	36,393,348	8,500,739
Dividend	–	15,000,000	–
Earnings per share, basic *(Note 4)*	RMB0.039	RMB0.073	RMB0.017

Notes:

1. Turnover represents the amounts received and receivable for goods sold exclusive of value added taxes, less returns and allowances to third parties during the year.

   The following is a table showing the turnover breakdown by the Company's product lines:

	For the year ended 31 December				For the five months ended 31 May	
(in RMB million)	**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
Total	74.9	100.0	164.5	100.0	79.3	100.0

Note: Sales grouped under "Others" represent sales of antenna products which were specifically produced for certain low volume orders such as 450MHz Yagi antenna. The sales made under this category are non-recurring in nature because those products are tailor-made according to the specific requests from the customer. Hence, sales made under this category fluctuated significantly during the Track Record Period.

The following is a table showing the gross profit margin analysis of the Company by product lines:

Gross profit margin

	For the year ended 31 December		For the five months ended 31 May
	2001	**2002**	**2003**
WLL/PHS base station antenna series *(Note 1.1)*	70.8%	60.3%	48.7%
GSM/CDMA antenna series *(Note 1.2)*	48.6%	53.0%	50.9%
Indoor distribution system series *(Note 1.3)*	–	60.1%	51.8%
Others *(Note 1.4)*	67.6%	11.6%	50.3%
Total	58.4%	55.6%	49.5%

Notes:

(1.1) In 2002, in respect of WLL/PHS base station antenna series, the Company was operating under a competitive environment and lowered the prices charged to its customers by 8% to 15% on average. Accordingly, the gross profit margin decreased. For the five months ended 31 May 2003, because of intensifying competition, the Company further lowered the selling price by 5% to 21%. As the result, the gross profit margin decreased further.

(1.2) In 2002, the gross profit margin of GSM/CDMA antenna series increased due to a higher price charged on the upgraded models with some new customers. For the five months ended 31 May 2003, there were not many new or upgraded models sold and the gross profit margin was stable, in comparison with that for the year 2002.

(1.3) Gross profit margin for the indoor distribution system series was lower for the five months ended 31 May 2003 compared with that for the whole year of 2002 because the certification of completion for the installation of indoor distribution systems was delayed due to the outbreak of SARS in the PRC in the first few months of 2003. Sales of indoor distribution system are on contract basis and usually involve installation works which normally last for less than one year. On average, an indoor distribution system project lasts for approximately six months. Costs for installation of indoor distribution systems mainly consist of staff expenses in relation to installation works, material costs and subcontracting fee. The relevant direct costs, such as sub-contracting fee, cost of materials for the installation projects are charged to cost of sales at the time when the revenue is recognised, in accordance with the matching principle. However, indirect costs such as the salaries paid to the maintenance team and depreciation of equipment, as they are fixed costs and are not directly associated with each separate contract, are charged to the income statement when incurred. 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 expensed to the income statement while related revenue has not been recognised. Accordingly, gross profit margin for indoor distribution system was lower.

However, sales of WLL/PHS and GSM/CDMA base station antennas have not been severely affected as such sales would only involve delivery of physical goods. If, for any reasons, such as the outbreak of SARS, such antennas could not be delivered to customers, sales would not be recognised and cost of goods would be recorded as inventory. Therefore, gross profit margins for the Company's sales of WLL/PHS and GSM/CDMA base station antennas were not significantly affected by SARS.

(1.4) Sales grouped under "Others" represent sales of antenna products which were specifically produced for certain low volume orders such as 450 MHz Yagi antenna. As the selling prices of "Others" antenna and related products are negotiated with the customers on a case-by-case basis in accordance with specific customer's requirements, gross profit margin for "Others" antenna and related products fluctuates significantly.

2. Other operating expenses

	For the year ended 31 December		For the five months ended 31 May
	2001	**2002**	**2003**
	RMB	*RMB*	*RMB*
Allowance for doubtful debts	694,398	4,252,215	1,696,472
Amortisation of technological know-how	1,000,000	1,000,000	416,667
Deposits for acquisition of materials written off	–	126,220	–
Loss on disposal of property, plant and equipment	–	626,465	18,455
Research and development costs	5,272,991	9,090,429	5,100,861
	6,967,389	15,095,329	7,232,455

3. This amount represents provision for PRC corporate income tax on the Company's estimated assessable profit for the year/period.

The charge for the year/period can be reconciled to the profit as shown in the income statements as follows:

	For the year ended 31 December 2001		For the year ended 31 December 2002		For the five months ended 31 May 2003	
	RMB	*%*	*RMB*	*%*	*RMB*	*%*
Profit before taxation	19,615,594		44,561,815		11,161,948	
Tax at the domestic income tax rate of 15%	2,942,339	15	6,684,272	15	1,674,292	15
Tax effect of expenses that are not deductible in determining taxable profit	–	–	2,986,833	6.7	1,959,253	17.5
Tax effect on additional tax allowance in respect of domestic acquired machineries	–	–	(832,719)	(1.9)	(566,039)	(5.1)
Tax effect on additional tax allowance in respect of the research and development costs	–	–	(669,919)	(1.5)	(398,047)	(3.5)
Tax effect on additional tax allowance in respect of the government subsidy for export sales	–	–	–	–	(8,250)	(0.1)
Tax effect on tax holiday	(2,942,339)	(15)	–	–	–	–
Tax expense and effective tax rate	–	–	8,168,467	18.3	2,661,209	23.8

The Company is regarded by the Xi'an Municipal Bureau of Science and Technology as a high technology enterprise located at the Xi'an National Hi-tech Industrial Development Zone. Pursuant to relevant laws and regulations in PRC, the Company is exempted from income tax for the two years starting from their first production year followed by an income tax rate of 15% in the remaining years of operation. Therefore, the Company was exempted from income tax for the first two years since its production commencing in 2000 and subject to an income tax rate of 15% thereafter.

The increase in effective tax rate for the five months ended 31 May 2003 is mainly attributable to the increase in salaries and bonus payment. As such payment exceeded the maximum amount allowable for deduction, non-deductible salary expenses increased and as a result, a higher effective tax rate was recorded.

4. The calculation of the basic earnings per share for the relevant year/period is based on the profit for the relevant year/period and on the basis of 500,000,000 Shares in issue as at the date of this prospectus and assuming that the sub-division of Shares had taken place at the beginning of the Track Record Period.

PRINCIPAL STRENGTHS OF THE COMPANY

Since its establishment in October 1999, the Company has undergone rapid development with 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 the 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 antenna products to the members of China Mobile Group and China Unicom Group, which 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:

- Professional and key management staff has more than 10 years' experience in researching and developing base station antennas and related products and solving related technical problems.

- Advanced production facilities and test instruments, including 29 vector network analysers imported from the United States, 4 passive intermodulation distortion analysers and 22 anechoic chambers.

- Strong research and development capability in terms of developing new applications of the existing technology and enhancement of the existing products.

- Pioneer in the base station antenna sector of PRC mobile communication industry.

- State policy for encouraging local mobile communication industry.

BRIEF HISTORY AND DEVELOPMENT

Xi'an Haitian Communications, the predecessor of the Company, was established in October 1999 as a limited liability company. With the approval of Shaanxi Provincial Government, Xi'an Haitian Communications was transformed into the Company in October 2000.

Following the issue of the Technical Specifications of Base Station on 24 May 2000 by the MII, the Company adopted a strategy of developing GSM/CDMA antennas and expanding its product mix with a view to reducing its reliance on WLL/PHS base station antennas series. For the year ended 31 December 2001, the sales of WLL/PHS base station antenna series and GSM/CDMA antenna series amounted to approximately RMB28.4 million and approximately RMB41.2 million, respectively, representing approximately 37.9% and approximately 55.0% of the turnover of the Company in that year. In the same year, the Company achieved a turnover of approximately RMB74.9 million and a net profit after taxation of approximately RMB19.6 million.

In early 2002, the Company expanded its business to include the provision of the indoor distribution system in respect of network optimisation. In addition, the Company has commenced the development of intelligent antennas, which is expected to expedite the development of 3G technology. The Company's products were also exported to other countries and/or regions such as Taiwan, Thailand and India. For the year ended 31 December 2002, the turnover of the Company was approximately RMB164.5 million and the net profit after taxation was approximately RMB36.4 million.

In the five months ended 31 May 2003, the sales of WLL/PHS base station antenna series increased as a result of the expansion of PHS networks in regions such as Guangdong, Hebei and Beijing and the Company's adoption of a strategy of lowering the selling price of the product line by a range of 5% to 21%. Sales of WLL/PHS base station antenna series for the five months ended 31 May 2003 amounted to approximately RMB51.7 million, compared with approximately RMB28.4 million and RMB47.4 million respectively for each of the two years ended 31 December 2002. For the five months ended 31 May 2003, the turnover of the Company was approximately RMB79.3 million and the net profit after taxation was approximately RMB8.5 million.

CORPORATE STRUCTURE AND RESTRICTION ON SALE OF SHARES

The following table illustrates the respective shareholdings of the Initial Management Shareholders upon completion of the Placing (assuming the Over-allocation Option is not exercised at all):

Initial Management Shareholder *(Note 3)*	Number of Shares held immediately after the completion of the Placing but before the exercise of the Over-allocation Option	Approximate percentage of shareholding in the registered capital of the Company immediately after the completion of the Placing but before the exercise of the Over-allocation Option (%) *(Note 1)*	Moratorium period imposed by the GEM Listing Rules from the Listing Date *(Note 2)*	Acquisition cost per Domestic Share of RMB0.10 each (RMB) *(Note 4)*	Date(s) of acquisition
Professor Xiao	180,000,000	27.8	12 months	0.100	18 September 1999 and 3 August 2000
Xi'an Jiefang Group	100,000,000	15.5	12 months	0.146	3 July 2000 and 3 August 2000
XITIC	70,151,471	10.8	12 months	0.155	3 July 2000 27 July 2000 and 3 August 2000
BJ Holdings	54,077,941	8.4	12 months	0.170	3 July 2000 21 July 2000 and 3 August 2000
Shaanxi Silk	45,064,706	7.0	12 months	0.155	3 July 2000 6 July 2000 and 3 August 2000
Xi'an Zhengheng Investment	15,000,000	2.3	12 months	0.155	3 July 2000 27 July 2000 and 3 August 2000
Mr. Wu	10,000,000	1.5	12 months	0.160	3 July 2000 27 July 2000 and 3 August 2000
Mr. Chen	6,000,000	0.9	6 months	0.155	3 July 2000 6 July 2000 and 3 August 2000
Shaanxi Mant	5,000,000	0.8	6 months	0.155	3 July 2000 27 July 2000 and 3 August 2000
Subtotal:	485,294,118	75.0			
Public Shareholders	161,764,706	25.0			
Total	647,058,824	100.0			

Notes:

1. If the Over-allocation Option is exercised in full, the Company will be required to issue up to an additional 22,058,824 New H Shares and the Vendors will be required to sell up to an aggregate of 2,205,882 additional Sale H Shares such that there will be a total of 186,029,412 H Shares in issue. The equity interests of the Initial Management Shareholders will be diluted accordingly.

2. Each of Professor Xiao, Xi'an Jiefang Group, XITIC, BJ Holdings, Shaanxi Silk, Xi'an Zhengheng Investment and Mr. Wu, being Initial Management Shareholders who/which will be interested in more than 1% of the registered capital of the Company as at the Listing Date, is required by Rule 13.16 of the GEM Listing Rules to undertake to the Company and the Stock Exchange that he/it will not dispose of (nor enter into any agreement to dispose of) nor permit the registered holder to dispose of (or to enter into any agreement to dispose of) any of his/its direct or indirect interest in his/its Relevant Securities for a period of 12 months from the Listing Date.

Each of Mr. Chen and Shaanxi Mant, being Initial Management Shareholders who/which will be interested in no more than 1% of the registered capital of the Company as at the Listing Date, is required by Rule 13.16 of the GEM Listing Rules to undertake to the Company and the Stock Exchange that he/it will not dispose of (or enter into any agreement to dispose of) nor permit the registered holder to dispose of (or to enter into any agreement to dispose of) any of his/its direct or indirect interest in his/its Relevant Securities for a period of six months from the Listing Date.

Pursuant to Article 147 of the Company Law, shares held by a promoter of a joint stock limited company are not transferable for a period of three years commencing from the date of incorporation of such company. As Xi'an Haitian Communications was transformed into the Company, being a joint stock limited company on 11 October 2000, the Domestic Shares held by the Promoters were not transferable only before 11 October 2003. An application has been made on behalf of the Company for a wavier from strict compliance with Rule 13.16(1) of the GEM Listing Rules in respect of making physical escrow arrangements on the condition that (1) the Initial Management Shareholders have to undertake not to dispose of or pledge their respective Domestic Shares for a period of 12 (or, as the case may be, six) months from the Listing Date; and (2) in the event that the relevant PRC laws and regulations are amended or revoked, the Initial Management Shareholders would respectively have to comply with the escrow arrangement requirements under Rule 13.16(1) of the GEM Listing Rules. Each of the Promoters, who are also Initial Management Shareholders, has undertaken to the Company and the Stock Exchange that he/it will not dispose of (or enter into any agreement to dispose of) nor permit the registered holder to dispose of (or to enter into any agreement to dispose of) any of his/its direct or indirect interest in his/its Relevant Securities for a period of 12 months or six months, as the case may be, from the Listing Date. For details of their non-disposal undertakings, please refer to the above paragraphs in this note 2 and the sub-section headed "Undertakings" in the section headed "Substantial and Initial Management Shareholders" in this prospectus.

3. (a) 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.

(b) 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 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.

(c) 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 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 accounts 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
Total	100.0

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 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.

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 is not involved 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 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 licence) 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 陝西眾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. 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.

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 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 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 projects, 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 includes 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 that company or its members (excluding products restricted from operation or prohibited from import by the State); 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.

(d) 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 Cooperation 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.

(e) 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 had 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.

(f) 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 million. The scope of business of Xi'an Zhengheng Investment includes 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 is not involved 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	100.0

Each of Lei Hua Feng, Gao Hui Min and Gao Xu is an Independent Third Party (other than their investment in Xi'an Zhengheng Investment) and is not involved 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. Each of Lei Hua Feng, Gao Hui Min and Gao Xu has no intention to be involved in the management of the Company.

(g) 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. Mr. Wu has no intention to be involved in the management of the Company.

(h) 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. Mr. Chen has no intention to be involved in the management of the Company.

(i) 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 includes 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 a licence) 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 is not involved 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 of) its equity interests in the Company for a period of 6 months from the Listing Date. Based on its articles of association, holders of the registered capital of Shaanxi Mant are set out below:

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

According to in 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.

Each of Li Zhong Min and Wu Juan is an Independent Third Party and is not involved in the management of the Company (other than their investment in Shaanxi Mant). 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. Each of Li Zhong Min and Wu Juan has no intention to be involved in the management of the Company.

Note 4: The calculation of the acquisition cost is based on the approximate total consideration paid by each Initial Management Shareholder divided by the number of Domestic Shares held by each of them respectively immediately before the Placing.

SUMMARY OF RISK FACTORS

The Directors consider that there are certain risks involved in the Company's business, which include those set out in the section headed "Risk factors" in this prospectus. These risks can be categorised into (1) risks relating to the Company; (2) risks relating to the industry; (3) risks relating to the PRC; (4) risks relating to certain statements in this prospectus; and (5) risks relating to the Placing. They are summarised as follows:

Risks relating to the Company

- Risk involved in accumulation of trade receivables
- High debt to equity ratio and consequence of realisation of security
- Reliance on major customers
- Risk involved in the pledge of trade receivables
- Risk involved in the discounting of bills of exchange
- Dividend policy
- Reliance on senior management and core technology team
- Seasonal fluctuation
- Intellectual property rights
- Terms of lease agreements

- Product liability
- Potential tax liabilities
- Electricity supply
- Reliance on suppliers
- Renewal of Network Access Licence
- Reliance on the production facilities in the PRC
- No assurance on achievement of business objectives
- Possible side effects resulting from the usage of mobile phones
- Delayed set up of the Housing Fund
- Environmental liability exposure

Risks relating to the industry

- Competition
- Institutional structure of the mobile communication sector in the PRC
- Product substitution

Risks relating to the PRC

- PRC's admission as a member of the WTO
- Political and economic policies of the PRC
- Currency conversion and foreign exchange
- Impact of fluctuation of Renminbi conversion rate on the value of and dividend payable on H Shares
- Different regulatory framework

Risks relating to certain statements in this prospectus

- Reliability of statistics
- Forward-looking statements contained in this prospectus

Risks relating to the Placing

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

REASONS FOR THE PLACING AND USE OF PROCEEDS

The Directors believe that listing of the H Shares on GEM will enhance the Company's profile and broaden its capital base for future growth and development. The net proceeds to which the Company is entitled from the issue of New H Shares under the Placing, based on the Placing

Price of HK$0.55 per H Share (being the lowest-point of the indicative Placing Price range between HK$0.55 and HK$1.15 per H Share) excluding any proceeds from those attributable to the Sale H Shares and the exercise of the Over-allocation Option, are estimated to be approximately HK$62 million. The Directors intend to apply such net proceeds as follows:

- as to approximately HK$25 million for research and development of the Company's antenna and related products;

	HK$ million
Development of antenna products	20
Development of repeater and indoor distribution system series	5
	25

- as to approximately HK$14 million for further empowering of the Company's research and development capabilities by setting up near field/far field antenna testing systems;

	HK$ million
Recruitment and training of additional experts	4
Purchasing additional research and development equipment	10
	14

- as to approximately HK$5 million for the increase of production capacity by enhancing the 3 existing production lines to improve their efficiency and output and installing 2 additional production lines;

	HK$ million
Enhancing the 3 existing production lines	2.5
Installing 2 additional production lines	2.5
	5.0

- as to approximately HK$5 million for the expansion in sales, distribution and services network coverage;

- as to approximately HK$3 million for collaborating with business partners and establishing strategic alliances; and

- as to the remaining balance of approximately HK$10 million as general working capital for daily operation of the Company, such as purchase of raw materials for production.

Should the final Placing Price be determined at a price higher than HK$0.55 per H Share, the Company will receive additional net proceeds. Should the final Placing Price be determined at HK$1.15 per H Share, the Company will receive in aggregate net proceeds of approximately HK$147 million, which represent approximately HK$85 million more than the net proceeds of approximately HK$62 million as the Placing Price being set at HK$0.55 per H Share. The Directors intend to use additional net proceeds raised to finance the Company's future plan for the 12 months ending 31 December 2004 on a proportional basis in accordance with the Company's funding requirements. Accordingly, the Directors consider that the business objectives of the Company will not be changed as planned. Based on the net proceeds of approximately HK$62 million (assuming the Placing Price of HK$0.55 per Placing Share, being the lowest point of the indicative Placing Price range in this prospectus), the Directors are of the view that the net proceeds are adequate to accomplish all of the business objectives of the Company during the Forward Looking Period. Moreover, with additional proceeds of approximately HK$85 million, the Company will be able to allocate more resources to implement each item as mentioned in the Business Plan as follows:

- as to approximately HK$34 million for research and development of the Company's antenna and related products (approximately HK$17 million), as well as for repeater and indoor distribution system series (approximately HK$17 million);

- as to approximately HK$20 million for further empowering of the Company's research and development capabilities by recruitment and training of additional antenna experts (approximately HK$12 million) as well as by enhancement of the environmental testing centre for product inspection currently under construction (approximately HK$8 million);

- as to approximately HK$7 million for the increase of production capacity by installing five additional production lines;

- as to approximately HK$7 million for the expansion in sales, distribution and services network coverage;

- as to approximately HK$3 million for collaborating with business partners and establishing strategic alliances; and

- as to the remaining balance of approximately HK$14 million as general working capital, of which as to approximately HK$10 million will be applied for the repayment of bank borrowings advanced under revolving banking facilities granted by Shanghai Pudong Development Bank and as to approximately HK$4 million for general cash reserve.

Pursuant to section 3 of the Price Stabilising Rules, stabilising action may only take place, among other factors, where the total value of the New H Shares at the Placing Price is not less than HK$100 million. Accordingly, for the purpose of compliance with the Price Stabilising Rules, the Over-allocation Option can only be exercised when the Placing Price will be HK$0.70 or above. Should the final Placing Price be HK$0.70 or above and the Over-allocation Option is exercised, the usage of approximately 25% of the additional net proceeds to be raised from the exercise of Over-allocation Option will be used for general working capital and approximately 75% will be used for repayment of bank borrowings advanced under revolving banking facilities granted by Shanghai Pudong Development Bank. Should the final Placing Price be determined at HK$1.15 per H Share (being the highest price in the indicative Placing Price range), approximately HK$18 million of the additional net proceeds of approximately HK$24 million to be raised from the exercise of Over-allocation Option will be used for repayment of bank borrowings advanced under revolving banking facilities granted by Shanghai Pudong Development Bank and the remaining approximately HK$6 million will be used for general working capital.

To the extent that the net proceeds of the issue of the New H Shares under the Placing are not immediately required for the above purposes, it is the present intention of the Directors that they will be placed on short-term interest bearing deposits with licensed banks and/or financial institutions in the PRC.

As set out in this section, the Directors estimated that the minimum total cost of implementation of the future plans will be approximately HK$52 million. Taking into account the net proceeds of the Placing, the Company's existing financial resources and the Company's internally generated funds, the Directors consider that the Company will have sufficient working capital for the Business Plan as scheduled.

In the event that any part of the Business Plan does not materialise or proceed as planned, the Directors will carefully evaluate the situation and may reallocate the intended funding to other business plans and/or new projects and/or hold such funding as short-term deposits as long as the Directors consider it to be in the best interests of the Company and the Shareholders taken as a whole and to be in compliance with the GEM Listing Rules. In such event, the Company will make necessary announcement in accordance with the requirements under GEM Listing Rules as and when appropriate for such purpose.

PLACING STATISTICS

	Based on an indicative Placing Price of HK$0.55 per H Share	**Based on an indicative Placing Price of HK$1.15 per H Share**
Pro forma fully diluted earnings per Share *(Note 1)*	HK5.3 cents	HK5.3 cents
Market capitalisation of the H Shares *(Note 2)*	HK$89 million	HK$186 million
Pro forma fully diluted price/earnings multiple *(Note 3)*	10.4 times	21.7 times
Adjusted net tangible asset value per Share *(Note 4)*	HK$0.23	HK$0.36

Notes:

1. The calculation of the pro forma fully diluted earnings per Share is based on the audited profit attributable to shareholders of approximately RMB36.39 million (or approximately HK$34.33 million) for the year ended 31 December 2002 and 647,058,824 Shares in issue immediately after completion of the Placing, but takes no account of any H Shares which may fall to be allotted and issued and/or sold upon the exercise of the Over-allocation Option.

2. The calculation of the market capitalisation of the H Shares is based on 161,764,706 H Shares in issue immediately after completion of the Placing but takes no account of any H Shares which may fall to be allotted and issued and/or sold upon the exercise of the Over-allocation Option.

3. The calculation of the pro forma fully diluted price/earnings multiple is based on the pro forma fully diluted earnings per Share calculated above.

4. The adjusted net tangible asset value per Share has been arrived at after making the adjustments in the paragraph headed "Adjusted net tangible assets" under the section headed "Financial information" in this prospectus and on the basis of 647,058,824 Shares in issue immediately after completion of the Placing. It does not take into account of any Shares which may fall to be allotted and issued and/or sold upon the exercise of the Over-allocation Option.

In this prospectus, unless the context otherwise requires, the following expressions have the meanings set out below. Certain other terms are explained in the section headed "Glossary of technical terms" of this prospectus.

"Agricultural Bank of China"	中國農業銀行西安市開發區支行 (Agricultural Bank of China, Xi'an National Hi-tech Industrial Development Zone Branch)
"Articles of Association" or "Articles"	the articles of association of the Company approved and adopted by its shareholders in general meeting on 18 October 2003
"associate(s)"	has the meaning ascribed to it by the GEM Listing Rules
"Board"	the board of Directors
"BJ Holdings"	北京京泰投資管理中心 (Beijing Holdings Investment Management Co., Ltd), a company incorporated in the PRC, is a Promoter and an Initial Management Shareholder. Its registered capital is owned solely by Beijing Holdings Limited and is principally engaged in investment management, economic information consultancy, storage and management of self-owned real properties
"Business Plan"	the business plan adopted by the Company for the Forward Looking Period, the details of which are set out under the section headed "Statement of business objectives and strategies" of this prospectus
"CAD"	computer aided design
"Capital Reorganisation"	the capital reorganisation of the Company involving the subdivision of each ordinary share of the Company of par value of RMB1.00 into 10 ordinary shares of RMB0.10 each, which became effective on 22 April 2003 in preparation for the listing of the Shares as referred to in the paragraph headed "Changes in share capital and shareholding structure" in appendix VI to this prospectus
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"China Everbright Bank"	中國光大銀行西安高新技術開發區支行(China Everbright Bank, Xi'an National Hi-tech Industrial Development Zone Branch)
"China Mobile"	中國移動通信集團公司(China Mobile Communications Corporation), a State-owned telecommunication enterprise under the administration of the Central Government of the PRC, which was established in April 2000 and whose principal business is the provision of mobile communication services in the PRC. It is the holding company of China Mobile (Hong Kong) Limited, a company listed on the Main Board and the New York Stock Exchange. It is an Independent Third Party

"China Mobile Group"	China Mobile and its subsidiaries and branch offices. They are collectively and individually Independent Third Parties
"China Netcom"	中國網絡通信有限公司(China Netcom Corporation Limited) is a subsidiary of 中國網絡通信集團公司(China Netcom Communication Group Corporation) which is a State-owned telecommunication enterprise formed on the basis of the former China Netcom Corporation Limited, some of China Telecom's telecommunication companies located in northern China, and Jitong in accordance with the reform plan on the PRC telecommunication system. Its principal business includes fixed line services and data and multimedia services. It is an Independent Third Party
"China Telecom"	中國電信集團公司 (China Telecommunications Corporation), a State-owned telecommunication enterprise established in May 2002 and whose principal business is the operation of fixed-line networks in China and in certain other places. It is the holding company of China Telecom Corporation Limited, a company listed on the Main Board. It is an Independent Third Party
"China Unicom"	中國聯合通信有限公司 (China United Telecommunications Corporation), a State-owned telecommunication enterprise which was established on 19 July 1994 and is the controlling shareholder of China Unicom Limited whose shares were officially listed in New York and Hong Kong in June 2000. Its principal business includes operation of mobile communication networks, local and domestic networks, long distance networks, paging services and data and Internet services. It is an Independent Third Party
"China Unicom Group"	China Unicom and its subsidiaries and branch offices. They are collectively and individually Independent Third Parties
"Companies Ordinance"	the Companies Ordinance, Chapter 32 of the Laws of Hong Kong
"Company" or "Haitian"	西安海天天綫科技股份有限公司 (Xi'an Haitian Antenna Technologies Co., Ltd.), a joint stock limited company incorporated in the PRC under the Company Law, formerly known as Xi'an Haitian Communications (a limited liability company incorporated on 13 October 1999 and transformed into a joint stock limited company on 11 October 2000 as approved by the Shaanxi Provincial Government under the laws of the PRC) and where the context refers to any time prior to 11 October 2000, Xi'an Haitian Communications
"Company Law"	中華人民共和國公司法 (the Company Law of the PRC) as enacted by the Standing Committee of the Eighth NPC on 29 December 1993 and came into force on 1 July 1994, as amended, supplemented or otherwise modified from time to time

"CPY" or "Sponsor"	Core Pacific - Yamaichi Capital Limited, a deemed licensed corporation for types 1, 4, 6 and 9 regulated activities under the SFO and an approved sponsor for listing on GEM, being the global co-ordinator and sole sponsor to the Placing
"CPY International" or "Lead Manager" or "Sole Bookrunner and Lead Manager"	Core Pacific - Yamaichi International (H.K.) Limited, a deemed licensed corporation for type 1, 4, 6, 7 and 9 regulated activities under the SFO, being the sole bookrunner and lead manager of the Placing
"CSRC"	中國證券監督管理委員會 (China Securities Regulatory Commission), a regulatory body responsible for the supervision and regulation of the PRC national securities market
"Datang Mobile"	大唐移動通信設備有限公司 (Datang Mobile Communication Equipment Co., Ltd.), established in the PRC in February 2002, a major shareholder of Datang Telecom. It is an enterprise which is in possession of the core technology for TD-SCDMA development and is proposed to be engaged in the provision of 3G mobile communication equipment in the PRC
"Datang Telecom"	大唐電信科技產業集團 (Datang Telecom Technology and Industry Group), a group of enterprise(s) under the auspices of 信息產業部電信科學技術研究院 (Telecom Science and Technology Research Institute of MII). Its flagship company is 大唐電信科技股份有限公司 (Datang Telecom Technology Co., Ltd.), an enterprise established in the PRC with its shares listed on the Shanghai Stock Exchange and whose principal business includes the development, production and sale of communication equipment and the provision of related technical services. It is an Independent Third Party
"Director(s)"	the director(s) of the Company
"Domestic Shares"	ordinary shares of nominal value of RMB1.00 each, or (after the Capital Reorganisation) RMB0.10 each, in the registered capital of the Company, which are subscribed for in Renminbi
"Foreign Shares"	ordinary shares in the share capital of the Company, the nominal value of which is denominated in Renminbi, and which are subscribed for in a currency other than Renminbi
"Forward Looking Period"	the period from the Latest Practicable Date to 31 December 2005
"GEM"	the Growth Enterprise Market of the Stock Exchange
"GEM Listing Committee"	the listing sub-committee of the Stock Exchange with responsibility for GEM
"GEM Listing Rules"	the Rules Governing the Listing of Securities on GEM

"GEM website"	the website of GEM located at the address of "www.hkgem.com"
"H Shares"	overseas listed Foreign Shares with a nominal value of RMB0.10 each, which are to be listed on GEM and subscribed for and/or purchased and traded in Hong Kong dollars
"Haitian Research Institute"	an in-house research department of the Company, responsible for the research and development of new products and technological support and which is not an independent legal entity
"HKSCC"	Hong Kong Securities Clearing Company Limited
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"II"	information industry
"Independent Third Party(ies)"	party(ies) which is (are) independent of, and not connected with any of the Promoters, Directors, Supervisors, chief executives, Substantial Shareholders or Initial Management Shareholders of the Company or their respective associates
"Initial Management Shareholder(s)"	has the meaning as defined in the GEM Listing Rules and in relation to the Company refers to the persons set out in the paragraph headed "Initial Management Shareholders" in the section headed "Substantial and Initial Management Shareholders" in this prospectus
"ITU"	International Telecommunication Union, headquartered in Geneva, Switzerland, which is an international organisation within the United Nations system where governments and the private sector coordinate global telecommunication networks and services, whose purposes include maintenance and extension of international cooperation between all its member states for the improvement and rational use of telecommunications of all kinds
"Jitong"	吉通網絡通信股份有限公司 (Jitong Network Communications Company Limited), an enterprise established in the PRC whose principal activities (before its merger with China Netcom) were to provide data services for business customers by setting up satellite connections and was merged with China Netcom in May 2002 to form a new operator in northern China. It is an Independent Third Party
"Latest Practicable Date"	16 October 2003, being the latest practicable date for ascertaining certain information in this prospectus prior to its publication
"Listing Date"	the date on which dealings in the H Shares on GEM first commence

"Lucent Qingdao"	青島朗訊科技通訊設備有限公司 (Lucent Technologies Qing Dao Telecommunication System Ltd.), a sino-foreign equity joint venture enterprise established in the PRC and whose shareholders include Lucent Technologies Inc., Qingdao Enterprise Development and Investment Corporation, China Telecom Group Shandong Corporation, Qingdao Company of China Telecom Group Shandong Corporation and China International Trust and Investment Corporation. Its principal products include advanced access systems, wireless technology and networking software
"Macau"	the Macau Special Administrative Region of the PRC
"Main Board"	the securities market operated by the Stock Exchange under the Rules Governing the Listing of Securities on the Stock Exchange prior to the establishment of GEM (excluding the option market) and continues to operate in parallel with GEM
"Mandatory Provisions"	到境外上市公司章程必備條款 (the Mandatory Provisions for Articles of Association of Companies to be Listed Overseas) (as amended, supplemented and modified from time to time), for inclusion in the articles of association of companies incorporated in the PRC to be listed outside the PRC, which were promulgated by the State Council Securities Commission (國務院證券委員會) and the State Economic Restructuring Commission (國家經濟改革委員會) on 27 August 1994
"MII"	中國信息產業部 (the Ministry of Information Industry of the PRC), which is responsible for, among others, matters relating to information industry including telecommunications, telemedia and the Internet
"MOF"	中國財政部 (the Ministry of Finance of the PRC), which is responsible for (among others) the administration of State revenues and expenditures, financial and taxation policies and overall supervision of financial institutions
"MOFTEC"	中國對外貿易經濟合作部 (the Ministry of Foreign Trade and Economic Cooperation of the PRC), which is responsible for (among others) the formulation of PRC's policy towards foreign trade, foreign investment and the economic cooperation with foreign countries
"MPT"	中國郵電部 (the Ministry of Post and Telecommunication), a ministry of the PRC Government which prior to the establishment of MII, was responsible for, among other things, matters relating to the PRC information industry including telecommunications, telemedia and the Internet
"Mr. Chen"	陳曉繽 (Chen Xiao Bin), who is a Promoter and an Initial Management Shareholder. He has no management or any other position in the Company
"Mr. Wu"	吳墀衍 (Wu Chi Yan), who is a Promoter and an Initial Management Shareholder. He has no management or any other position in the Company

"NASDAQ"	The Nasdaq Stock Market Inc.
"Network Access Licence"	電信設備進網許可證 (Network Access Licence for Telecommunications Equipment) granted by the MII
"New H Shares"	new H Shares being offered by the Company for subscription at the Placing Price under the Placing
"1994 Notice on Foreign Exchange Control Matters"	關於境外上市企業外匯管理有關問題的通知 (the Notice Relating to Foreign Exchange Control Matters for Enterprises Listed Overseas), issued by the CSRC and the SAFE in January 1994
"NPC" or "National People's Congress"	中國全國人民代表大會 (the National People's Congress of the PRC), the national legislative body of the PRC
"Over-allocation Option"	the option granted by the Company and the Vendors to the Placing Underwriters and exercisable by CPY International (on behalf of the Placing Underwriters) pursuant to the Placing and Underwriting Agreement to require the Company to issue up to 22,058,824 additional New H Shares and the Vendors to sell up to an aggregate of 2,205,882 additional Sale H Shares both at the Placing Price, which together represent approximately 15% of the Placing Shares initially offered under the Placing, to cover any over-allocation in the Placing, which will only be exercisable by CPY International (on behalf of the Placing Underwriters) where the Placing Price is HK$0.70 or above
"PBOC"	中國人民銀行 (the People's Bank of China), the central bank of the PRC
"PBOC Notice"	關於進一步改革外匯管理體制的公告 (the Notice Concerning Further Reform of the Foreign Currency Control System), issued by PBOC in December 1993
"PBOC Rate"	the exchange rate for foreign exchange transactions set daily by PBOC based on the previous day's PRC interbank foreign exchange rates
"PHS MoU Group"	Personal Handy System Memorandum of Understanding Group, which was established in Japan in July 1996. The primary activities of the PHS MoU Group are the maintenance of the PHS technical specification and the promotion of PHS technology through the establishment and activity of various working groups
"PLA"	the People's Liberation Army of the PRC
"Placing"	the conditional placing of the Placing Shares (subject to the Over-allocation Option) at the Placing Price with professional, institutional and other investors as described in the section headed "Structure and conditions of the Placing" in this prospectus
"Placing and Underwriting Agreement"	the conditional placing and underwriting agreement dated 24 October 2003 and entered into between, among others, the Company, the executive Directors, the Promoters, the Sponsor, the Lead Manager, the Placing Underwriters and the Vendors relating to the Placing, further details of which are set out in the section headed "Underwriting" of this prospectus

"Placing Price"	the final price per H Share, exclusive of brokerage fees, SFC transaction levy, investor compensation levy and Stock Exchange trading fees, at which the H Shares are to be subscribed for or purchased (as the case may be) and issued or sold (as the case may be) pursuant to the Placing, to be determined as described in the paragraph headed "Determining the Placing Price" under the section headed "Structure and conditions of the Placing"
"Placing Shares"	the 147,058,824 New H Shares and 14,705,882 Sale H Shares initially being offered (subject to Over-allocation Option) pursuant to the Placing at the Placing Price, representing in aggregate approximately 25% of the registered capital of the Company immediately after the completion of the Placing
"Placing Underwriters"	the underwriters named in the paragraph headed "Placing Underwriters" under the section headed "Underwriting"
"PRC" or "China"	the People's Republic of China, which for the purposes of this prospectus, does not include Hong Kong, Macau and Taiwan
"PRC Government" or "State"	the central government of the PRC, including all governmental subdivisions (including provincial, municipal and other regional or local government entities) and instrumentalities thereof
"Price Determination Time"	such time as the final Placing Price shall be fixed by agreement between the Lead Manager (for itself and on behalf of the Placing Underwriters) and the Company (for itself and on behalf of the Vendors), currently expected to be 6:00 p.m. on 28 October 2003, or such later date as may be agreed by the said parties
"Price Stabilising Rules"	Securities and Futures (Price Stabilising) Rules (Subsidiary Legislation W of Chapter 571 of the Laws of Hong Kong)
"Professor Xiao"	肖良勇教授 (Professor Xiao Liangyong), who is an executive Director, a Promoter and an Initial Management Shareholder
"Promoter(s)"	the promoter(s) of the Company, the names of which are set out under the paragraph headed "Incorporation" in appendix VI to this prospectus
"Regulations for the Reduction of State Shareholdings"	減持國有股籌集社會保障資金管理暫行辦法 (Provisional Administrative Measures for the Reduction of State-owned Shares and the Raising of the Social Security Fund) promulgated by the State Council on 12 June 2001
"Relevant Securities"	in respect of each Initial Management Shareholder, has the meaning as defined in Rule 13.15(4) of the GEM Listing Rules

"Restructuring"	the transformation of Xi'an Haitian Communications into the Company, a joint stock limited company under the Company Law on the Restructuring Date, the details of which are set out in the paragraph headed "History and development" in the section of "Business" in this prospectus
"Restructuring Date"	11 October 2000, the date on which the Restructuring became effective
"SAFE"	國家外匯管理局 (the State Administration of Foreign Exchange), the PRC Government agency responsible for matters relating to foreign exchange administration
"Sale H Shares"	a total of 14,705,882 H Shares (or, upon the exercise of the Over-allocation Option in full, 16,911,764 H Shares) to be converted from an equal number of Domestic Shares of RMB0.10 each held by the Vendors, to be offered for sale by the Vendors at the Placing Price under the Placing. The proceeds raised from the sale of such State-owned shares will be allocated to and managed by 中國全國社會保障基金理事會 (the State Social Security Fund Council of the PRC), which is under the direct supervision of the State Council
"SARS"	Severe Acute Respiratory Syndrome
"Securities Law"	中華人民共和國證券法 (the Securities Law of the PRC) enacted by the Standing Committee on 29 December 1998 and which became effective on 1 July 1999, as amended, supplemented or otherwise modified from time to time
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Shaanxi Mant"	陝西門德知識產業開發有限責任公司(Shaanxi Mant Intellectual Property Industry Development Co., Ltd), a company incorporated in the PRC, a Promoter and an Initial Management Shareholder
"Shaanxi Silk"	陝西省絲綢進出口公司(Shaanxi Silk Import & Export Corporation), a company incorporated in the PRC and a Promoter and an Initial Management Shareholder
"Shanghai Bell"	上海貝爾阿爾卡特股份有限公司(Alcatel Shanghai Bell Co. Ltd.), an enterprise established in the PRC and a shareholder of which is Alcatel. Its principal business includes the provision of telecommunication infrastructure and solutions in the PRC. It is an Independent Third Party
"Shanghai Pudong Development Bank"	上海浦東發展銀行西安分行(Shanghai Pudong Development Bank, Xi'an Branch)

"Shareholder(s)"	holder(s) of Shares
"Shares"	the Domestic Shares and H Shares
"Significant Shareholder(s)"	has the meaning ascribed to it by the GEM Listing Rules
"SME(s)"	small and medium enterprise(s)
"Special Regulations"	國務院關於股份有限公司境外募集股份及上市的特別規定(the Special Regulations of the State Council on the Overseas Offering and Listing of Shares by Joint Stock Limited Companies) promulgated by the State Council on 4 August 1994, as amended, supplemented or otherwise modified from time to time
"Standing Committee"	the Standing Committee of the NPC
"State Council"	中國國務院 (the State Council of the PRC), the highest government body in the PRC in charge of the formulation and implementation of State policies
"State Economic Restructuring Office"	中國國家經濟體制改革辦公室 (the State Economic Restructuring Office of the PRC) , formerly 中國國家經濟體制改革委員會 (the Commission for Restructuring the Economic Systems of the PRC), an office of the State Council for restructuring the economic system
"State Shareholders"	BJ Holdings, Shaanxi Silk and XITIC and each a "State Shareholder"
"State II Tenth Five-year Plan"	信息產業「十五」計劃綱要(Compendium to the State Tenth Five-year Plan in the PRC)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Substantial Shareholder(s)"	has the meaning as defined in the GEM Listing Rules and in relation to the Company refers to the persons set out in the paragraph headed "Substantial Shareholders" in the section headed "Substantial and Initial Management Shareholders" in this prospectus
"Supervisor(s)"	the member(s) of the supervisory committee of the Company
"Track Record Period"	the financial period consisting of the two years ended 31 December 2002 and the five months ended 31 May 2003
"UTStarcom"	UT 斯達康通訊有限公司 (UTStarcom Telecom Co., Ltd.), formerly known as UTStarcom (Hangzhou) Telecom Co., Ltd., an enterprise established in the PRC and a subsidiary of UTStarcom Inc, which introduced PHS to the PRC telecommunication market. Its principal business includes manufacture and distribution of telecommunication equipment. It is an Independent Third Party

"Vendors"	collectively, XITIC, BJ Holdings and Shaanxi Silk, existing holders of the Sale H Shares
"Winfor Consulting"	北京經緯萬方信息諮詢有限公司，a company established on 17 December 2001 in the PRC with a registered capital of RMB100,000 and engaged in consulting services (include management consulting, product consulting and industry analysis service in relation to telecommunication, chemical engineering and medicine) and is an Independent Third Party
"WTO"	the World Trade Organisation
"XITIC"	西安國際信託投資有限公司 (Xi'an International Trust & Investment Co., Ltd.), a company established in the PRC, a Promoter and an Initial Management Shareholder. Its shareholders are Xi'an Finance Bureau, Shaanxi Baosheng International Investment Company Limited, Shaanxi Blower (Group) Limited Company, Xi'an Mingwei (Group) Economic Technology Development Company Limited, Shaanxi Baichuan Xingye Investment Company Limited, Xi'an Qinli Property (Group) Company Limited, Xi'an National Hi-tech Industrial Development Zone Science and Technology Investment Service Centre, Xi'an Television Broadcast and Xi'an Lanxi Technology Enterprise (Group) Company Limited. The scope of business of XITIC is entrusted operation of capital trust business, entrusted operation of trust business of movable, immovable and other property, fund investment operation in accordance with the laws and regulations of the PRC; fund investment as a founder of a fund management entity; community chest trustee; corporate intermediate businesses such as asset reconstruction, acquisition and merger, corporate finance, financial consultancy; distribution of treasury bonds and corporate bonds as an agent approved by 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 ways 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 authorized by the People's Bank of the PRC
"Xi'an Government"	西安市人民政府 (the Municipal People's Government of Xi'an)
"Xi'an Haitian Communications"	西安海天通訊設備有限公司 (Xi'an Haitian Communications Equipment Company Limited), the predecessor of the Company, which immediately prior to the completion of the Restructuring had an economic nature of a limited liability company

"Xi'an Jiefang Group"	西安解放集團股份有限公司 (Xi'an Jiefang Group Co., Ltd.), a company established in the PRC with its shares listed on the Shenzhen Stock Exchange, a Promoter and an Initial Management Shareholder. It is principally engaged in the retail business. As at 2 August 2003, each of Xi'an Gao Xin Hospital Co. Ltd. and Xi'an Finance Bureau was interested in 5% or more of its registered capital and the other portion of its registered capital was held by public shareholders
"Xi'an Zhengheng Investment"	西安正衡投資諮詢有限責任公司 (Xi'an Zhengheng Investment & Advisory Co., Ltd.), a company established in the PRC, a Promoter and an Initial Management Shareholder. Its shareholders are Lei Hua Feng, Gao Hui Min and Gao Xu. 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 report; the provision of corporate finance management consultancy service and devising of marketing strategy for its clients
"Xidian University"	西安電子科技大學 (Xidian University), which was known as 西北電訊工程學院 (College of Northwest Telecommunication Engineering), 軍事電信工程學院 (College of Military Telecommunication Engineering) and 通信工程學院 (College of Telecommunication Engineering) before 1988 respectively
"HK$" and "HK cents"	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"U.S." or "United States"	United States of America
"US$" or "U.S. Dollar(s)"	United States dollar(s), the lawful currency of the U.S.
"sq.ft."	square feet
"sq.m."	square metre(s)
"%"	per cent.

Unless otherwise specified in this prospectus, amounts denominated in RMB and US$ have been translated, for the purpose of illustration only, into Hong Kong dollars as follows:

HK$7.80 = US$1.00   HK$1.00 = RMB1.06

No representation is made that any amounts in RMB, US$ or HK$ could have been or could be converted at the above rate or at any other rates.

In this prospectus, the English names of publications or documents, enterprises established in or citizens of the PRC are translations of their Chinese names and are included for identification purpose only.

The contents at the various websites referred to in this prospectus do not form part of this prospectus.

This glossary contains explanations of certain terms and definitions used in this prospectus in connection with the Company and its business. The terms and their meanings may not correspond to standard industry meaning or usage of these terms.

"2G"	second generation wireless service. This generation of services started in 1990 and is based on circuit-switched technology where each call requires its own cell channel, which makes transmission of data relatively slow as compared with 2.5G and 3G. Such services include CDMA, TDMA and GSM
"2.5G"	second-and-a-half generation wireless service. Such service is based on packet-switched service that increases transmission speeds as compared with 2G
"3G"	third generation wireless service, a system of services proposed to be adopted in the near future for mobile communications, which will allow wireless transmission speeds up to 2 Mbps. Key features of such systems are a high degree of worldwide commonality of design, compatibility of services, use of small pocket terminals with worldwide roaming capability, Internet and other multimedia applications, and a wide range of services and terminals
"active product"	electronic component that requires external power to manipulate or react to an electronic input for a desired output
"anechoic chamber"	a room which is built or installed with materials which absorb most, if not all, microwaves. The room may serve as a laboratory for testing antenna as background electromagnetic waves or noises are eliminated and also protect workers who work in the control room from the health hazard as the control room is physically separated from the chamber
"antenna"	a device for receiving and transmitting electromagnetic signals. An optimal antenna for a given transmission or reception of a frequency has a length equal to the wavelength (or a usable fraction) of that frequency. A function of antenna is to transform electromagnetic wave into alternating current (and hence energy for triggering signals for electronic equipment), or in the opposite way
"base station"	transmitter and receiver which serve as a transmission device between all mobile users in a cell and connect mobile calls to the mobile phone switching office and/or the land-line phone network
"base station antenna(s)"	antenna(s) for mobile communication base station
"bit"	binary digit, a unit of data that is represented as a one or a zero

"CDMA"	Code Division Multiple Access technology, a type of mobile communication system in modulation. The technology converts voice signal into a digital signal, adds an address (the identity code of the destination which the sender wishes to send to) to each digital voice packet, scrambles the packet and sends it by way of radio frequency
"CDMA2000"	a broadband CDMA technology for application in 3G
"cell"	a geographical area in cellular communications
"cell site"	the transmission and receiving centre for a cell, which generally consists of (i) an antenna, (ii) a closure that contains the antenna (and other environmental control units (such as heater or air-conditioner units)), and (iii) a small building in which the said closure is located
"cellular"	a wireless local telephone service that operates by dividing a geographical area into sections or cells. Each cell has its own transmitter/receiver that tracks and operates with mobile phones within its area. The dimensions of a cell can range from several hundred metres to several kilometres
"combiner/divider"	an RF device which enables GSM 900MHz and CDMA 800MHz system information to be combined and worked through one indoor distribution antenna system
"coupler"	an RF device which divides a signal unevenly into signals of different powers. The smaller output end is called coupled output
"decibel" or "dB"	a measurement of increase or decrease of a signal that comes from the ratio of transmitted power to received power. Negative decibel represents a loss of power and positive decibel represents an increase in power
"digital"	a signal that has only two possible levels per cycle
"dipole unit(s)"	the smallest physical radiation unit in an antenna. Its length is a quarter of a wavelength and into which the electrical signal is fed symmetrically
"duplexer"	an RF device which makes transmitted and received signals simultaneously go through one antenna
"encapsulation cases"	a shell made of insulation material which lets RF wave go through so that the RF units are able to be protected from weather influences
"feeder"	a transmission line which connects the antenna with other electronic device, such that the line transmits RF energy from a transmitter to an antenna, and/or from an antenna to a receiver. If operating properly, the transmission line itself does not radiate or intercept energy

"gain"	in respect of a given antenna, the ratio of the power required at the input of a reference antenna to the power supplied to the input of the given antenna to produce, in a given direction, the same electromagnetic strength at the same distance. Gain is usually measured in decibel
"GDP"	gross domestic product
"GPRS"	General Packet Radio Services, an evolved version of 2G GSM technology which transmits and receives packets of data through different parts of the network, instead of using a continuous open radio channel. The system takes advantage of space capacity of the network and data transmission speed is up to 115.2 Kbps, as compared with GSM's speed of 9.6 Kbps or 14.4 Kbps
"GSM"	Global System for Mobile communication, a widely used digital wireless telephone technology. The technology digitizes and compresses data, then sends it down a channel with two other streams of user data, each in its own time slot
"GSM/CDMA antenna(s)"	GSM/CDMA base station antennas
"hertz" or "Hz"	a measure of the number of cycles per second in a waveform
"Internet"	a global network of interconnected, separately administered public and private computer networks
"IP"	Internet Protocol, which was originally developed by the U.S. Department of Defence to enable communications of dissimilar computing platforms around the country
"Kbps"	kilobits per second
"KHz"	kilohertz, a thousand hertz
"LAN"	local area network, a communication network that serves users within a confined geographical area
"Mbps"	megabits per second
"metal backplane"	an aluminium plate which forms part of a panel, which is used for directing the antenna's wave direction and beam width
"MHz"	megahertz, a million hertz
"mounting kits"	a mechanical set which fixes the antenna to the installation pole or tower
"packet"	a unit of data in a transmission that contains payload (transmitted information) and overhead (addressing and error-correcting information)

"PAS"	acronym for "personal access system", which was designed jointly by UTStarcom Inc. and a Japanese manufacturer, and which is commonly known as "小靈通 (Xiaolingtong)" in the PRC. It is a wireless city-phone, and its key features include that the system connects to a public switched telephone network through radio signals and it also provides city-wide cordless operation
"PAS Antenna(s)"	WLL/PHS base station antenna(s), commonly referred to as antenna(s) for "小靈通" (Xiaolingtong) in the PRC
"passive product"	electronic component that does not require any external power to manipulate or react to an electronic input for a desired output
"PCS"	an acronym for "personal communications service", a wireless phone service similar to cellular telephone service, but emphasising personal service and extended mobility. Cellular was designed principally for car phone use with transmitters emphasising coverage of highways and roads. PCS is designed for greater user mobility and generally requires more cell transmitters for coverage, but has the advantage of fewer blind spots
"PHS"	an acronym for "personal handyphone system", which was developed by the Nippon Telegraph and Telephone Corporation. Personal handyphone is a portable wireless phone which is light in weight and functions as a cordless phone at home and as a mobile phone elsewhere
"protocol"	the organised processes and rules that communications equipment use to transfer data
"repeater"	a device that is used to take a signal that has travelled a long distance and make such signal new again (for instance, by way of reproducing and re-transmitting such signal)
"RF"	radio frequency, which ranges from 500KHz to 300 gigahertz
"RF active device"	device which uses radio frequency signals to broadcast data information within a local network, and which does not amplify (extend signal transmission range) signal on such local network
"splitter"	an RF device which divides a signal evenly into two or more signals of the same power
"subscriber(s)"	telecommunications customer(s)
"TDMA"	Time Division Multiple Access, a digital cellular telephone communication technology that divides each cellular channel into three time-slots in order to increase the amount of data that can be carried

"TD-SCDMA"	Time Division Synchronous Code Division Multiple Access one of the three recognised standards for 3G technology in the world
"Technical Specifications of Base Station"	移動通信系統基站天線技術條件 (The Specification for Mobile Communication System Base Station Antenna) promulgated by the MII on 24 May 2000
"telecom"	telecommunications, communication across a distance through electrical or radio signals
"WAP"	an acronym for "wireless application protocol", a specification for a set of communication protocols to standardise the way that wireless devices, such as mobile phones and radio transceivers, can be used for Internet access, including browsing the web, sending and receiving e-mail
"WCDMA"	Wideband Code Division Multiple Access, an ITU standard derived from CDMA and a 3G mobile wireless technology
"wireline services" or "fixed-line services"	services which are, in contrast to wireless services, provided through lines (whether made of copper wires, optical fibres or otherwise) to connect locations for which services are located
"WLL"	an acronym for "wireless local loop", a system that connects subscribers to the public switched telephone network using radio signals as a substitute for copper wires for all or part of the connection between the subscriber and the switch. An advantage of such system is to allow connection of an existing network to a large number of subscribers without implementing the works for laying copper wire network, hence reducing both material and labour costs
"°"	degrees

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

RISKS RELATING TO THE COMPANY

Risk involved in accumulation of trade receivables

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

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

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

High debt to equity ratio and consequence of realisation of security

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Reliance on major customers

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

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

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

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

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

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

Risk involved in the pledge of trade receivables

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

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

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

Risk involved in the discounting of bills of exchange

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

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

Dividend policy

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

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

Reliance on senior management and core technology team

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

Seasonal fluctuation

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

Intellectual property rights

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

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

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

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

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

Terms of lease agreements

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

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

Product liability

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

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

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

Potential tax liabilities

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

Electricity supply

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

Reliance on suppliers

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

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

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

Renewal of Network Access Licence

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

Reliance on the production facilities in the PRC

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

No assurance on achievement of business objectives

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

Possible side effects resulting from the usage of mobile phones

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

Delayed set up of the Housing Fund

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

Environmental liability exposure

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

RISKS RELATING TO THE INDUSTRY

Competition

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

Institutional structure of the mobile communication sector in the PRC

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

Product substitution

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

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

RISKS RELATING TO THE PRC

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

PRC's admission as a member of the WTO

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

Political and economic policies of the PRC

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

Currency conversion and foreign exchange

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

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

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

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

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

Different regulatory framework

Interpretation and enforcement of PRC laws and regulations

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

Shareholders rights and protection

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

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

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

Securities laws and regulations

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

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

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

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

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

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

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

RISKS RELATING TO CERTAIN STATEMENTS IN THIS PROSPECTUS

Reliability of statistics

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

Forward-looking statements contained in this prospectus

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

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

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

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

RISKS RELATING TO THE PLACING

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

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

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

For the purpose of listing of the H Shares on GEM, the Company has sought a waiver from the GEM Listing Division in relation to the escrow arrangement requirements under the GEM Listing Rules. Details of the waiver are described below.

Escrow arrangements

Pursuant to Rule 13.16(1) of the GEM Listing Rules, the Company shall procure that Professor Xiao, Xi'an Jiefang Group, XITIC, BJ Holdings, Shaanxi Silk, Xi'an Zhengheng Investment, Mr. Wu, Mr. Chen and Shaanxi Mant, each being an Initial Management Shareholder places in escrow, with an escrow agent and on such terms as are acceptable to the Stock Exchange, its/his Relevant Securities for a period of 12 months from the Listing Date, or where that Initial Management Shareholder's Relevant Securities represent no more than 1% of the issued capital of the Company as at the Listing Date, for a period of six months from the Listing Date.

The Directors consider that compliance with Rule 13.16(1) of the GEM Listing Rules is not applicable to the Domestic Shares held by the Initial Management Shareholders since the Domestic Shares held by the Initial Management Shareholders are not represented by any form of physical scrip or title documents and do not form any part of the securities to be listed on GEM. Given that the Domestic Shares are in scrip-less form, the Initial Management Shareholders may not be able to create any pledge or charge by the deposit of the title documents of their respective Domestic Shares or any part thereof. This also means that the subject matter for custody by the escrow agent under Rule 13.16(1) of the GEM Listing Rules does not physically exist in any form available for custody purposes.

Given the above, an application has been made on behalf of the Company for a wavier from strict compliance with Rule 13.16(1) of the GEM Listing Rules in respect of making physical escrow arrangements. Each of the Directors (including the non-executive Directors and independent non-executive Directors) has undertaken (i) not to approve, and to procure the Company not to approve, the registration of any transfer of the Domestic Shares owned by the Initial Management Shareholders within a period of 12 months or six months, as the case may be, after the Listing Date; and (ii) to submit a copy of the undertakings in favour of the Stock Exchange and the Company in relation to the restriction on disposal of the Domestic Shares given by the Initial Management Shareholders to 西安工商行政管理局 (the Administration of Industry and Commerce of Xi'an) for filing purpose and request the Administration of Industry and Commerce of Xi'an, after the Listing, (i) to insert a note in the register of the Company's information maintained by the Administration of Industry and Commerce of Xi'an which shall state that all the Domestic Shares held by the Initial Management Shareholders cannot be transferred; and (ii) not to register any transfer of the Domestic Shares held by the Initial Management Shareholders, within their respective moratorium periods under the GEM Listing Rules as stated in this prospectus.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies Ordinance, the Securities and Futures (Stock Market Listing) Rules (Subsidiary Legislation V of Chapter 571 of the Laws of Hong Kong) and the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:

(a) the information contained in this prospectus is accurate and complete in all material respects and not misleading;

(b) there are no other matters the omission of which would make any statement in this prospectus misleading; and

(c) all opinion expressed in this prospectus have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

The Placing Shares are offered solely on the basis of the information contained and representations made in this prospectus. No person is authorised in connection with the Placing to give any information or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorised by the Company, the Vendors, the Sponsor, the Lead Manager, the Placing Underwriters, any of their respective directors or any other person involved in the Placing.

CONSENT OF THE CSRC

On 22 April 2003, the CSRC granted its consent to the Company for (i) the issue of the new H Shares and the sale of the Sale H Shares; (ii) applying for the listing of the H Shares on GEM; and (iii) the Capital Reorganisation. In granting such consent, the CSRC accepts no responsibility for the financial soundness of the Company or the accuracy of any of the statements made or opinions expressed in this prospectus.

SELLING RESTRICTIONS

No action has been taken to permit any public offering of the Placing Shares or the distribution of this prospectus in any jurisdictions other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdictions or in any circumstances in which such offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation.

United States

The Placing Shares have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the "U.S. Securities Act") or under any securities regulatory authority of any state of the U.S. and may not be offered, sold, pledged or transferred in the U.S. except in a transaction not subject to, or in accordance with, an applicable exemption from the registration requirements of the U.S. Securities Act.

United Kingdom

This prospectus has not been and will not be approved by an authorised person in the United Kingdom and has not been and will not be registered with the Registrar of Companies in the United Kingdom. The Placing Shares may not be offered or sold in the United Kingdom prior to the expiry of a period of six months from the issue date or transfer date of the Placing Shares except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995, as amended, or the Financial Services and Markets Act 2000 (the "FSMA"). In addition, no person may communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of FSMA) received by such person in connection with the issue or sale of the Placing Shares except in circumstance in which section 21(1) of the FSMA does not or will not apply to the Company.

Singapore

This prospectus has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. The Placing Shares may not be offered or sold, nor may this prospectus or any document or other material in connection with the H Shares be issued, circulated or distributed, either directly or indirectly, to the public or any member of the public in Singapore other than to an institutional investor or other person specified in section 274 of the Securities and Futures Act (Act 42 of 2001) of Singapore ("Singapore S&F Act"), to a sophisticated investor, and in accordance with the conditions specified in section 275 of the Singapore S&F Act, or otherwise pursuant to, and in accordance with the conditions of, any other provision of the Singapore S&F Act, and in each case subject to compliance with conditions set forth in the Singapore S&F Act.

Japan

This prospectus has not been and will not be registered under the Securities and Exchange Law of Japan. The Placing Shares may not be offered or sold, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to an applicable exemption from the registration requirements of the Securities and Exchange Law of Japan and in compliance with any other applicable Japanese laws.

Taiwan

This prospectus has not been and will not be registered as a prospectus with the Securities and Futures Commission of Taiwan under the Securities and Exchange Law of Taiwan and the Company has not been and will not be registered under the Company Law of Taiwan and related laws and regulations of Taiwan. Accordingly, none of the Placing Shares may be offered for subscription or purchase or sold, directly or indirectly, to the public in Taiwan except in compliance with any applicable laws of Taiwan.

The PRC

This prospectus may not be circulated or distributed in the PRC and the Placing Shares may not be offered or sold, directly or indirectly, to any legal or natural persons or re-offer or re-sell, directly or indirectly, to any legal or natural persons of the PRC except pursuant to applicable laws and regulations of the PRC.

Each person acquiring the Placing Shares will be required, and is deemed by his acquisition of the Placing Shares, to confirm that he is aware of the selling restrictions on the Placing Shares described in this prospectus and that he is not acquiring, and has not been offered any Placing Shares in circumstances that contravene any such restrictions.

APPLICATION FOR LISTING ON GEM

The Company has applied to the GEM Listing Committee for the listing of, and permission to deal in, the H Shares which are to be issued or sold (as the case may be) pursuant to the Placing and upon the exercise of the Over-allocation Option and as otherwise described herein on the GEM.

No part of the share or loan capital of the Company is listed or dealt in on any other stock exchange and save as herein disclosed, no such listing or permission to deal is being or proposed to be sought.

In compliance with Rules 25.08 and 25.09 of the GEM Listing Rules, the Company must ensure that the H Shares are held by the public by at least 100 persons (except as otherwise permitted by the Stock Exchange). The H Shares must normally constitute not less than 10% of the registered share capital of the Company, and the aggregate amount of the H Shares and such other securities of the Company which are held by the public must constitute not less than 25% of the registered share capital of the Company.

Any allotment or transfer made in respect of any placing of the Placing Shares will be void if permission for the listing of, and dealing in, the H Shares on GEM is not obtained before the expiration of three weeks from the date of closing of the subscription lists or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to the Company by or on behalf of the Stock Exchange.

Only securities registered on the branch register of members of the Company kept in Hong Kong may be traded on GEM unless the Stock Exchange otherwise agrees.

COMMENCEMENT OF DEALINGS IN H SHARES

Dealings in the H Shares on GEM are expected to commence on Wednesday, 5 November 2003 and the H Shares will be traded in board lots of 4,000 H Shares.

FULLY UNDERWRITTEN

The Placing is an offer for subscription by the Company of 147,058,824 New H Shares and an offer for sale by the Vendors of an aggregate of 14,705,882 Sale H Shares (subject to the Over-allocation Option) in Hong Kong, in each case at a price of not more than HK$1.15 per H Share and expected to be not less than HK$0.55 per H Share. The Placing Shares are being offered by way of placing to professional, institutional and other investors at the Placing Price. The Placing is subject to the conditions set out under the section headed “Structure and conditions of the Placing” in this prospectus. Each person subscribing for or purchasing the Placing Shares will be required to, or deemed by its subscription for or purchase of the Placing Shares to, confirm that it is aware of the restrictions on offers of the Placing Shares described in this prospectus. This prospectus is published solely in connection with the Placing.

The Placing is sponsored by CPY and fully underwritten by the Placing Underwriters. For further information about the underwriting arrangements, please refer to the section headed “Underwriting” of this prospectus.

Assuming that 161,764,706 H Shares are placed to the public and the Over-allocation Option is not exercised at all, 25% of the registered capital of the Company will be in public hands immediately upon listing. If the Over-allocation Option is exercised in full, 186,029,412 H Shares will be placed to the public, representing approximately 27.80% of the registered capital of the Company.

H SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of the listing of, and permission to deal in, the H Shares on GEM and the compliance with the stock admission requirements of HKSCC, the H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made for the H Shares to be admitted into CCASS.

REGISTRATION OF SUBSCRIPTION, PURCHASE AND TRANSFER OF H SHARES

The Company has instructed Computershare Hong Kong Investor Services Limited, its Hong Kong share registrar, and Computershare Hong Kong Investor Services Limited has agreed, not to register the subscription, purchase or transfer of any H Shares in the name of any particular holder unless and until the holder delivers a signed form to the Company's Hong Kong share registrar in respect of those H Shares bearing statements to the effect that the holder:

(i) agrees with the Company and each Shareholder, and the Company agrees with each Shareholder, to observe and comply with the Company Law, the Special Regulations and the Articles of Association;

(ii) agrees with the Company, each of the Shareholders, Directors, Supervisors and senior officers of the Company, and the Company acting for itself and for each of the Directors, Supervisors and senior officers of the Company agrees with each of the Shareholders, to refer all differences and claims arising from the Articles of Association or any rights obligations conferred or imposed by the Company Law or other relevant laws and administrative regulations concerning the affairs of the Company to arbitration in accordance with the Articles of Association, and any reference to arbitration shall be deemed to authorise the arbitration tribunal to conduct hearings in open session and to publish its award, which arbitration shall be final and conclusive;

(iii) agrees with the Company and Shareholder that H Shares are freely transferable by the holders thereof; and

(iv) authorises the Company to enter into a contract on his behalf with each of the Directors and senior officers of the Company whereby such Directors and officers undertake to observe and comply with their obligations to shareholders as stipulated in the Articles of Association.

PROFESSIONAL TAX ADVICE RECOMMENDED

If you are unsure about the taxation implications of the subscription, purchase, holding or disposal of, dealing in, or the exercise of any rights in relation to the Placing Shares, you should consult an expert.

The Company, the Vendors, the Directors, the Sponsor, the Lead Manager, the Placing Underwriters and any other persons involved in the Placing do not accept responsibility for any tax effects on or liabilities resulting from the subscription, purchase, holding or disposal of, or dealing in or the exercise of any rights in relation to, the Placing Shares.

HONG KONG H SHARES REGISTER AND STAMP DUTY

All H Shares issued pursuant to the Placing will be registered on the Company's H Shares register of members maintained in Hong Kong. A duplicate of the Company's H Shares register of members will be maintained by the Company at its registered office. Dealings in the H Shares registered on the Hong Kong branch register of members of the Company will be subject to Hong Kong stamp duty.

STABILISING ACTION

In connection with the Placing, the Lead Manager, on behalf of the Placing Underwriters, or any person acting for it, may over-allocate or effect transactions with a view to supporting the market price of the H Shares at a level higher than that which might otherwise prevail for a limited period after the issue date. Such transactions, if commenced, may be discontinued at any time.

The possible stabilising action which may be taken by the Lead Manager in connection with the Placing may involve (among other things) (i) over-allocation of H Shares, (ii) purchases of H Shares, (iii) establishing, hedging and liquidating positions in H Shares, (iv) exercising the Over-allocation Option in whole or in part and/or (v) offering or attempting to do any of the foregoing.

Specifically, prospective investors in the Placing Shares should note that:

- the Lead Manager may, in connection with any stabilising action, maintain a long position in the H Shares;
- there is no certainty regarding the extent to which and the time period for which the Lead Manager will maintain such a position;
- liquidation of any such long position by the Lead Manager may have an adverse impact on the market price of the H Shares;
- no stabilising action can be taken to support the price of the H Shares for longer than the stabilising period which will expire on 23 November 2003, being the 30th day after the date of this prospectus. After this date, when no further action may be taken to support the price of the H Shares, demand for the H Shares, and therefore the price of the H Shares, could fall;
- the price of any security (including the H Shares) cannot be assured to stay at or above its offer price by the taking of any stabilising action; and
- stabilising bids may be made or transactions effected in the course of the stabilising action at any price at or below the Placing Price, which means that stabilising bids may be made or transactions effected at a price below the price paid by applicants for, or investors in, the H Shares.

STRUCTURE OF THE PLACING

Details of the structure of the Placing, including its conditions, are set out in the section headed "Structure and conditions of the Placing" in this prospectus.

DIRECTORS

Name	Address	Nationality
Executive Directors		
肖良勇教授 (Professor Xiao)	Building 30-2-8 No. 2 Taibai South Road Yanta District Xi'an, Shaanxi Province PRC	Chinese
肖兵先生 (Mr. Xiao Bing)	Building 30-2-8 No. 2 Taibai South Road Yanta District Xi'an, Shaanxi Province PRC	Chinese
郭渭盛先生 (Mr. Guo Weisheng)	Building 29-2-203 No. 2 South Yard Taibai South Road Yanta District Xi'an, Shaanxi Province PRC	Chinese
Non-executive Directors		
羅茂生先生 (Mr. Luo Maosheng)	Building 11-6-502 Renhouzhuang – Small District Beilin District Xi'an, Shaanxi Province PRC	Chinese
米雲平先生 (Mr. Mi Yunping)	Building 17-305 No. 55, Ande Road Dongcheng District Beijing PRC	Chinese
王全福先生 (Mr. Wang Quanfu)	No. 87 Dongguan Zhengjie Beilin District Xi'an, Shaanxi Province PRC	Chinese
劉永強先生 (Mr. Liu Yongqiang)	No. 18, Shangde Road Xincheng District Xi'an, Shaanxi Province PRC	Chinese
李文琦先生 (Mr. Li Wenqi)	No. D6-2 Daxue East Road Beilin District Xi'an, Shaanxi Province PRC	Chinese

Name	Address	Nationality
Independent non-executive Directors		
周天游先生 (Mr. Zhou Tianyou)	Building 608-8-6-2 No. 79, Fuxing Road Haidian District Beijing PRC	Chinese
龔書喜先生 (Mr. Gong Shuxi)	Building 46-4-13 No. 2 South Yard Taibai South Road Yanta District Xi'an, Shaanxi Province PRC	Chinese
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SUPERVISORS		
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FIXED-LINE TELECOMMUNICATION AND WIRELESS TELECOMMUNICATION SERVICES

Conventional telephone companies provide fixed-line voice communication services and data transmission services to their customers. Fixed-line telecommunication services are provided by physical lines which physically connects the locations where telephones or other telecommunication equipment are installed.

Commercial operations for cellular systems were first introduced in the U.S. in the early 1980's. As a mobile alternative to conventional telephone services, cellular systems were then offered to a relatively small niche by limited availability and high prices. In recent years, wireless telecommunication technologies have developed rapidly and reliable cellular systems have been offered to the market. Due to the convenience and enhanced functions offered by the wireless systems and the generally lowering of subscription prices for wireless telecommunications, the number of subscribers for wireless telecommunications has increased rapidly in the past decade.

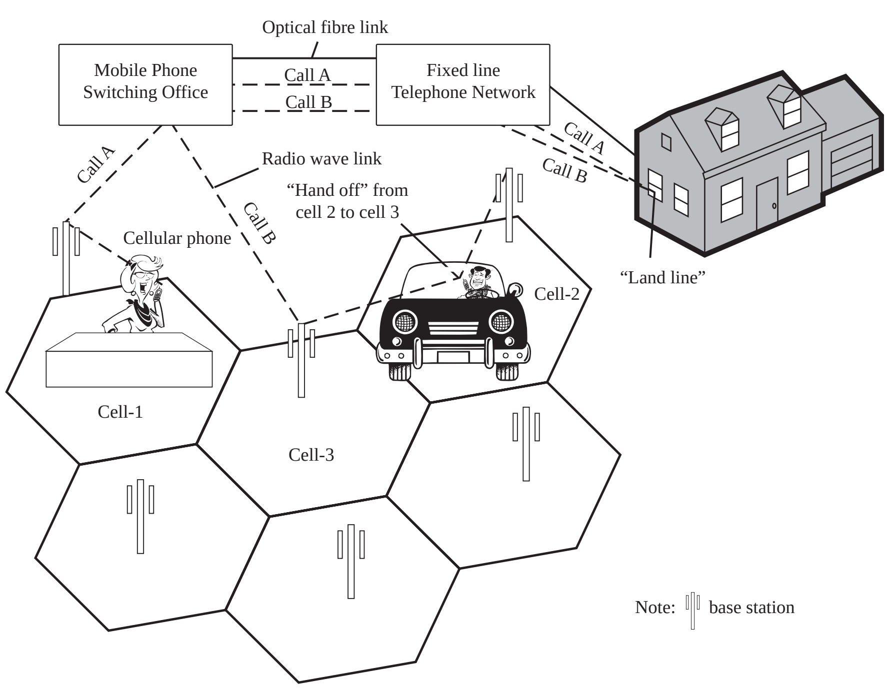
Based on the statistics compiled by ITU and published in April 2003, during the period between 1995 and 2002, on a global basis, the compound annual growth rate for the number of subscribers for fixed line services was approximately 6.9%, whilst that for wireless systems was approximately 43.6%.

FIXED LINE SYSTEMS

Under conventional fixed-line telephone services, voice data of a sender is transformed by the telephone (or a "terminal") into electrical signals and transmitted through a telephone line (which may be a copper wire or optical fibre) to the central office. The central office is installed with a switching system. A switching system enables a single telephone (or a terminal) to make calls to their destinations. Accordingly, the sender's call is routed from the central office to the designated receiver through the telephone line.

CELLULAR SYSTEMS AND BASE STATION

In wireless communications, signals are transmitted in the form of electromagnetic radiation without the medium of physical lines. The following diagram is a simple schematic illustration of cellular communication:



A mobile phone contains a small low-power radio transmitter and receiver. When the sender makes a call (e.g. Call A in the above diagram), the voice data will be transformed into some electromagnetic signals which will be sent by the transmitter in the mobile phone. The signals will be received by the antenna on a nearby base station of the relevant call site and routed to a mobile phone switching office. The signals will then be passed generally by optical fibres to the conventional fixed-line telephone network.

Calls from a fixed line sender to a mobile phone are simply routed in the opposite direction from the conventional fixed-line telephone network to the mobile phone switching office.

The connection between a mobile phone with another mobile phone at other areas can be achieved by virtue of the respective base stations and mobile phone switching offices. The function that achieved this task is known as "roaming". A mobile phone with the function of roaming can connect with another mobile phone, without disruption, at any area.

When the mobile phone moves with its user (for example, caller "B" moving from Cell-2 to Cell-3 in the above diagram), the call can be passed (or handed off), without disruption, from the base station antenna in Cell-2 to that in Cell-3.

WIRELESS LOCAL LOOP

WLL is a system that connects subscribers to the fixed line systems, using radio signals as a substitute for physical lines (such as copper wires) for all or part of the connection between the subscriber and the switching system. According to an article titled "無線接入" (Wireless Connection) published on the website of UTStarcom on 8 January 2003, the incremental investment cost of WLL is generally believed to be lower than that of copper physical lines, especially for service areas with lower density of mobile phone subscribers. Taking into account factors of the service area such as population density, connection cost (such as equipment and installation cost), level of mobile phone penetration and terrain features, WLL is generally considered to have good development potential in emerging economies. The PAS used by the China Telecom Group is a kind of WLL.

BASE STATIONS AND BASE STATION ANTENNA SYSTEM

A typical base station comprises of the following elements:

1. Pylon

A high-rise tower is usually constructed to allow radio signals to be transmitted and received by the base station antennas with the minimum level of interference. The base station antennas are normally installed near the top of the tower.

2. Base station antenna and feeder

Antenna is a device for transmitting and receiving electromagnetic signals. The receipt function of antenna is to transform such electromagnetic signals into alternating current (energy to trigger signals in electronic equipment), while the transmission function of antenna is to transform alternating current into electromagnetic signals.

Physical designs of base station antennas can vary greatly and may render the functions and features of base station antennas differently.

Base station antennas are classified into omnidirectional antennas and beam antennas by its radiation function. Omnidirectional antennas, with its electromagnetic wave covering all directions, mainly applies to villages and city outskirts which have lower mobile phone subscriber density. Beam antennas, also known as sector antennas, cover different preferential directions such as 30°, 65°, 90°, 105°, 120°, 180° and 210° with its electromagnetic wave. Different number of antennas are installed to cover prescribed directions and areas based on the number of subscribers and their distributions.

Feeders are RF transmission wires for connecting base station antennas to base station signal receiving and transmitting equipment. It is only capable of transmitting signals, instead of amplifying them.

3. Equipment Room

An equipment room is generally equipped with, among other things, wireless transmission and receipt equipment and power equipment. The function of the equipment room is to transmit a signal to the mobile telephone switching office.

OVERVIEW OF THE DEVELOPMENT OF THE TELECOMMUNICATION INDUSTRY IN THE PRC

The telecommunication infrastructure of the PRC is mainly comprised of public telecommunication networks and dedicated system networks. The public telecommunication networks serve the general public whilst the dedicated system networks serve special needs of certain governmental agencies and departments including military forces, public security, aviation, railway systems and others.

Telecommunication infrastructure and telephone subscribers in the PRC

Based on the statistics compiled by ITU and published in April 2003, the aggregate number of fixed-line and mobile phone subscribers in China in 1990, 1995, 2000, 2001 and 2002 were approximately 6.9 million, 44.3 million, 230.4 million, 323.8 million and 421.0 million respectively. The number of mobile phone subscribers for each of the eight years from 1995 to 2002 was approximately 3.6 million, 6.9 million, 13.2 million, 23.6 million, 43.2 million, 85.3 million, 144.8 million and 206.6 million respectively. The increase represents a compound annual growth rate of approximately 78.1%.

ITU's statistics published in April 2003 showed that in 2002, the penetration rate as measured by the number of mobile phone subscribers in the PRC was approximately 16.2%. In contrast, the average penetration rate in 2002 on a global basis was approximately 18.8%, while that for the U.S. is approximately 48.8%. The Directors believe that there is a strong potential for the continuing growth of the number of mobile phone subscribers.

Public mobile communications services

Based on the statistics compiled by ITU and published in April 2003, the number of mobile phone subscribers in the PRC in 2002 reached approximately 206.6 million and was the top of the world, as compared to approximately 140.8 million in the U.S. and approximately 1,144 million in the world.

As mentioned in the paragraph headed "Telecommunication infrastructure and telephone subscribers in the PRC" above, despite the high growth rate in the number of mobile phone subscribers in the PRC, the overall penetration rate of mobile phone subscribers in the PRC remains relatively low with an average of approximately 16.2% (approximately 206.6 million subscribers) in 2002. This has, as the Directors believe, attracted many telecommunication equipment vendors such as Nokia, UTStarcom and Lucent to establish foreign invested enterprises in the PRC in order to establish their presence in this potential market.

At present, the import of mobile phones into the PRC is subject to an import duty. The Directors believe that, following the PRC's accession to the WTO, the PRC will open up the telecommunications market further by gradually reducing the import duty and eventually driving the retail prices of mobile phones down, making them more affordable to the people in the PRC. An increase in the number of mobile phone service subscribers entails a greater number of base stations, and hence base station antennas. The Directors believe that the increasing competition in the PRC telecommunications market will provide tremendous business opportunities for the Company's future growth.

Based on the latest report published by the MII at its website on 18 February 2003, the number of subscribers of mobile phone services in the PRC has reached over 200 million in December 2002. As at the Latest Practicable Date, there were only two mobile licences officially granted by the PRC central government, one to China Mobile Group and the other one to China Unicom Group. On such basis, it is estimated that, China Mobile Group and China Unicom Group, in aggregate, have over 200 million of mobile phone service subscribers. In April 2000, China Unicom Group introduced the CDMA network, which was planned to become a mobile communication network with a capacity of 50 million lines in the next three years.

At the initial phase of its CDMA network development plan, China Unicom Group intended to expand its coverage by constructing more repeaters. Meanwhile, the Company has already obtained the Network Access Licence for GSM/CDMA repeater systems, which allows it to produce the equipment so as to capture the opportunity.

In December 2001, China Unicom announced the completion of its phase I CDMA network development project on its website, and the total investment of which was approximately RMB24 billion. The said project was designed to accomplish a nationwide coverage with a network capacity of approximately 15.15 million subscribers of mobile phone users.

Before 2001, the base station antenna market within the PRC mobile communication industry was substantially dominated by a number of major foreign or foreign-invested mobile communication equipment vendors/system integrators, with a few small and less competitive domestic enterprises. The Company was the first domestic enterprise which was able to capture a significant market share in the local base station antenna market. In relation to GSM/CDMA antenna series in 2001, the Company made a breakthrough, capturing a portion of the market share which is pre-dominated by foreign or foreign-invested mobile communication equipment vendors/system integrators. 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, which was behind three foreign or foreign-invested mobile communication equipment vendors/system integrators.

The Directors understand that to be in line with MII's general policy, PRC mobile communication network operators plan to separate the purchasing of base station antenna and feeder systems from its other major base station equipment in order to reduce infrastructure cost of its networks. The Directors believe that this would enable domestic base station antenna and feeder manufacturers to capture a greater market share in the respective markets in China.

Investment

Investment in fixed assets and penetration rate of mobile phones in the PRC's telecommunication industry from 1996 to 2002:

Year	Investment in fixed assets in the PRC's telecommunication industry completed *(RMB billion)*	Fixed-line telephone subscribers *(in million)*	Mobile phone subscribers *(in million)*	Telephone penetration rate *Set/hundred persons*	Penetration rate of mobile phones *Set/hundred persons*
1996	103.6*(Note)*	61.8	6.9	6.3	0.6
1997	124.5*(Note)*	83.5	13.2	8.1	1.1
1998	150.0	87.4	23.6	10.5	1.9
1999	141.3	110.0	43.2	13.0	3.5
2000	213.5	145.1	85.3	20.1	6.8
2001	234.4	179.0	144.8	25.9	11.2
2002	203.5	214.4	206.6	33.7	16.2

Source: Statistical information of MII of the PRC

Note: This represents the total investment in fixed assets in the post and telecommunication industries.

The regulatory framework

The PRC telecommunications market is regulated by the MII. Before 1993, the PRC telecommunications market was monopolised by the MPT, the former ministry of MII. In 1993, the market began to open up for additional network operators, most of which were State-owned enterprises.

In March 1998, the Ninth National People's Congress of the PRC at its first plenary session adopted a reform proposal for agencies under the State Council. As a result of the policy approved by the State Council, the telecommunication industry has gradually realized the segregation of governments and enterprises.

In March 1998, the MII was formally established to be responsible for the planning and development of telecommunication and information industry, and formulation of policy and regulations in the communications sector.

In September 2000, the State Council approved a proposal of MII to establish local agencies to manage telecommunication industry. The State Council stipulates that the telecommunication industry to adopt a management system by which it is under the dual leadership of the MII and the local governments of province, region or municipality, with the MII assuming the main governing role. The MII is responsible for the national management of communication industry, and communication management bureaus are established in each province, region or municipality. By the end of December 2000, communication management bureaus in 31 provinces, regions and/or municipalities had been established.

The State II Tenth Five-year Plan

According to the State II Tenth Five-year Plan issued by the MII in May 2001, the scale of information industry by 2005 would be double of that in 2000 and ahead of all other industries, with an added value accounting for over 7% of GDP. The information industry is planned to become a strategic industry that will drive the growth of national economy, upgrade the industry structure, and strengthens the overall competitive advantages of the PRC.

According to the State II Tenth Five-year Plan, as the leading sector in the information industry, the communication industry is expected to generate a revenue of RMB1,000 billion by the year 2005 with an average annual increase of 23.38% which is more than three times of the national economic growth rate of 7%. Out of the RMB1,000 billion, RMB920 billion is expected to be attributable to the revenue from telecommunication industry, which is approximately three times that of RMB307 billion in 2000. The total capacity of mobile communications switching equipment is expected to exceed 360 million subscribers. In addition, the number of mobile phone subscribers is expected to amount to 260-290 million. During the period of the State II Tenth Five-year Plan, the PRC plans to construct the largest scale communication network with advanced technology and high security and reliability to meet the basic needs of national economy and social development. In order to achieve the objectives of the State II Tenth Five-year Plan, based on preliminary calculation, the investment scale during that period for communication industry is expected to be RMB1,700 billion, among which RMB1,250 billion is expected to be invested in the telecommunication operations.

TECHNOLOGIES TO BE USED IN FUTURE MOBILE COMMUNICATIONS

WAP

Mobile communications and the Internet are two of the world's fastest developing communication sectors. In support of such environment, WAP provides a universal standard for bringing Internet content and advanced value-added services to mobile phones and other wireless devices. WAP refers to an application environment supported by a set of telecommunication protocol for mobile devices, designed to enable technology-dependent access to the Internet and other advanced services. WAP is planned to support major digital networks including GSM and CDMA. In simple terms, WAP may enable the linkage of the Internet to all mobile devices.

GPRS

Currently, the mobile networks are offering services that are commonly referred to as 2G technology, which can only cater for voice and low speed data (9.6Kbps or 14.4Kbps) transmissions. 2G technology allows low speed data transmission over mobile phones in the form of Short Message Service ("SMS") in existing GSM networks. SMS currently lets users send and receive messages of up to 160 characters on their mobile phones. However, as mobile devices develop, users will expect higher speed for higher volume of data transmissions.

GSM is able to satisfy this expectation with a multi-slot data technique known as GPRS now being rolled out by network operators around the world and commonly referred to as 2.5G mobile services. GPRS can offer transmission speeds of up to 115.2 Kbps, which is more than seven times faster than the existing 2G mobile technologies. GPRS is an innovative non-voice value-added service which allows information to be exchanged across a mobile telephone network.

As GPRS allows the possibility of charging by data volume rather than time, users are able to register on the network at the beginning of the day and stay "virtually" on line, receiving and sending the volume of information as needed. Such system is expected to be well received by users of e-mail, web and database access, who will not want to pay high call charges for short message transmissions. Above all it offers highly efficient connectivity with IP networks. For the above reasons, GPRS is likely to be one of the most popular delivery mechanism for telecommunications services in the future.

CDMA2000

CDMA2000 is proposed to ITU as an access standard for the 3G mobile communication. CDMA2000 is a broadband CDMA technology developed for application in 3G. The highest data transmission speed of CDMA2000 is above 2 Mbps. As published in the website of China Unicom, it was launched in the PRC by China Unicom in early 2003.

3G mobile communications

With the increase in consumer appetite for speed and the rapid development of mobile communication technology, GPRS is only regarded as an interim solution because it will not be sufficient to meet the demand of highly interactive multimedia and high resolution video services in the future. The next significant development is expected to be the introduction of 3G systems which will offer data rates up to 2 Mbps and broadband capabilities. In other words, 3G systems will provide data transmission speeds that are 20 times faster than 2.5G systems and more than 100 times faster than the existing 2G systems.

3G evolves from the digital mobile communications systems and supports multimedia and interactive telecommunication functions. In short, 3G would enable high speed mobile access with IP based services and other functions. Consumers will have high mobile access to the Internet, entertainment, information and e-commerce services wherever they are, and 3G application can range from web browsing, file transfer to the ability to access and control remotely in-house appliances and machines.

Intelligent Antenna System

One important core technology of 3G technology is the intelligent antenna technology. It is a technology which enables the wave bundle being emitted by the antenna to trace automatically the mobile subscriber and stem other interference. TD-SCDMA, one of the 3G standards introduced in China, is a technology which has its own intellectual property rights. Datang Telecom is making every effort to enable it industrialised. The Company and Datang Mobile have entered into an agreement for cooperative development of intelligent antenna.

COMPETITION

The mobile communication industry of the PRC was developed relatively lately as compared with the U.S., Canada, Sweden and Finland. Before 2001, the PRC base station antenna sector was predominated by mobile communication equipment vendors based in such countries. Because of the technological edge enjoyed by these vendors, the Company faces considerable competition from them.

ENVIRONMENTAL REGULATIONS AND REQUIREMENT

The Company shall, during its production and operations, comply with the relevant laws and regulations of the PRC such as Environmental Protection Law of the PRC (中華人民共和國環境保護法), Law on Evaluation of Environmental Effects of the PRC (中華人民共和國環境影響評價法), Regulations Concerning Environmental Protection of Building Projects (建設項目環境保護管理條例), Decisions Concerning Certain Issues of Environmental Protection of the Sate Council (Guo Fa [1996] No. 31) (國務院關於環境保護若干問題的決定(國發[1996] 31號) and Directory of Classified Management on the Environmental Protection of Building Projects (建設項目環境保護分類管理目錄).

Article 7 of Regulations Concerning Environmental Protection of Construction Projects (建設項目環境保護管理條例) provides that: "The State shall, based on the effects of construction projects on the environment, implement the classified management on the environmental protection of building projects in accordance with the following provisions: (1) for any construction project which may cause material effect on the environment, a Report on Environmental Effects shall be prepared to conduct the overall detailed evaluation of the pollution and the environmental effects arising from construction projects; (2) for any construction project which may cause minor effect on the environment, the Statement of Report on Environmental Effects shall be prepared to conduct the analysis or special evaluation of the pollution and the environmental effects arising from construction projects; (3) for any building project which may cause minimal effect on the environment, it is not required to conduct an evaluation of environmental effects, but the Registration Form of Environmental Effects shall be filled out." Before handling the approval formalities with the competent administrative authority for environmental protection, the construction unit shall prepare the Report on Evaluation of Environmental Effects and Statement of Evaluation of Environmental Effects, respectively, or fill out the Registration Form of Environmental Effects, in accordance with the directory of classified management for building projects formulated by the State Administration of Environmental Protection. The Report (Statement) of Environmental Effects shall be prepared by the qualified environmental evaluation unit authorized by the construction unit.

On 27 September 2000, Xi'an Municipal Environmental Protection Research Institute (Qualification Certificate No.: National Environmental Evaluation Certificate Yi Zi No. 3604) – a qualified unit for the evaluation of environmental effects recognised by the State Administration of Environmental Protection, prepared the Statement of Report on Environmental Effects of Building Projects in respect of "base station antennas for mobile communication systems" project of the Company. Based on the Approval Opinions on the Statement of Report issued by the Planning and Construction Environmental Protection Bureau of the Xi'an National Hi-tech Industrial Development Zone, "The completion of Haitian engineering shall be checked with environmental protection before putting into operation." On 24 December 2001, the Planning and Construction Environmental Protection Bureau of the Xi'an National Hi-tech Industrial Development Zone issued a Certificate certify that the preliminary stage environmental evaluation report in respect of base station antennas for mobile communication systems constructed by the Company in the Xi'an National Hi-tech Industrial Development Zone has been approved, and the environmental protection facilities construction carried out during the construction has complied with the requirements of environmental protection. On 10 October 2002, the environmental monitoring center of Xi'an National Hi-tech Industrial Development Zone issued the Check and Monitoring Report on the Completion of Environmental Protection Facilities for Building Projects. On 23 October 2002, the Company obtained the Check Form of Environmental Protection Facilities for Building Projects issued by the planning and construction environmental protection bureau of Xi'an National Hi-tech Industrial Development Zone. According to the legal opinion issued by Jingtian & Gongcheng, the Company already completed the environmental protection procedures in respect of the business operations currently carried on and is in compliance with the applicable environmental protection laws and regulations.

The relevant PRC laws and regulations relating to the Company's business include, among others, the Measures for Administration of Network Access for Telecommunication Equipment and the Regulations of the PRC on Telecommunication. Summaries of these regulations and rules are as follows:

THE MEASURES FOR ADMINISTRATION OF NETWORK ACCESS FOR TELECOMMUNICATION EQUIPMENT《電信設備進網管理辦法》

The Measures for Administration of Network Access for Telecommunication Equipment were promulgated by the MII on 10 May 2001. The PRC implements a Network Access Licence system for access to public telecommunications networks by certain prescribed types of telecommunications terminal equipment, wireless communications equipment and equipment involving interconnections between networks. A Network Access Licence issued by the MII must be obtained for telecommunications equipment subject to the Network Access Licence system. If a Network Access Licence is not obtained, the equipment may not be connected to a public telecommunications network. Neither may it be used or sold in the PRC.

The MII, together with departments of the State Council responsible for product quality supervision, is responsible for formulating and promulgating lists of telecommunication equipment which is subject to the Network Access Licence system. A production enterprise of telecommunication equipment ("production enterprise") must make its application for the Network Access Licence in compliance with the relevant laws, regulations and policies. To apply for the Network Access Licence, the telecommunication equipment must satisfy the standards of the State and communication industry as well as the requirements of the MII. The production enterprise should have complete quality guarantee system and after-sale service procedures in place. When the production enterprise submits its application for the Network Access Licence, it is required to enclose a testing report issued by an inspection organisation authorised by the MII and approved by the department of State Council responsible for product quality supervision, or a product quality system authentication certificate issued by a certification bodies. The basis, testing procedures and issue of assessment report for the inspection of the telecommunication equipment for the Network Access Licence, which are conducted by inspection bodies, must be in conformity with the requirements of the State or the MII. 中國電信管理局 (Telecommunication Management Bureau) is responsible for the nationwide administration and supervision of network access for telecommunication equipment. 通信管理局 (Communication Management Bureau) of various provinces, autonomous regions and municipalities directly under the central authority is responsible for the local administration and supervision of network access for telecommunication equipment. Besides, organisations authorised by the MII to handle the application of telecommunication equipment for the Network Access Licence may also deal with application matters.

The competent authority of information industry under the State Council shall, within 60 days after receiving the application, complete its examination on the application and telecommunication equipment testing report or the product quality certificate, and decide whether to approve or disapprove it. If approved, the Network Access Licence will be issued; otherwise, a written notification stating the reason of rejection shall be sent to the applicant. The production enterprise of telecommunication equipment shall ensure the stable and reliable quality of, and must not reduce the quality and performance of, its telecommunication equipment after obtaining the Network Access Licence.

The production enterprise must affix its Network Access Licence label to the telecommunication equipment. Being all printed and issued by the MII, the Network Access Licence label is a label of quality and may not be affixed to any telecommunication equipment which has not been issued with the Network Access Licence or whose Network Access Licence has been invalidated. The Network Access Licence and the Network Access Licence label must not be transferred, altered, fabricated or infringed. As at the Latest Practicable Date, the Company has not transferred, altered, fabricated or infringed, and will not transfer, alter, fabricate or infringe the Network Access Licence and the Network Access Licence label which the Company has obtained. The term of validity of a Network Access Licence is three years. The production enterprise should only continue to produce and sell the telecommunication equipment with Network Access Licence. The renewal application for the Network Access Licence must be made at least three months prior to the expiry of the Network Access Licence and enclose a testing report submitted for inspection within one year or sample testing report issued by product quality inspectors. The original of the report will be returned. If there occurs any change in the content specified in the Network Access Licence of telecommunication equipment, the production enterprise must re-apply for the Network Access Licence. The production enterprise having obtained an Network Access Licence must provide copies of the Network Access Licence to its distributors and users if they require. Each copy must be signed by the person-in-charge of the production enterprise, sealed with the common seal of the Company, numbered and recorded. In addition, the production enterprise having obtained the Network Access Licence must mark the number of the Network Access Licence on the package of its telecommunication equipment and related advertisement.

The MII will regularly announce the lists of the telecommunication equipment and production enterprise which have been issued with Network Access Licence to the public. Production enterprises having obtained the Network Access Licence must timely report the issue of Network Access Licence to the relevant communication management bureaus of provinces, autonomous regions and municipalities directly under the central authority and operate under the bureaus' supervision and management. No entity may re-inspect or issue the Network Access Licence to the telecommunication equipment having been issued the Network Access Licence. Telecommunication operators may not use any telecommunication equipment which is subject to the Network Access Licence system without the Network Access Licence.

REGULATIONS OF THE PRC ON TELECOMMUNICATION《中華人民共和國電信條例》

The Regulations of the People's Republic of China on Telecommunication were promulgated by the State Council on 25 September 2000. Pursuant to the Regulations, the responsible department of the MII of the State Council shall implement the nationwide management of telecommunication industry. Under the supervision of such responsible department, communication management bureaus of provinces, autonomous regions and municipalities directly under the central authority shall be responsible for the supervision and management of their respective local telecommunication industry under the Regulations.

Enterprises permitted to operate telecommunication business must legally acquire their business licence of telecommunication operation through registration with the relevant enterprise registration authority. Special telecommunication network operators operating telecommunication business in their respective districts at which the operators' offices are located must make application, obtain approval of the business licence of telecommunication operation in accordance with the requirements of the Regulations and relevant procedures, and then make registration according to the requirements previously stated.

The construction of public telecommunication network, private telecommunication network and broadcast and television transmission network must comply with the overall planning and industrial management of the MII, the competent authority in charge of information industry under the State Council. The construction of public telecommunication network, private telecommunication network and broadcast and television transmission network, which fall into the nationwide information network engineering or the project exceeding the limit stipulated by the State, must obtain permission from the competent authority of information industry under the State Council prior to the reporting for approval according to the procedures of examination and approval for the State Capital Construction Projects. The State applies the Network Access Licence system to telecommunication terminal equipment, wireless communication equipment and equipment involving interconnections between networks. Telecommunication terminal equipment, radio communication equipment and equipment involving interconnections between networks accessing to public telecommunication network must be in line with the standards stipulated by the State and obtain Network Access Licences. The catalogue containing telecommunication equipment applicable to the Network Access Licence system is formulated and promulgated by the competent authority of information industry under the State Council jointly with the product quality supervision department under the State Council. In relation to the telecommunications equipment having been issued the Network Access Licence, the department of the State Council responsible for product quality supervision, together with the competent authority of information industry under the State Council, is responsible for monitoring the quality, supervise the sampling and inspection and announce the results.

Operations of and licences held by the Company

According to the business licence of the Company, its scope of business is the research and development, production, sale, installation and service of antenna for mobile communication systems and antenna for engineering products, microwave technological products, electronic communication products, data communication products, office automation, equipment and instruments and related system engineering (for the above items which require licencing, business will not commence until obtaining the relevant licences); export of the Company's and its members' manufactured products and related technologies (export products are the Company's manufactured electrical and mechanical products, excluding those products which are restricted to be operated by designated company(ies) or prohibited for export by the PRC Government); import of raw and auxiliary materials, mechanical devices, equipment and instruments, parts and components and the relevant technologies necessary for the production and scientific research activities of the Company and members of the Company (other than those products with restricted operation or prohibited for import by the PRC Government); processing of the Company's imported materials and "processing arrangement" (三來一補) businesses (which means original engineering manufacture, original material manufacture, original design manufacture and compensation trading). The Directors confirm that the principal business currently carried on by the Company are within the scope of business stipulated in the business licence, and that the business activities carried on by the Company are consistent with its legal rights and powers.

According to the investigation carried out by Jingtian & Gongcheng and the confirmation by the Directors, the principal products of the Company have been base station antennas and related products for mobile communication. According to the requirements of the laws and regulations of the PRC applicable to the relevant industry (such as The Regulations of the PRC on Telecommunication and The Measures for Administration of Network Access for Telecommunication Equipment), no approval is required from the relevant authorities for the production and sale of base station antennas. For products manufactured by the Company which are within the scope of "administration of network access for telecommunication equipment" as stipulated in the Measures for Administration of Network Access for Telecommunication Equipment, according to Jingtian & Gongcheng, the Company has undertaken the relevant procedures and obtained all qualifications for production and sale as required by the industry regulatory authority. Currently, the products in respect of which the Company has obtained the Network Access Licence issued by the MII include "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" (model no.: 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 Measures for Administration of Network Access for Telecommunication Equipment which require the Network Access Licences issued by the MII, the research and development, manufacture and sale of other products of the Company are not restricted by the relevant laws and regulations of the PRC. The Company can research and develop, manufacture and sell such products.

On 10 January 2002, the Company's CDMA repeaters were granted the Network Access Licence (Network Access Licence No. 17-4838-020007) by the MII and were granted access to the State's telecommunication network. The expiry date of this Network Access Licence was 10 January 2003. The Directors confirmed that after the expiry of this Network Access Licence, since the Company did not manufacture such product, therefore it had not undertaken the renewal procedure. According to Jingtian & Gongcheng, the Company is not in violation of the requirements of PRC laws, rules and regulations.

In accordance with the investigation carried out by Jingtian & Gongcheng and the confirmation given by the Directors, the Company has the right to sell products manufactured by it and can choose to sell within or outside the PRC without having to obtain specific approval from any PRC authorities. The Company has the right to effect import and export by itself. However, as regards the export of products, if the Company is to effect export itself, the Company should undertake the relevant export procedures and pay customs duties. The Company may also appoint a PRC import and export agent enterprise to export the products on its behalf.

According to the subsisting requirements in PRC laws and regulations, the quantity and price of products manufactured and/or sold by the Company are not subject to any mandatory plan or guidelines or requirements. The Company can determine or negotiate with customers the quantity and price in accordance with the demand and supply of the market.

According to the investigation carried out by Jingtian & Gongcheng and the confirmation given by the Directors, each of the sales contact points of the Company is stationed with staff of its sales and marketing department to coordinate the relevant businesses. Those sales contact points do not have independent legal status and are not required to obtain any approval and permission from the relevant authorities or to undertake any registration procedures.

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.

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:

Name of transferee	**Percentage of registered capital acquired**	**Consideration**
	(%)	*RMB*
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
Total	64	22,770,000

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.

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%
	50,000,000	100.0%

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.

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.

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:

	Research and development commenced *(Note)*	**Trial production commenced**	**First launch date**
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.

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
Corporate development	• 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. • 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.	• 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. • 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). • 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). • 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.	• 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). • 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)

	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

Research and development	• 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.
	
	• The Company lodged five applications for patents in the PRC for the following products/ technologies:
	  • 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)
	  • 超寬頻帶室內全向吊頂天線 (Super-broad-band Ceiling-mount Antenna)
	  • 波束下傾寬帶全向中饋共線天線陣 (Broad-band Mid-feeding Co-linear Omnidirectional Antenn Array with Electrical Down Tilt)
	  • 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)
	  • 寬頻帶微帶貼片天線 (Broad-band Micro-strip Patch Antenna)
		• 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.
		
		• The Company lodged nine applications for patents in the PRC for the following products/technologies:
		  • H型偶極子輻射器 (H-type Dipole Radiator)
		  • 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)
		  • 一種前饋拋物面天線的微帶饋源 (Feeder Source for Front-fed Parabolic Antenna)
		  • 單極化波束賦形基站天線 (Single-Polar Beam Forming Base Station Antenna)
		  • 雙極化波束賦形基站天線 (Dual-Polar Beam Forming Base Station Antenna)
		  • 連續可調移相器 (Continuously Adjustable Phase Shifter)
			• Patent certificates for the following products/ technologies were obtained:
			  • 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)
			  • 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)
			  • 寬頻帶微帶貼片天線 (Broad-band Micro-strip Patch Antenna)
			  • 一種前饋拋物面天線的微帶饋源 (A Little Feeder Source for Parabolic Front-fed Antenna)
			  • 雙極化波束賦形基站天線 (Dual-Polar Beam Forming Base Station Antenna)
			  • 天線陣可調移相器 (Adjustable Phase Shifter for Antenna Array)
			  • 單極化波束賦形基站天線 (Single-Polar Beam Forming Base Station Antenna)
			  • 寬帶雙向天線及雙向天線陣 (Broad-band Dual-directional Antenna and Antenna Array)
			  • 寬頻帶垂直安裝全向天線 (Broad-band Omnidirectional Antenna for Vertical Installation)
			
			• 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
			
			• 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)

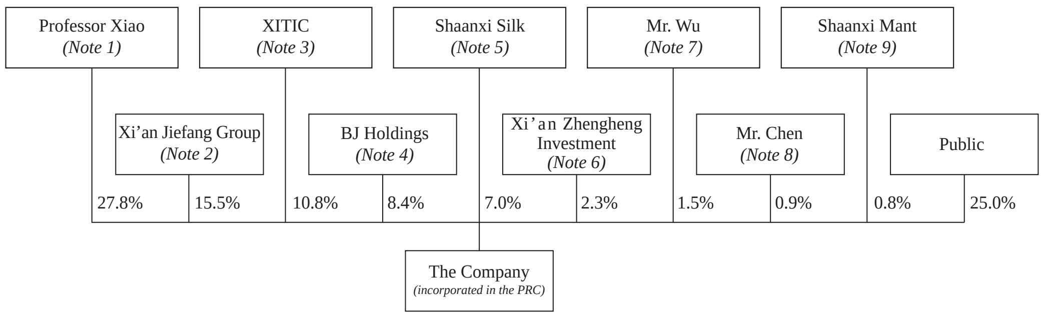
	For the period from 1 January 2001 to 31 December 2001	For the period from 1 January 2002 to 31 December 2002	For the period from 1 January 2003 to the Latest Practicable Date
	• As at the end of 2001, the Company installed 1 anechoic chamber	• 天線陣可調移相器 (Adjustable Phase Shifter for Antenna Array) • 寬帶雙向天線及雙向天線陣 (Broad-band Dualdirectional Antenna and Antenna Array) • 寬頻帶垂直安裝全向天線 (Broad-band Omnidirectional Antenna for Vertical Installation) • In June 2002, Haitian Research Institute established a separate product research and development team for mobile communication RF system. • In September 2002, the Company's CDMA trunk amplifier was granted the Network Access Licence by the MII. • The patent certificates for the following three products/ technologies were obtained: • 超寬頻帶室內全向吊頂天線 (Super-broad-band Ceiling-mount Antenna) • 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) • H型偶極子輻射器 (H-type Dipole Radiator) • 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.	• 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) • In September, the number of anechoic chambers increased to 22.

	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**
Strategic alliance and membership in international organisations		• 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.	
Sales and marketing activities	• In March 2001, the Company was invited to attend the "First Session of China Blue-Tooth Technology International Seminar" in Guangzhou. • In May 2001, the Company attended the Fifth Taiwan Trade Fair and the 89th Guangzhou Trade Fair. • In June 2001, the Company participated in the 2001 Asian Telecommunication Exhibition in Singapore and the China International Telecommunication Exhibition 2001.	• 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). • 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. • In June 2002, the Company participated as an exhibitor in the Communic Asia 2002 Summit in Singapore.	• 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. • 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. • 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).

	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
	• 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.	• In July 2002, the Company was invited to attend the "China Unicom Zhangjiajie Hunan International Seminar on Wireless Network (GSM & CDMA) Optimization Technologies." Professor Xiao was invited to deliver a report on the topic of "Antennas in Wireless Network Optimisation". • In December 2002, the Company participated in ITU Telecom Asia 2002 which was held by International Telecommunication Union.	• In April 2003, the Company attended the Caspian Telecoms Exhibition 2003 which was held in Turkey. • 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.
Deployment of human resources	• As at 31 December 2001, the Company employed approximately 510 staff.	• As at 31 December 2002, the Company employed approximately 500 staff.	• As at 31 May 2003, the Company employed approximately 530 staff.

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.

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
Total	100.0

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

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.

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 陝西眾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.

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 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);

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	100.0

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.

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 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:

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

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.

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.

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 360º, 180º, 70º, 65º, 45º or 30º 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 360º, 33º, 65º, 90º, 105º or 120º 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.

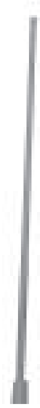
RF device mainly includes splitter, coupler, duplexer, combiner/divider and other components, and is an essential component of indoor distribution system. A splitter is used to bring divided input power to each of its output port. A coupler is used to take proportional power from main transmission line 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.

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

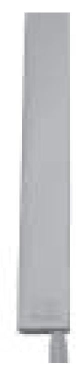
	For the year ended 31 December 2001	2002	For the five months ended 31 May 2003	Total
WLL/PHS base station antenna series	216,900	355,160	435,860	1,007,920
GSM/CDMA antenna series	15,880	46,100	8,470	70,450

Antennas

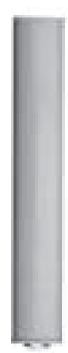
Different kinds of networks (e.g. GSM/CDMA and WLL/PHS) require different kinds of antennas and related products. In addition, the antennas have different features, components, shapes, functions, capacity and coverage. Each of the products of the Company, depending on the network (e.g. 900 MHz or 1,800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



Omnidirectional Antenna



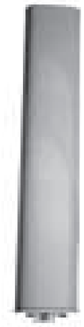
High-Way & Town Directional Antenna



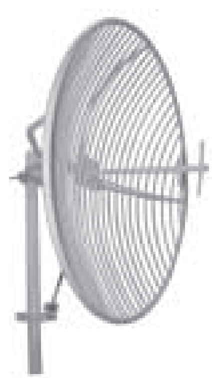
Vertical Polar Panel Antenna

Vertical Polar Panel Antenna

Vertical Polar-Directional Antenna

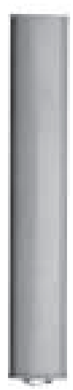


Adjustable Electric-downtilt for Panel Antenna



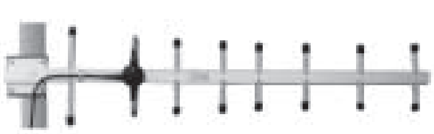
Grid Parabolic Antenna

Dual Polar Patch Antenna

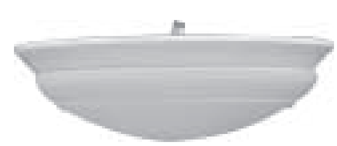


Dual Band Dual Polar Panel Antenna

Dual Band Ceiling Mount Antenna



Yagi Antenna



Three Band Ceiling Mount Omnidirectional Antenna

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

Description	Features/applications
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:

Name	Model no.	Issue date	Expiry date
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 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.

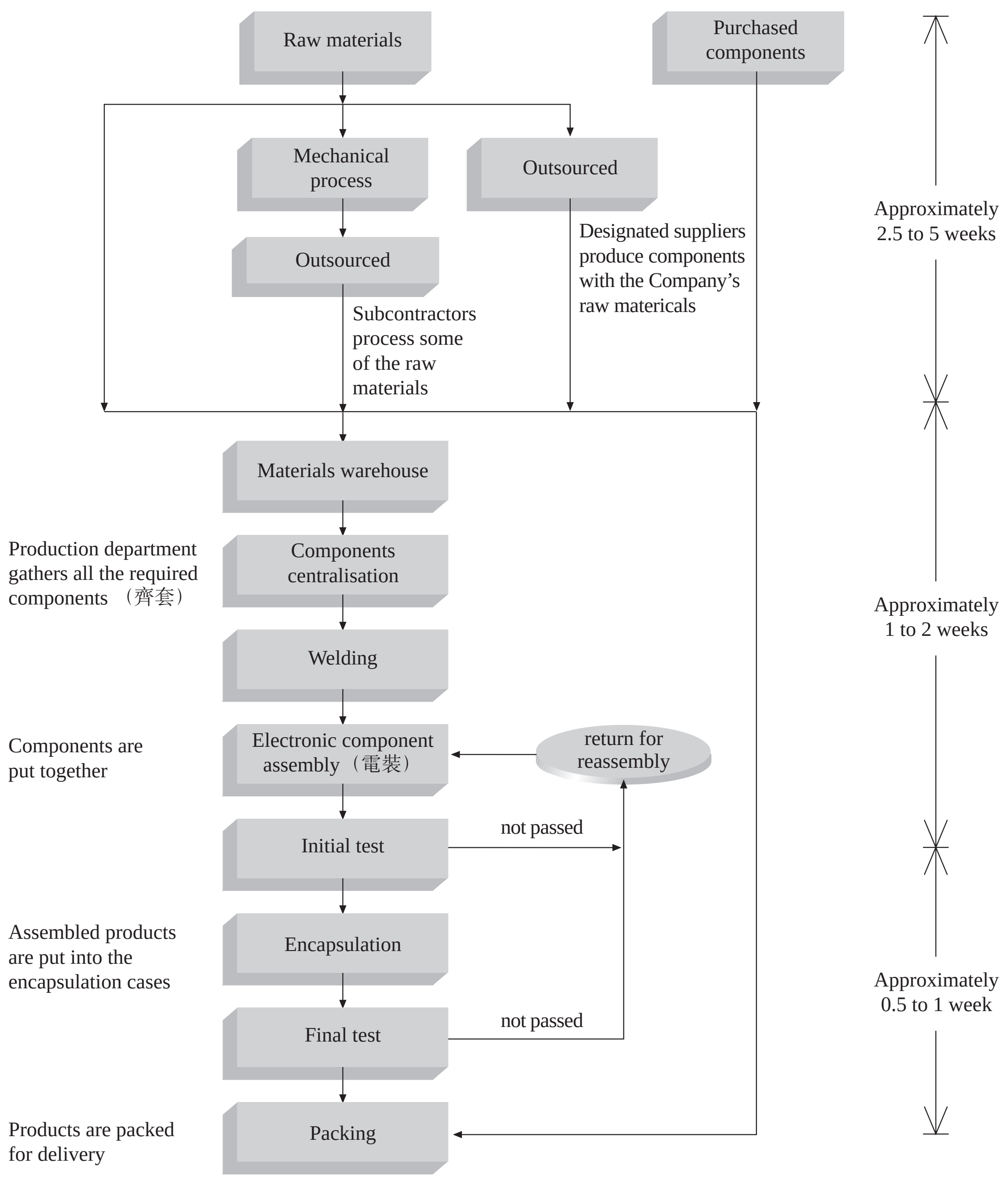
Testing equipment

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.

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"）.

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.

SALES AND MARKETING

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

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

Notes:

1. These countries/regions include Taiwan, Thailand, Indonesia, India, Singapore, Saudi Arabia, Sri Lanka and United Arabian Emirates.

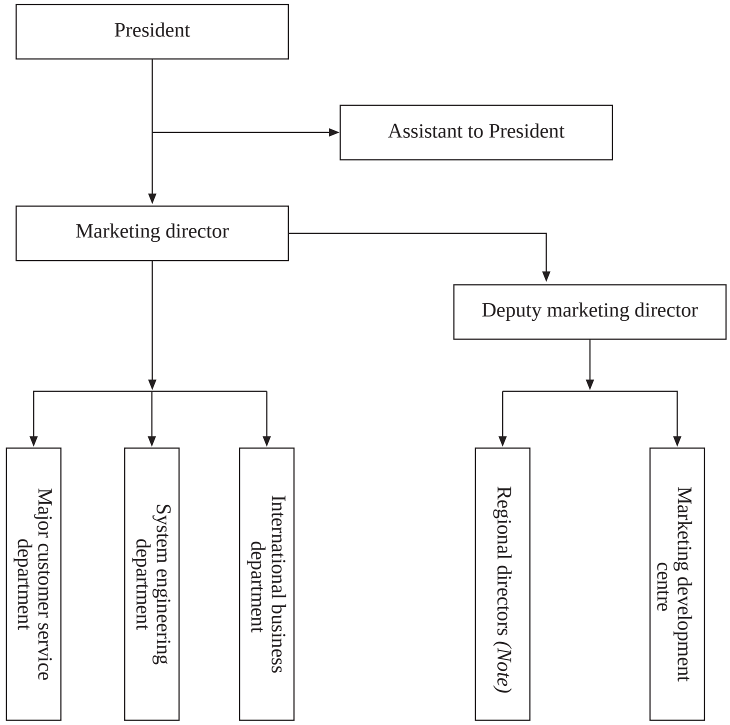
2. These countries include the U.S., Germany and Tanzania.

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

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.

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 *(Note 1)*	2	2
Mobile communication equipment vendors/ system integrators	142	66
Total *(Note 4)*	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**
By geographical location (no. of customers):		
PRC	122	48
Overseas		
Asia other than the PRC *(Note 2)*	18	14
Others *(Note 3)*	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 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:

	For the year ended 31 December		**For the five months ended**
	2001	**2002**	**31 May 2003**
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 *(Note)*	–	0.1%	0.1%
	100%	100%	100%

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.

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.

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.

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

	RMB'Million
Trade receivable, before allowance	99.1
Allowance for doubtful debts	(7.3)
	91.8
Settlement up to 31 August 2003	(24.1)
Balance not provided for and unsettled up to 31 August 2003	67.7
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
	67.7
Analysis on overdue balance	
UTStarcom	18.8
An Indian customer	1.4
China Mobile Group (six members)	0.6
	20.8

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 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	2002	2003
	RMB	*RMB*	*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説明), 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 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:

	For the year ended 31 December				For the five months ended 31 May	
(in RMB million)	**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
Total	74.9	100.0	164.5	100.0	79.3	100.0

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.

(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 UTStracom 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.

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 Qiying), an Independent Third Party at a consideration of RMB350,000. Such consideration was paid by Tan Qiying 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 Qiying 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 Qiying 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 Qiying was not legally effective during the period from 20 July 1999 to 4 April 2003. Although Tan Qiying 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 involvency 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 Qiying, 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.

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.

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' 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 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 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 over-stocking, 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 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《移動通信系統基站天綫技術條件》(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.

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.

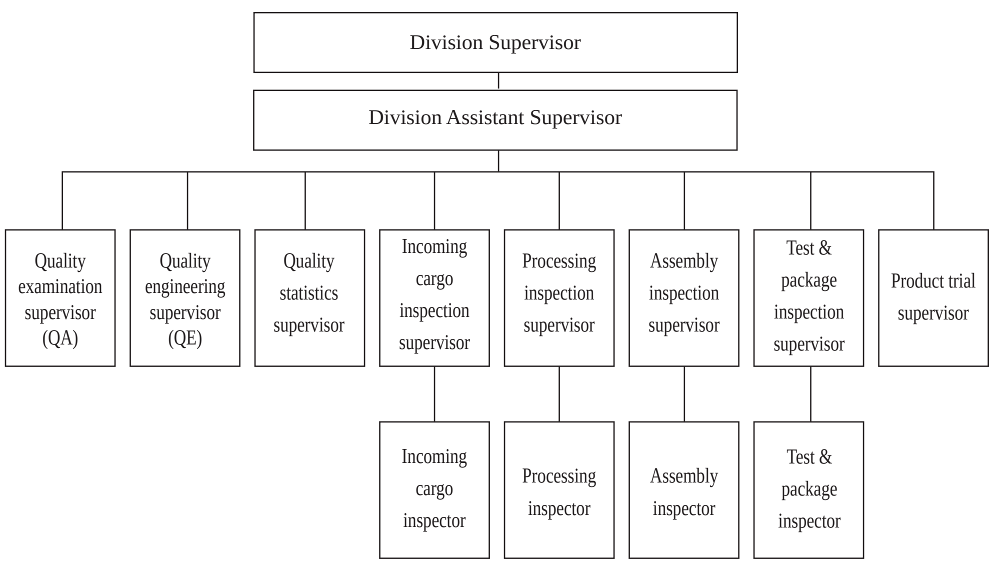
The Company's major testing equipment includes:

- 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.

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 salepersons, 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 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 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 anerchoic 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.

AWARDS, RECOGNITIONS AND HONOURS

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

Year	Awards/prizes
2000	"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)
	"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)
2001	"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)
	"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)
	"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)
	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).
2002	"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)
	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)
	"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
	"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 & Technology(中華人民共和國科學技術部火炬高技術產業開發中心)

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.

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).

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.

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.

OVERALL BUSINESS OBJECTIVES AND STRATEGIES

The Company aims to become a leading provider of base station antennas and related products in the PRC and a business partner for foreign mobile communication equipment vendors/ system integrators.

BASES AND ASSUMPTIONS

Potential investors should be aware that the Business Plan has been formulated by the Directors based on a number of bases and assumptions as detailed below. Although the Directors are of the view that such assumptions are reasonable, there is no assurance that such assumption are correct and attainable. In the event that any part of the Business Plan does not materialise or proceed as planned, the Directors will carefully evaluate the situation and may reallocate the proceeds from the Placing to be received by the Company to other business plans and/or new projects of the Company so long as the Directors consider it to be in the best interest of the Company and the Shareholders taken as a whole.

The following are the general assumptions in relation to the Business Plan:

- the Company is not materially affected by any of the risk factors set out under the section headed "Risk factors" of this prospectus;
- the Company will be successful in raising a sufficient amount of capital;
- the Company will have sufficient financial resources, including bank borrowings, fund raising exercises or other alternative means of financing, to meet the proposed amount to be allocated for the scheduled events as stated in this section to the extent that the amount is not met by the net proceeds from the Placing;
- there will be no material changes in the existing laws (whether in the PRC, Hong Kong or any other regions around the world), policies or industry regulations applicable to the Company, or in the existing political, economic or market conditions in which the Company carries on business;
- there will be no material change in inflation rates, interest rates and exchange rates from those prevailing as at the date of this prospectus;
- there will be no material change in the bases or rates of taxation applicable to the Company;
- there will be no material change in the price of raw materials and the Company's products;
- the widespread acceptance and use of mobile phone as an effective medium for communication by the general public in the PRC will continue;
- there will be no material adverse change in the telecommunication market or the base station antenna and related product market in the PRC as a whole;
- the PRC government will continue to set high priority to the development of telecommunication industry as stipulated under the State II Tenth Five-year Plan;
- the Company's major customers such as members of the China Mobile Group and the China Unicom Group will grow according to their business plans together with the growth of the PRC mobile communication market;

- the validity of the licences and permits obtained by the Company remains unchanged;
- the Company will be able to continue and maintain the operation of its existing business as set out in the section headed "Business" in this prospectus;
- the Company will have sufficient technology and information expertise to implement the Business Plan;
- the Company will be able to retain competent employees and also successfully recruit personnel of appropriate qualifications;
- the Company will be able to (i) launch its research and development programmes; (ii) obtain all the necessary approvals and licences from government authorities; and (iii) commence production within the scheduled period;
- the Company's production and business operations will not be materially affected by the interruption of supplies of materials and equipment, labour disputes or any other events that are beyond the Directors' control;
- there will be no material change in the funding requirements for the objectives and plans set out in this prospectus from those currently estimated by the management of the Company;
- there will be no catastrophes, natural disasters, or political or other events which may cause material disruptions to the Company's business or operation, or cause significant losses or damages to the Company's properties or facilities; and
- the Company will be able to rollover or renew, on terms same as the prevailing ones, the loan of RMB30 million from the Agricultural Bank of China up to March 2008 and the loan of RMB30 million from China Everbright Bank up to May 2007 pursuant to the undertakings given by those banks on 3 June 2003 and 9 June 2003. According to the supplemental undertakings dated 4 October 2003, the Agricultural Bank of China and China Everbright Bank shall rollover or renew such loans irrespective of any change in interest rate or the value of the pledged property.

MARKET POTENTIAL

Mobile communication is one of the fastest growing sectors in the PRC communications industry. According to the statistics compiled by ITU and published at its website (www.itu.int) in April 2003, the number of mobile phone service subscribers in the PRC increased from approximately 3.7 million at the end of 1995 to approximately 207 million at the end of 2002, and representing a compound annual growth rate of approximately 78.1%.

The MII promulgated the State II Tenth Five-year Plan in May 2001. The State II Tenth Five-year Plan states that information industry will become one of the State's fundamental and leading industries in the coming years. Accordingly, the Directors anticipate that mobile communication network operators will need to establish more base stations (and hence demand for more base station antennas) as part of their networks, and as a result, the Directors expect that there will be significant potential growth for the market of the Company.

BUSINESS STRATEGIES

Pursuant to the Company's business objectives, the Company will continue to refine and improve its products to keep abreast with growing demand in the market for mobile communication and technological advancement. In order to achieve such objectives, the Directors believe that further empowering the Company's research and development capabilities will be crucial to the

Company's medium to long-term growth. With empowered research and development capabilities and increased production capacity, the Company will be able to differentiate its products from those equipped with similar functions and produced by other competitors so that it will be able to capture a larger market share. As such, the Directors consider that maintaining the Company's working relationship with the leading telecommunication companies (providers and operators) in the PRC and expanding the Company's sales and marketing network will also enhance the awareness of its brand as well as product and service differentiation. In addition, the Directors believe that forming strategic alliances with and making investments in communication-related companies will create synergic effects that may further enhance shareholders' value.

As at the Latest Practicable Date, the Company has no intention to become a special telecommunication network operator or a public telecommunication network, private telecommunication network or broadcast and television network constructor in the near future.

FUTURE PLANS

Research and development of the Company's products

Based on the State II Tenth Five-year Plan, the Company expects that the development of mobile communication from 2G to 2.5G (GSM to GPRS) and to 3G will continue. Demand for the GSM/CDMA antenna system, being a key equipment of base stations, will also increase. Meanwhile, construction of the 3G mobile communication system is expected to commence in the PRC from 2003 to 2004 and the number of subscribers is expected to reach 260-290 million by 2005. Accordingly, the next development objective of the Company will be 3G base station antenna systems with intelligent antenna as the core technology. The Company has allocated resources, including recruitment of researchers in the relevant subjects, to research and develop such intelligent antenna systems. Moreover, the Company entered into an agreement on joint development of intelligent antenna arrays in TD-SCDMA mobile communication system with Datang Mobile in relation to the cooperative development of 3G base station antenna systems. The Company will allocate certain portion of the net proceeds of the Placing to develop products in relation to 3G base station antenna system technology. The Directors consider that the life cycle of 3G may extend to 2020 and the fourth generation wireless service ("4G") is still under research and will grow gradually with the development of 3G. The Company will pay attention to and keep abreast with the direction of 4G when conducting research and development of 3G.

Antenna products

The Company has commenced and plans to commence research and development projects for new products and related technologies whose details are provided in the following table:

Summary of the products under development by the Company

Product	Function	Current research and development progress	Expected prototype availability date	Expected launching date
3G intelligent antenna	• Apply to circular array antenna and the sector array antenna of TD-SCDMA system	research and development of prototype	December 2003	January 2004
3G base station antenna	• Receive and transmit of signal from handsets and vice versa	research and development of prototype	June 2004	July 2004

Product	Function	Current research and development progress	Expected sample availability date	Expected launching date
Antenna for wireless access system	• Antennas for wireless access systems of 3.5 gigahertz and 5.8 gigahertz	research and development of prototype	December 2003	January 2004
GSM/CDMA band-selection module series	• Select frequencies within the communication band	research and development	December 2003	January 2004
GSM/CDMA trunk amplifier	• Amplify the GSM/CDMA signals in both directions for application in indoor distribution systems	final research and development	December 2003	January 2004
Centrally controlled 3G remote electrical tilt antenna	• Antenna for cellular coverage, the coverage area adjusted centrally according to changes in number of mobile phone subscribers	research and development of prototype	June 2004	July 2004
PHS intelligent base station antenna products	• Apply the intelligent antenna system in PHS base stations, effecting higher signal-noise-ratio with increased coverage area and raised mobile phone subscribers capacity	research and development of prototype	June 2004	July 2004
Low noise amplifier, power amplifier	• Amplify GSM/CDMA signals	research and development	December 2003	January 2004
GSM/CDMA fibre optic repeater	• Amplify and repeat signals for indoor and outdoor repeaters	research and development	December 2003	January 2004
3G repeater series products	• Apply in 3G repeaters	Commence research and development	December 2005	January 2006
3G RF module	• Amplify module and the like	Commence research and development	December 2005	January 2006

Repeater, RF component and indoor distribution system series products

With the rapid development in the PRC's mobile communications market, especially in the construction of China Unicom Group's CDMA network, the growing demand for repeaters for mobile communications (including outdoor repeater and indoor repeater (indoor distribution system)), there exists a substantial business opportunities for the Company. The Company has penetrated into China Unicom Group's CDMA repeater market in 2002 and planned to capture approximately 10% of market share in GSM/CDMA repeater and indoor distribution system market in the PRC in the next two to three years. In addition, with the Company's research capabilities, the Company will continue to develop its own active devices, passive devices and repeaters. The Directors expect that the Company's mobile communication RF component products will become an auxiliary service for leading communication equipment providers in the coming years. Accordingly, the Directors expect the development of mobile communication RF component products will be one of the driving forces for future development of the Company's business. The Company plans to finance the development of RF component products mainly by internal resources.

Further empowering of the Company's research and development capabilities

As the Company aims to become a leading provider of base station antennas and related products in the PRC and a business partner for leading foreign mobile communication equipment vendors/system integrators, the Directors consider that it is crucial to further improve the Company's current technology research team in broadening its product range and improving product research and development. As such, the Company plans to recruit additional experts to join its research and development team, purchase more research and development equipment, provide continuing training to improve its technical know-how and increase its participation in overseas exhibitions and workshops to keep abreast of the latest mobile telecommunication technology.

Expanding antenna test centre

Testing of antennas is a key element for production and research and development of antenna. In the process of research and development of antenna, the prototype has to be tested throughout to ensure that it will fulfill the performance requirements for which it is designed. Having regard to the expected growing needs for product research and development and market demand for antennas, the Directors plan to expand the existing test centre to improve the efficiency and capacity of product research and development. Construction works for the expansion of the test centre has commenced and approximately RMB15.2 million have been contracted for, among which not more than RMB4 million have been paid. The Company plans to finance the remaining portion of the budget which amounts to approximately RMB11.2 million by using its internal resources.

Increase of production capacity

The Directors believe that the current capacity of its production facilities is sufficient to support the Company's short-term business growth up to the end of 2004. In order to prepare for and facilitate the Company's medium to long-term growth, the Directors intend to increase its production capacity by enhancing the three existing production lines to improve their efficiency and outputs and installing two additional production lines. In addition, the Company out-sourced the main production of WLL/PHS antennas from January 2003 to August 2003 and only a small part of production was remained to be done by the Company. The out-sourcing rate was close to 100% during this period. The full capacity of this production line (original production capacity of 500,000–750,000 sets/year) is still available for the use of the Company in future for producing other products.

Expansion in sales, distribution and services network coverage

As at the Latest Practicable Date, the Company had six sales contact points in the PRC which covered the regions of Beijing, Hangzhou of Zhejiang, Nanjing of Jiangsu, Wuhan of Hubei, Fuzhou of Fujian and Xi'an of Shaanxi. In order to strengthen the Company's market position and penetrate into more regions in the PRC, the Directors intend to further expand the Company's sales and distribution network to provide better services to its customers in provinces including Chengdu of Sichuan, Guiyang of Guizhou, Changsha of Hunan, Guangzhou of Guangdong, Changchun of Jilin, Chongqing, Shijiazhuang of Hebei, Nanchang of Jiangxi, Harbin of Heilongjiang, Urmuqi of Xinjiang, Lanzhou of Ganzhou, Hefei of Anhui, Taiyuan of Shanxi, Nanning of Guangxi, Kunming of Yunnan, Jinan of Shandong, Shenyang of Liaoning and Hohhot of Inner Mongolia.

The Company also plans to internationalise its market coverage in the foreseeable future. As part of its international sales and marketing efforts, the Company intends to continue to establish overseas sales and marketing offices in Hong Kong and Russia. Currently the overseas markets of the Company include India, Thailand, the United States and Taiwan.

Collaborating with business partners and establishing strategic alliances

The Company will continue to establish strategic alliances with domestic and international communication companies to enhance its research and development capability, brand awareness, undertake bilateral joint sales and cross-promotional activities and expand distribution capabilities. The Company will also consider investing in or acquiring communication-related companies, by which the Directors expect that synergic effects may further enhance shareholders' value. Save for the agreement entered into with Datang Mobile for the joint development of intelligent antenna arrays in TD-SCDMA mobile communication system, as at the Latest Practicable Date, there was no negotiation in progress between the Company and other parties in respect of forming a strategic alliance.

The Company has established a stable working relationship with some leading telecommunication equipment vendors such as Datang Telecom, UTStarcom, Lucent Qingdao, and mobile communication network operators, including and members of China Mobile Group and China Unicom Group in the PRC. The Directors believe that the ability to keep abreast with its advanced technologies and market trends of communication technologies are crucial to the Company's success. Hence, the Directors intend to maintain the Company's business relationships with telecommunication companies. The Company works closely with the Datang Mobile through the Haitian Research Institute.

IMPLEMENTATION PLAN

In light of the business objectives, business strategies and future plans of the Company as outlined above, the Company intends to achieve the following specific objectives up to the year ending 31 December 2005. Investors should note that the following specific objectives and the Business Plan are based on the existing plans and intentions of the Company which are at a preliminary stage. Furthermore, the following specific objectives and implementation plans are formulated on the bases and assumptions as set out under the paragraph headed "Bases and assumptions" above. These bases and assumptions are inherently subject to many uncertainties and unpredictable factors, in particular the risk factors as set out in the section headed "Risk factors" in this prospectus. The Company's actual course of business may vary from the Business Plan. There can be no assurance that the plans of the Company will materialise in accordance with the expected time frame for fulfilment of the business objectives of the Company or the Business Plan or will be accomplished at all. The Company will review the outcome of its developments and may adjust its business objectives accordingly. In the event that the eventual development of the Company is materially different from what is set out below, the Company will publish relevant announcements in accordance to the requirements of the GEM Listing Rules.

Set out below is the implementation plan of the Company for the period from the Latest Practicable Date to 31 December 2005:

	From Latest Practicable Date to 31 December 2003	**For the six months ending 30 June 2004**	**31 December 2004**	**30 June 2005**	**31 December 2005**
Research and development of the Company's products	Preliminary research on 3G base station antennas, TD-SCDMA intelligent antennas and wireless access systems Research and development of optical fibre and 3G repeaters/RF	Research on 3G base station antennas and repeaters TD-SCDMA intelligent base station antennas: low volume production	3G base station antennas and repeater in production	PHS intelligent base station antennas commercialisation Preliminary research on 3G time division repeaters Preliminary research on 3G time division module RF	TD-SCDMA intelligent antenna commercialisation
Further empowering of the Company's research and development	Study feasibility of the proposal on a near field/far field antenna testing system Study feasibility of the proposal on an anechoic chamber *(Note)* Set up near field/ far field antenna testing system Set up an anechoic chamber *(Note)* Construction of antenna test centre	Continue to set up the near field/far field antenna testing system Continue to set up an anechoic chamber *(Note)*	Complete the construction of near field/far field antenna testing system Continue to construct an anechoic chamber *(Note)*	Fine tune testing project	

Note: the Company intends to set up the anechoic chamber by its internal resources.

	From Latest Practicable Date to 31 December 2003	For the six months ending 30 June 2004	31 December 2004	30 June 2005	31 December 2005
Increase of production capacity	Purchase processing and testing equipments according to production line capacity Enhance the 3 existing production lines Purchase processing and testing equipment for production purpose	Set up one production line Purchase auxiliary processing and inspecting equipment	Set up one production line Purchase auxiliary processing and inspecting equipment	Purchase of auxiliary equipment	
Expansion of sales and marketing network	Set up an additional sales contact point in the PRC Commence consolidation of sales and marketing system in the PRC Set up a sales contact point in Hong Kong	Set up sales contact points in Russia	Establish information systems for sales and marketing in the PRC	Fine tune information systems for sales and marketing in the PRC	Set up sales and marketing system in the PRC with support sales, service and technology
Collaborating with business partners and establishing strategic alliances	Strengthening relationships with mobile communication network operators and equipment vendors. Monitor if any new licence of the mobile telecommunication operator will be issued in the PRC	Monitor if any new licence of mobile telecommunication operator will be issued in the PRC, then establish relationship with the new mobile communication network operators Establish business collaboration and strategic alliance with PRC and leading foreign mobile communication and equipment vendors	Collaborate with mobile communication equipment vendors/ system integrators for joint development or new generation of mobile telecommunication equipment	Participate in cooperation/ alliance with mobile communication equipment vendors/system integrators in the PRC and overseas	Set up strategic alliance and related investment

Deployment of human resources

As at the Latest Practicable Date, the Company had employed a total of 535 staff. In order to achieve its business objectives, the Directors expect that the Company will hire additional staff during the Forward Looking Period. The following table sets out the number of additional staff that the Company expects to employ and the approximate timing of their hiring:

	From the Latest Practicable Date to 31 December 2003	For the six months ending 30 June 2004	For the six months ending 31 December 2004	For the six months ending 30 June 2005	For the six months ending 31 December 2005
Product research and development	57	20	25	0	0
Antenna Test Centre	5	5	0	0	0
Production facilities	15	10	15	0	5
Sales and marketing network	35	10	15	5	0
Total	112	45	55	5	5

Target costs for business objective fulfilment

The estimated costs required to achieve the Company's business objectives are set out below:

(in HK$ million)	From the Latest Practicable Date to 31 December 2003	For the six months ending 30 June 2004	For the six months ending 31 December 2004	For the six months ending 30 June 2005	For the six months ending 31 December 2005	Total
Research and development of the Company's antenna and related product	12.5	5.5	5.5	1.0	0.5	25.0
Further empowering of the Company's research and development capabilities	10.0	2.0	1.0	1.0	0.0	14.0
Increase of production capacity	3.0	1.0	0.5	0.5	0.0	5.0
Expansion of sales and marketing network	1.7	1.5	1.0	0.8	0.0	5.0
Collaborating with business partners and establishing strategic alliances	1.0	0.5	0.5	0.5	0.5	3.0
Total	28.2	10.5	8.5	3.8	1.0	52.0

REASONS FOR THE PLACING AND USE OF PROCEEDS

The Directors believe that listing of the H Shares on GEM will enhance the Company's profile and broaden its capital base for its future growth and development. The net proceeds to which the Company is entitled from the issue of New H Shares under the Placing, based on the Placing Price of HK$0.55 per H Share (being the lowest-point of the indicative Placing Price range between HK$0.55 and HK$1.15 per H Share) excluding any proceeds from those attributable to the Sale H Shares and the exercise of the Over-allocation Option, are estimated to approximately HK$62 million. The Directors intend to apply such net proceeds as follows:

- as to approximately HK$25 million for research and development of the Company's antenna and related products;

	HK$ million
Development of antenna products	20
Development of repeater and indoor distribution system series	5
	25

- as to approximately HK$14 million for further empowering of the Company's research and development capabilities by setting up near field/far field antenna testing systems;

	HK$ million
Recruitment and training of additional experts	4
Purchasing additional research and development equipment	10
	14

- as to approximately HK$5 million for the increase of production capacity by enhancing the 3 existing production lines to improve their efficiency and output and installing 2 additional production lines;

	HK$ million
Enhancing the 3 existing production lines	2.5
Installing 2 additional production lines	2.5
	5.0

- as to approximately HK$5 million for the expansion in sales, distribution and services network coverage;
- as to approximately HK$3 million for collaborating with business partners and establishing strategic alliances; and
- as to the remaining balance of approximately HK$10 million as general working capital for daily operation of the Company, such as purchase of raw material for production.

Should the final Placing Price be determined at a price higher than HK$0.55 per H Share, the Company will receive additional net proceeds. Should the final Placing Price be determined at HK$1.15 per H Share, the Company will receive in aggregate net proceeds of approximately HK$147 million, which represents approximately HK$85 million more than the net proceeds of

HK$62 million as the Placing Price being set at HK$0.55 per H Share. The Directors intend to use additional net proceeds raised to finance the Company's future plan for the 12 months ending 31 December 2004 on a proportional basis in accordance with their funding requirements. Accordingly, the Directors consider that the business objectives of the Company will not be changed as planned. Based on the net proceeds of approximately HK$62 million (assuming the Placing Price of HK$0.55 per Placing Share, being the lowest point of the indicative Placing Price range in this prospectus), the Directors are of the view that the net proceeds are adequate to accomplish all of the business objectives of the Company during the Forward Looking Period. Moreover, with additional proceeds of approximately HK$85 million, the Company will be able to allocate more resources to implement each item as mentioned in the Business Plan as follows:

- as to approximately HK$34 million for research and development of the Company's antenna and related products (approximately HK$17 million), as well as for repeater and indoor distribution system series (approximately HK$17 million);

- as to approximately HK$20 million for further empowering of the Company's research and development capabilities by recruitment and training of additional antenna experts (approximately HK$12 million) as well as by enhancement of the environmental testing centre for product inspection currently under construction (approximately HK$8 million);

- as to approximately HK$7 million for the increase of production capacity by installing 5 additional production lines;

- as to approximately HK$7 million for the expansion in sales, distribution and services network coverage;

- as to approximately HK$3 million for collaborating with business partners and establishing strategic alliances; and

- as to the remaining balance of approximately HK$14 million as general working capital, of which as to approximately HK$10 million will be applied for the repayment of bank borrowings advanced under revolving banking facilities granted by Shanghai Pudong Development Bank and as to approximately HK$4 million for general cash reserve.

Pursuant to section 3 of the Price Stabilising Rules, stabilising action may only take place, among other factors, where the total value of the New H Shares at the Placing Price is not less than HK$100 million. Accordingly, for the purpose of compliance with the Price Stabilising Rules, the Over-allocation Option can only be exercised when the Placing Price will be HK$0.70 or above. Should the final Placing Price be HK$0.70 or above and the Over-allocation Option is exercised, the usage of approximately 25% of the additional net proceeds to be raised from the exercise of Over-allocation Option will be used for general working capital and the approximately 75% will be used for repayment of bank borrowings advanced under revolving banking facilities granted by Shanghai Pudong Development Bank. Should the final Placing Price be determined at HK$1.15 per H Share (being the highest price in the indicative Placing Price range), approximately HK$18 million of the additional net proceeds of approximately HK$24 million to be raised from the exercise of Over-allocation Option will be used for repayment of bank borrowings advanced under revolving banking facilities granted by Shanghai Pudong Development Bank and the remaining approximately HK$6 million will be used for general working capital.

To the extent that the net proceeds of the issue of the New H Shares under the Placing are not immediately required for the above purposes, it is the present intention of the Directors that they will be placed on short-term interest bearing deposits with licensed banks and/or financial institutions in the PRC.

As set out in this section, the Directors estimated that the minimum total cost of implementation of the future plans will be approximately HK$52 million. Taking into account the net proceeds of the Placing, the Company's existing financial resources and the Company's internally generated funds, the Directors consider that the Company will have sufficient working capital for the implementation of the Business Plan as scheduled.

In the event that any part of the Business Plan does not materialise or proceed as planned, the Directors will carefully evaluate the situation and may reallocate the intended funding to other business plans and/or new projects and/or hold such funding as short-term deposits as long as the Directors consider it to be in the best interests of the Company and the Shareholders taken as a whole and to be in compliance with the GEM Listing Rules. In such event, the Company will make necessary announcement in accordance with the requirements under GEM Listing Rules as and when appropriate for such purpose.

DIRECTORS

Executive Directors

Professor Xiao Liangyong (肖良勇教授), aged 67, graduated from Zhangjiakou PLA Communication Engineering College (張家口解放軍通訊工程學院) (now known as Xidian University) in 1957 with a degree in radio engineering. He took positions as the tutor, lecturer, associate professor, professor and dean of the sixth department (currently the electronic engineering college) and antenna development centre of Xidian University from January 1957 to January 1998. Besides, Professor Xiao was an executive director and the general manager of Xi'an Haitian Communications from January 2000 to October 2000 and has been the chairman of the Company since October 2000.

Mr. Xiao Bing (肖兵先生), aged 37, is the son of Professor Xiao. Mr. Xiao studied in the college of Continuous Education in Xidian University. He worked in Xi'an General Factory of Oil Instruments (西安石油勘探儀器總廠) from 1988 to 1991 and was the deputy general manager of Xi'an Haitian Communications from 1999 to 2000. He was elected as a Director and first assumed the post of the president of the Company in October 2000.

Mr. Guo Weisheng (郭渭盛先生), aged 71, graduated from Northwest Institute of Communications Engineering (now known as Xidian University) in 1963 and is a professor. He worked as lecturer, associate professor, professor, deputy dean and dean of the electromagnetic engineering department of Xidian University from 1960 to 1992. He was the deputy general manager of Xi'an Haitian Communications from 1999 to 2000 and was elected as a Director and first assumed the post of the vice president of the Company in October 2000.

Non-executive Directors

Mr. Luo Maosheng (羅茂生先生), aged 41, graduated from Shaanxi Radio and Television University (陝西省廣播電視大學) and is a senior accountant. In 1995, Mr. Luo joined Xi'an Jiefang Group and served as financial controller. Currently, he is an executive director, the financial controller and deputy senior manager of Xi'an Jiefang Group and was elected as a Director in October 2000.

Mr. Mi Yunping (米云平先生), aged 46, is a senior economist with a doctorate degree in science. He is the deputy general manager of BJ Holdings since March 2000 and was elected as a Director in October 2000.

Mr. Wang Quanfu (王全福先生), aged 40, graduated from Party School of the Shaanxi Provincial Committee of the Chinese Communist Party of PRC (中共陝西省委黨校) in 1997. He started working in Xi'an Jiefang Group since 1988 and is an assistant to the general manager of Xi'an Jiefang Group from May 2001 to date and was elected as a Director in October 2000.

Mr. Liu Yongqiang (劉永強先生), aged 64, graduated from Northwest Journalism Institute (西北新聞刊投學院) in 1987 and he became the deputy secretary-general of Xi'an Municipal People's Government in 1989. Mr. Liu became the chairman of the board of XITIC in 1999 and was elected as a Director in October 2000.

Mr. Li Wenqi (李文琦先生), aged 37, graduated from Shaanxi College of Finance and Economics in (陝西財經學院) (now known as Xi'an Jiaotong University (西安交通大學)) and is an accountant. He worked as the deputy chief and manager of Planning and Finance Department from October 1987 to April 1994 and from April 1994 to October 1997 and the assistant to general manager and manager of Planning and Finance Department from October 1997 to May 2001. He is the chief accountant and manager of Planning and Finance Department of Shaanxi Silk from May 2001 and was elected as a Director in October 2000.

Independent non-executive Directors

Mr. Zhou Tianyou (周天游先生), aged 41, graduated from the Electronics and Computer Science Department of Shanghai Jiao Tong University (上海交通大學) with a bachelor degree in Automatic Control Engineering in 1983 and is an engineer. Mr. Zhou was awarded a Certificate of Siemens Training Centre for Communication Techniques in Germany and is a certified instructor for operation. During his service in the international cellular infrastructure division of Motorola Group, he was awarded a certificate of appreciation for his contribution to the success of Motorola cellular infrastructure business in the PRC in 1994. In October 1998 he was awarded a certificate of completion in respect of the Iridium Communications System by the ground systems division of Motorola Satellite Communications Group. He worked as the marketing manager in Beijing Digipro Information Technology Co. Ltd. (北京長信嘉信息技術有限公司) for the period between 1 December 1999 and 1 December 2001. In October 2000, he was elected as an independent non-executive Director.

Mr. Gong Shuxi (龔書喜先生), aged 46, graduated from Northwest Institute of Communications Engineering (now known as Xidian University) with bachelor and master degrees and doctorate degree in Electromagnetic and Microwave Technology in Xi'an Jiantong University (西安交通大學) and is a professor. Mr. Gong became the professor in Antenna Research Institute of Xidian University in 1997. In October 2000, he was elected as an independent non-executive Director.

Mr. Deng Yuanming (鄧元明先生), aged 64, graduated in 1960 with a bachelor's degree in Northwest University (西北大學). He was a professor in industrial economics of Xi'an Jiaotong University and retired in 2003. In 1996 and 1998, Mr. Deng was a member of the standing committee of the People's Congress of Shaanxi Province. In October 2000, he was elected as an independent non-executive Director. Mr. Deng has ceased to be the independent director of Xi'an Jiefang Group with effect from 12 May 2003.

SUPERVISORS

Mr. Hu Hui (胡暉先生), aged 36, graduated from the Changsha Railway University (長沙鐵道學院) (now know as Central South University (中南大學)) majoring in mechanical engineering in 1989 and is an engineer. Mr. Hu was employed by the Zhuzhou Gear Co., Ltd. (株州齒輪股份有限公司) from 1989 to December 2001. He joined the Company in May 2002 as the assistant supervisor of the corporate planning department and he was elected as a Supervisor in July 2002.

Ms. Sun Guilian (孫桂蓮小姐), aged 39, graduated from the Zhongnan University of Economics and Law (中南財經政法大學) majoring in BBA in 2002. She was employed by the No. 704 factory of the State and worked in the enterprise statistics department from 1984 to 2000. Ms. Sun joined the Company in September 2000 and was elected as a Supervisor in July 2002.

Mr. Liu Jiyang (劉激揚先生), aged 35, graduated from Xi'an Jiaotong University (西安交通大學) with a bachelor's degree in management engineering in 1989. Mr. Liu also holds a master degree in Economic Laws from Xi'an Jiaotong University in 1993. Mr. Liu was employed by Xi'an Datang Telephone Company Limited (西安大唐電信有限公司) as the enterprise legal adviser and deputy general manager of (西安山脈科技發展有限公司) from April 2001 to February 2002. From March 2002 till now, he has been working as the general manager of (西安啓聖科技有限責任公司) and was elected as the Supervisor in October 2002.

Ms. Shi Ping (師萍小姐), aged 54, holds a doctorate degree. Ms. Shi has started working as a professor, tutor of doctorate students, deputy manager of the Institute of Economics and Management in Northwest University since December 1985. Currently, she is an independent non-executive director of Xi'an Jiefang Group. She was elected as a Supervisor in October 2002.

Mr. Gu Linqiang (谷林強先生), aged 36, graduated from the Shandong University (山東大學) in 1989 with a bachelor's degree in management science. In 1994, Mr. Gu worked in the credit department of XITIC. In 1997, he was posted to the investment banking division and assumed the posts of deputy manager and manager. Mr. Gu was elected as a Supervisor in October 2002.

SENIOR MANAGEMENT

Mr. Li Kun (李琨先生), aged 68, graduated from the physics department of East China Normal University (華東師範大學) in 1960 and taught at Xidian University as lecturer, associate professor and professor from 1960 to 1993. Mr. Li co-founded the Company with Professor Xiao and Mr. Xiao Bing after his retirement. He was appointed as the vice president of the Company in October 2000. Mr. Li is responsible for human resource management and administration of the Company.

Mr. Liu Peng (劉鵬先生), aged 35, graduated from the Changsha Railway University (長沙鐵道學院) (now known as Central South University (中南大學))in 1989, and has finished the MBA courses in Northern Jiaotong University (北方交通大學) in 2000 and is an engineer. He worked at the equipment factory of China Nonferrous Metal 23 Metallurgy Corporation Second Branch (中國有色二十三冶二公司工業設備廠) from July 1989 to March 1997. From April 1997 to February 2001 he worked as the assistant to president of Hunan Gold Zhengfang Enterprise Group (湖南金正方企業集團) as well as the general manager of Huali Garment Wholesale Market (華麗服裝批發大市場). He joined the Company in April 2001 and was appointed as a vice president of the Company in May 2002. Mr. Liu is responsible for production planning and purchasing of the Company.

Mr. Liang Zhijun (梁志軍先生), aged 39, graduated from Shaanxi Mechanical Engineering Institute (陝西機械學院) (now known as Xi'an University of Technology (西安理工大學)) in 1985 and taught in Xidian University from 1985 to 1993. Mr. Liang worked in China Electronics Import & Export Corporation, Hainan Branch (中國電子進出口總公司海南公司) from 1988 to 1989 and Xi'an Datang Telephone Company Limited (西安大唐電信有限公司) from 1993 to 2000. He joined the Company in July 2000. Currently, he is the secretary of the Board since October 2000 and was appointed as vice president of the Company in April 2003. Mr. Liang is responsible for the secretarial work of the Board.

Ms. Mao Yuehua (茅躍華), aged 44, graduated from the Northwest University (西北大學) majoring in Economic Management in 1989. Ms. Mao worked in Guangzhou Post and Telecom Equipment Co., Ltd. (廣州郵電通信設備有限公司) from 1997 to 2002, during which she was appointed as a representative officer in Beijing from 2001 to 2002. She joined the Company in July 2001 and she was appointed as a vice president of the Company in April 2003. Ms. Mao is responsible for the marketing and public relations of the Company.

Mr. Fang Xi (方曦先生), aged 33, graduated from the agricultural finance department of 中南財經大學 (Zhongnan University of Finance and Economics) in 1993 and worked as head of finance department and deputy chief accountant of State-owned Yellow River Machine Manufactory (國營黃河機器制造廠) from 1993 to 2001. Currently, he is responsible for the finance function of the Company.

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Mr. Tsang Yu Tit (曾如鐵先生), aged 34, is a qualified accountant with over nine years of experience in accounting, auditing and financial management. He is also the company secretary of the Company. Mr. Tsang graduated with a bachelor's degree in accountancy from the Hong Kong Polytechnic University. He is an associate member of the Hong Kong Society of Accountants and a fellow member of the Association of Chartered Certified Accountants. Mr. Tsang joined the Company in November 2002. Before joining the Company he worked for an international certified public accountants firm, Deloitte Touche Tohmatsu for three years and then joined a private company which engaged in manufacturing and trading.

COMPLIANCE OFFICER

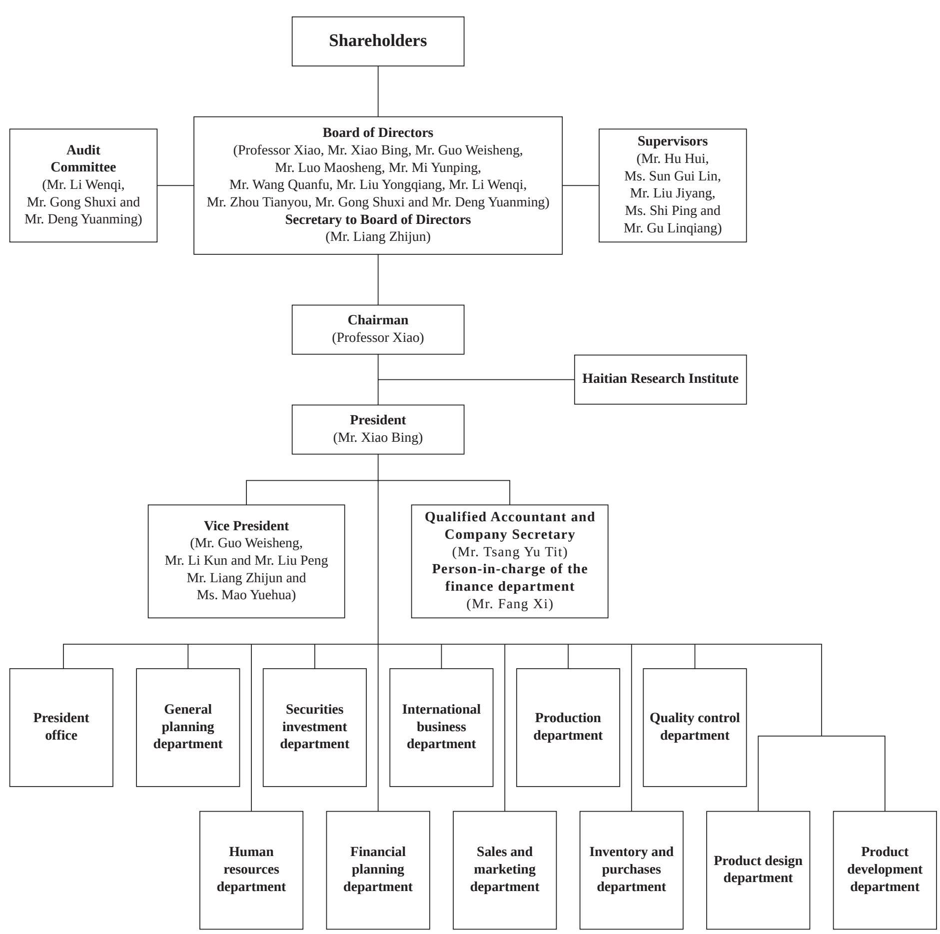
Professor Xiao, who is also an executive Director.

AUDIT COMMITTEE

The Company established an audit committee on 4 April 2003 with terms of reference in compliance with Rules 5.23 and 5.24 of the GEM Listing Rules. The primary duties of the audit committee are to review the financial reporting process and internal control system of the Company. The following sets out the members of the Company's audit committee:

Name	Position in the Audit Committee	Position in the Board of Directors
鄧元明 (Deng Yuanming)	Chairman	Independent non-executive Director
龔書喜 (Gong Shuxi)	Member	Independent non-executive Director
李文琦 (Li Wenqi)	Member	Non-executive Director

The internal structure of the Company is as follows:



EMPLOYEES

Overview

As at the Latest Practicable Date, the Company had 535 employees who were all stationed in the PRC. The number of staffs in different departments of the Company as at 31 December 2001, 31 December 2002 and the Latest Practicable Date is as follows:

	As at 31 December 2001	**As at 31 December 2002**	**As at the Latest Practicable Date**
Management	10	14	11
Sales and marketing	54	73	83
Research and development	90	132	149
Finance and administration	66	45	36
Production	281	216	222
Technical services and support	8	19	34
Total	509	499	535

Company's relationship with employees

The Company has not experienced any significant labour disputes or strikes which have led to the disruption of its normal business operations. The Directors consider that the Company's relationship with its employees to be satisfactory. The Company provides staff quarters or alternatively, housing subsidies, to some of its employees in accordance with the current PRC laws. In addition, the Company provides interest-free loan to its senior management for purchasing automobiles. As at 31 May 2003, such outstanding loan amounted to approximately RMB0.3 million. According to the Directors, such interest-free loan is non-recurring in nature and will cease after listing.

Retirement benefit plans

The employees of the Company participate in various retirement benefit plans organised by municipal and provincial governments in the PRC, whereby the Company is required to make monthly contributions to these plans at a rate of 20% of the employees' basic monthly salaries of eligible employees. The Company has no obligation for the payment of retirement and other post-retirement benefits of employees other than the monthly contribution described above. Expenses incurred by the Company in connection with the retirement benefit plans for each of the two years ended 31 December 2002 and the five months ended 31 May 2003 were approximately RMB44,018, RMB184,795 and RMB136,026 respectively.

Insurance

As at the Latest Practicable Date, the Company had 535 employees, among which the Company has maintained elderly insurance for 78 persons, redundant insurance for 358 persons, and medical insurance for 78 persons. The Company has maintained elderly insurance and medical insurance for the Company's employees. No redundant insurance has been maintained for 171 persons since redundant insurance has been maintained for such 171 persons (among whom 46 are retired, 36 are staff who have redeemed their retirement benefit including redundant insurance and 89 are staff who have suspended their pervious employment) by their original employers. According to Social Labor Insurance Department of Shaanxi Province, and the Special Payment Letter for Social Insurance Premiums of Shaanxi Province issued by Shaanxi Provincial Local Tax Bureau, Gaoxin Branch, the Company has maintained the basic elderly insurance, medical insurance and redundant insurance in accordance with the PRC laws. The premium is calculated as follows: premium = monthly income of the employee x (7%+2.5%+20%). No premium is due and outstanding which may affect the validity of the relevant insurance.

Housing fund

On 3 April 1999, the State Council promulgated the "住房公積金管理條例"(Regulation on Management of Housing Fund) pursuant to which the housing fund system is implemented countrywide. On 9 May 2000, Shaanxi Provincial People's Government published the "關於印發貫徹國務院 "住房公積金管理條例" 實施意見的通知" (Notice regarding the Publication of Implementation Opinion of Regulation on Management of Housing Fund) pursuant to which the housing fund system is implemented in Shaanxi province, where the Company is located. Prior to September 2003, the Company is not aware of the requirement to set up a housing fund and that since the date of establishment of the Company, the relevant authority has not requested the Company to set up such a fund. In September 2003, the Company became aware of such a requirement, the Company started to undertake the relevant procedures which were completed on 10 October 2003. The Xi'an Housing Fund Management Centre verbally advised the Company that they will not impose any penalty or punishment on the Company for its delay in registering payment and deposit for a housing fund or opening a housing fund account for its employees. They further informed the Company that they have no record of demanding any enterprise or company to make retrospective contribution to housing fund prior to the same being established. According to Jingtian & Goncheng:-

(a) as the Xi'an Housing Fund Management Centre has on 10 October 2003 endorsed on the "Application form for opening a Housing Fund Account in Xi'an City" submitted by the Company, the Company has established its housing fund and completed the relating procedures in accordance with the requirements of the relevant laws on housing fund management;

(b) the Company shall commence payment of the housing fund for its employees (excluding those aged 55 or above) under permanent employment or retained by contract from October 2003 according to the requirements of Shaanxi province. The Company is also required to make retrospective contribution to housing fund for its employees calculated from the promulgation of the relevant laws on housing fund;

(c) according to PRC laws, an employee shall only have one housing fund account. As such, for those employees who already have housing fund accounts under the names of their previous employers shall arrange for the same to be transferred under the name of the Company;

(d) according to Section 37 of the "住房公積金管理條例"(Regulation on Management of Housing Fund), any entity who fails to register payment and deposit for a housing fund or open a housing fund account for its employees, the relevant Housing Fund Management Centre may serve a demand on the entity requiring it to comply with the same within a prescribed period of time. If the entity fails to comply with the demand, a penalty ranging from RMB10,000 to RMB50,000 would be imposed;

(e) according to the "關於印發貫徹國務院"住房公積金管理條例"實施意見的通知" (Notice regarding the Publication of Implementation Opinion of Regulation on Management of Housing Fund) published by Shaanxi Provincial People's Government, the Xi'an Housing Fund Management Centre is empowered to exempt any penalty or punishment on an entity who fails to register payment and deposit for a housing fund or open a housing fund account for its employees;

(f) as the Company is unable to obtain a written confirmation on the aforesaid verbal advice of the Xi'an Housing Fund Management Centre, there remains a chance that the Company would be required to pay penalty for its late registration of payment and deposit for a housing fund or late opening of a housing fund account for its employees and/or be required to make retrospective contribution to housing fund prior to the same being established; and

(g) as the Company already set up its housing fund system on 10 October 2003, subject to paragraph (f) above, it will not be subject to any administrative punishment or other adverse legal or administrative consequences.

As the Company has established its housing fund system in October 2003, it means that the Company will have to pay the housing fund of approximately RMB8,000 per month for all of its eligible employees according to the requirements of Shaanxi Province from October 2003. In the event that the relevant government authority requires the Company to make retrospective contribution to housing fund for the period from May 2000 to September 2003, the Directors estimate that the amount of retrospective contribution may not be more than RMB400,000 based on the number of staff entitled to such benefit and their respective salaries. In addition, in accordance with the relevant rules and regulations, a penalty ranging from RMB10,000 to RMB50,000 may be payable by the Company should such penalty be imposed. The Directors expect that the impact on the Company will be insignificant in the event that the Company being required to make retrospective contribution to the housing fund since the promulgation of the relevant laws on housing fund in Shaanxi Province (i.e. 9 May 2000) and/or the penalty. By a deed of indemnity dated 17 October 2003, Professor Xiao has undertaken to indemnify the Company to the extent of RMB450,000 in respect of the losses and damages which the Company may suffer in connection with the non-compliance with the housing fund regulations.

SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, immediately after completion of the Placing (and assuming the Over-allocation Option is not exercised at all), the following persons will be entitled to exercise, or control the exercise of, 10% or more of the voting power at any general meeting of the Company and are accordingly regarded as Substantial Shareholders under the GEM Listing Rules:

Name of the Substantial Shareholder	Number of Domestic Shares of RMB0.10 each held	Approximate percentage of shareholding (immediately after the completion of the Placing but before the exercise of the Over-allocation Option) (%)
Professor Xiao *(Note 1)*	180,000,000	27.8
Xi'an Jiefang Group *(Note 1)*	100,000,000	15.5
XITIC *(Note 1)*	70,151,471	10.8
Xi'an Finance Bureau *(Note 1)*	70,151,471 *(Note 2)*	10.8
Shaanxi Baosheng International Investment Company Limited *(Note 1)*	70,151,471 *(Note 2)*	10.8

Notes:

1. For details of these shareholders, please refer to the paragraph headed "Corporate structure" in the "Business" section of this prospectus.

2. Each of Xi'an Finance Bureau and Shaanxi Baosheng International Investment Company Limited is deemed to be interested in the 70,151,471 Domestic Shares of RMB0.10 each held by the XITIC as each of Xi'an Finance Bureau and Shaanxi Baosheng International Investment Company Limited is interested in approximately 39.6% and 34.3% respectively of the registered capital of XITIC.

INITIAL MANAGEMENT SHAREHOLDERS

The following persons are entitled as a group of persons together to exercise, or control the exercise of, 5% or more of the voting power at any general meeting of the Company and are able to, as a practicable matter, direct or influence the management of the Company immediately prior to the date of commencement of dealings in the H Shares on GEM and are therefore regarded as Initial Management Shareholders under the GEM Listing Rules:

Name of Initial Management Shareholder	Number of Domestic Shares of RMB0.10 each held immediately after the completion of the Placing but before the exercise of the Over-allocation Option	Approximate Percentage of shareholding immediately after the completion of the Placing but before the exercise of the Over-allocation Option (%) *(Note 1)*
Professor Xiao *(Note 2)*	180,000,000	27.8
Xi'an Jiefang Group *(Note 2)*	100,000,000	15.5
XITIC *(Note 2)*	70,151,471	10.8
Xi'an Finance Bureau *(Note 2)*	70,151,471 *(Note 3)*	10.8
Shaanxi Baosheng International Investment Company Limited *(Note 2)*	70,151,471 *(Note 3)*	10.8

Name of Initial Management Shareholder	Number of Domestic Shares of RMB0.10 each held immediately after the completion of the Placing but before the exercise of the Over-allocation Option	Approximate Percentage of shareholding (immediately after the completion of the Placing but before the exercise of the Over-allocation Option) (%) *(Note 1)*
BJ Holdings *(Note 2)*	54,077,941	8.4
Beijing Holdings Limited *(Note 2)*	54,077,941 *(Note 4)*	8.4
Shaanxi Silk *(Note 2)*	45,064,706	7.0
Shaanxi Finance Bureau	45,064,706 *(Note 5)*	7.0
Xi'an Zhengheng Investment *(Note 2)*	15,000,000	2.3
Lei Hua Feng *(Note 2)*	15,000,000 *(Note 6)*	2.3
Gao Hui Min *(Note 2)*	15,000,000 *(Note 6)*	2.3
Gao Xu *(Note 2)*	15,000,000 *(Note 6)*	2.3
Mr. Wu *(Note 2)*	10,000,000	1.5
Mr. Chen *(Note 2)*	6,000,000	0.9
Shaanxi Mant *(Note 2)*	5,000,000	0.8
Li Zhong Min *(Note 2)*	5,000,000 *(Note 7)*	0.8
Wu Juan *(Note 2)*	5,000,000 *(Note 7)*	0.8

Note 1: If the Over-allocation Option is exercised in full, the Company will be required to issue up to an additional 22,058,824 New H Shares and the Vendors will be required to sell up to an additional 2,205,882 Sale H Shares such that there will be a total of 186,029,412 H Shares in issue. The shareholding interests of the Initial Management Shareholders will be diluted and reduced accordingly.

Note 2: *For* details of these shareholders, please refer to the paragraph headed "Corporate structure" in the section headed "Business" of this prospectus.

Note 3: Each of Xi'an Finance Bureau and Shaanxi Baosheng International Investment Company Limited is deemed to be interested in the 70,151,471 Domestic Shares of RMB0.10 each held by XITIC as each of Xi'an Finance Bureau and Shaanxi Baosheng International Investment Company Limited is interested in approximately 39.6% and 34.3% respectively of the registered capital of XITIC.

Note 4: Beijing Holdings Limited is deemed to be interested in the 54,077,941 Domestic Shares of RMB0.10 each held by BJ Holdings as the entired registered capital of BJ Holdings is invested by Beijing Holdings Limited.

Note 5: Shaanxi Finance Bureau is deemed to be interested in the 45,064,706 Domestic Shares of RMB0.10 each held by Shaanxi Silk as the entire registered capital of Shaanxi Silk is invested/held by Shaanxi Finance Bureau.

Note 6: Each of Lei Hua Feng, Gao Hui Min and Gao Xu is deemed to be interested in the 15,000,000 Domestic Shares of RMB0.10 each held by Xi'an Zhengheng Investment as they are interested in 33.4%, 33.3% and 33.3% respectively of the registered capital of Xi'an Zhengheng Investment.

Note 7: Each of Li Zhong Min and Wu Juan is deemed to be interested in the 5,000,000 Domestic Shares of RMB0.10 each held by Shaanxi Mant as they are interested in 70% and 30% respectively of the registered capital of Shaanxi Mant.

SIGNIFICANT SHAREHOLDERS

So far as the Directors are aware, apart from the Substantial Shareholders and the Initial Management Shareholders referred to above, there are no significant Shareholders, being persons who are not management Shareholders but are entitled to exercise or control the exercise of 5% or more of the voting power at any general meetings of the Company prior to the date of this prospectus.

UNDERTAKINGS

Non-disposal undertakings

1. Professor Xiao, being an Initial Management Shareholder who will be interested in more than 1% of the issued share capital of the Company as at the Listing Date, has undertaken to the Company and the Stock Exchange that he will not dispose of (nor enter into any agreement to dispose of) nor permit the registered holder to dispose of (or to enter into any agreement to dispose of) any of his equity interest in his Relevant Securities for a period of 12 months from the Listing Date.

2. Xi'an Jiefang Group, being an Initial Management Shareholder which will be interested in more than 1% of the issued share capital of the Company as at the Listing Date. 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 interest in the Company for a period of 12 months from the Listing Date.

3. (i) XITIC, being an Initial Management Shareholder which will be interested in more than 1% of the issued share capital of the Company as at the Listing Date, has undertaken to the Company and the Stock Exchange that it will not dispose of (nor enter into any agreement to dispose of) nor permit the registered holder to dispose of (or to enter into any agreement to dispose of) any of its equity interest in its Relevant Securities for a period of 12 months from the Listing Date.

   (ii) Each of Shaanxi Baosheng International Investment Company Limited, Shaanxi Blower (Group) Limited Company, Xi'an Finance Bureau, Xi'an Mingwei (Group) Economic Technology Development Company Limited, Shaanxi Baichuan Xingye Investment Company Limited, Xi'an Qinli Property (Group) Company Limited, Xi'an National Hi-tech Industrial Development Zone Scientific & Technology Investment Service Centre, Xi'an Television Broadcast and Xi'an Lanxi Technology Enterprise (Group) Company Limited, which are shareholders of XITIC, has undertaken to the Company and the Stock Exchange that it will not dispose of (nor enter into any agreement to dispose of) nor permit the registered holder to dispose of (or to enter into any agreement to dispose of) any of their respective equity interest in XITIC for a period of 12 months from the Listing Date.

(iii) (a) Each of the shareholders of Shaanxi Baosheng International Investment Company Limited, being 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 (nor enter into any agreement to dispose of) nor permit the registered holder to dispose of (or to enter into any agreement to dispose of) any of its/his/her equity interest in Shaanxi Baosheng International Investment Company Limited for a period of 12 months from the Listing Date.

(b) Each of the shareholders of Shaanxi Zhongxing Enterprise Holdings Company Limited, being 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 it/he/she will not dispose of (nor enter into any agreement to dispose of) nor permit the registered holder to dispose of (or to enter into any agreement to dispose of) any of its/his/her equity interest in Shaanxi Zhongxing Enterprise Holdings Company Limited for a period of 12 months from the Listing Date.

(c) Each of the shareholders of Shaanxi Longchang Industrial Development Company Limited, being 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 (nor enter into any agreement to dispose of) nor permit the registered holder to dispose of (or to enter into any agreement to dispose of) any of his/her equity interest in Shaanxi Longchang Industrial Development Company Limited for a period of 12 months from the Listing Date.

(d) Each of the shareholders of Shaanxi Baiye Foundation Engineering Company Limited, being 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 (nor enter into any agreement to dispose of) nor permit the registered holder to dispose of (or to enter into any agreement to dispose of) any of his equity interest in Shaanxi Baiye Foundation Engineering Company Limited for a period of 12 months from the Listing Date.

(iv) Each of the shareholders of Xi'an Mingwei (Group) Economic Technology Development Company Limited, being 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 (nor enter into any agreement to dispose of) nor permit the registered holder to dispose of (or to enter into any agreement to dispose of) any of his/her equity interest in Xi'an Mingwei (Group) Economic Technology Development Company Limited for a period of 12 months from the Listing Date.

(v) All the shareholders of Shaanxi Baichuan Xingye Investment Company Limited, being Shaanxi Zhongxing Enterprise Holdings Company Limited, Li Yuan, Wei Ying E, Liu Xiao Bin and Pan An Sheng, has undertaken to the Company and the Stock Exchange that it/he/she will not dispose of (nor enter into any agreement to dispose of) nor permit the registered holder to dispose of (or to enter into any agreement to dispose of) any of its/his/her equity interest in Shaanxi Baichuan Xingye Investment Company Limited for a period of 12 months from the Listing Date.

(vi) All the shareholders of Xi'an Qinli Property (Group) Company Limited, being Sun Zhi Gang, Zhao Yong, Luo Wen and Zhe De Gang has undertaken to the Company and the Stock Exchange that they will not dispose of (nor enter into any agreement to dispose of) nor permit the registered holder to dispose of (or to enter into any agreement to dispose of) any of their equity interests in Xi'an Qinli Property (Group) Company Limited for a period of 12 months from the Listing Date.

(vii) The shareholder of Xi'an National Hi-tech Industrial Development Zone Science and Technology Investment Service Centre, being 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), has undertaken to the Company and the Stock Exchange that it will not dispose of (nor enter into any agreement to dispose of) nor permit the registered holder to dispose of (or to enter into any agreement to dispose of) any of its equity interest 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.

(viii) All the shareholders of Xi'an Lanxi Technology Enterprise (Group) Company Limited, being 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 they will not dispose of (nor enter into any agreement to dispose of) nor permit the registered holder to dispose of (or to enter into any agreement to dispose of) any of their equity interests in Xi'an Lanxi Technology Enterprise (Group) Company Limited for a period of 12 months from the Listing Date.

4. BJ Holdings, being an Initial Management Shareholder which will be interested in more than 1% of the issued share capital of the Company as at the Listing Date, has undertaken to the Company and the Stock Exchange that it will not dispose of (nor enter into any agreement to dispose of) nor permit the registered holder to dispose of (or to enter into any agreement to dispose of) any of its equity interest in its Relevant Securities for a period of 12 months from the Listing Date.

5. Shaanxi Silk, being an Initial Management Shareholder which will be interested in more than 1% of the issued share capital of the Company as at the Listing Date, has undertaken to the Company and the Stock Exchange that it will not dispose of (nor enter into any agreement to dispose of) nor permit the registered holder to dispose of (or to enter into any agreement to dispose of) any of its equity in its Relevant Securities for a period of 12 months from the Listing Date.

6. (a) Xi'an Zhengheng Investment, being an Initial Management Shareholder which will be interested in more than 1% of the issued share capital of the Company as at the Listing Date, has undertaken to the Company and the Stock Exchange that it will not dispose of (nor enter into any agreement to dispose of) nor permit the registered holder to dispose of (or to enter into any agreement to dispose of) any of its equity interest in its Relevant Securities for a period of 12 months from the Listing Date.

(b) Each of the shareholders of Xi'an Zhengheng Investment, being 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 (nor enter into any agreement to dispose of) nor permit the registered holder to dispose of (or to enter into any agreement to dispose of) any of his/her equity interest in Xi'an Zhengheng Investment for a period of 12 months from the Listing Date.

7. Mr. Wu, being an Initial Management Shareholder who will be interested in more than 1% of the issued share capital of the Company as at the Listing Date, has undertaken to the Company and the Stock Exchange that he will not dispose of (nor enter into any agreement to dispose of) nor permit the registered holder to dispose of (or to enter into any agreement to dispose of) any of his equity interest in his Relevant Securities for a period of 12 months from the Listing Date.

8. Mr. Chen, being an Initial Management Shareholder who will be interested in no more than 1% of the issued share capital of the Company as at the Listing Date, has undertaken to the Company and the Stock Exchange that he will not dispose of (nor enter into any agreement to dispose of) nor permit the registered holder to dispose of (or to enter into any agreement to dispose of) any of his equity interest in his Relevant Securities for a period of six months from the Listing Date.

9. (a) Shaanxi Mant, being an Initial Management Shareholder which will be interested in no more than 1% of the issued share capital of the Company as at the Listing Date, has undertaken to the Company and the Stock Exchange that it will not dispose of (nor enter into any agreement to dispose of) nor permit the registered holder to dispose of (or to enter into any agreement to dispose of) any of its equity interest in its Relevant Securities for a period of six months from the Listing Date.

   (b) Each of the shareholders of Shaanxi Mant, being Li Zhong Min and Wu Juan, has undertaken to the Company and the Stock Exchange that he/she will not dispose of (nor enter into any agreement to dispose of) nor permit the registered holder to dispose of (or to enter into any agreement to dispose of) any of his/her equity interest in Shaanxi Mant for a period of six months from the Listing Date.

Each of the Directors (including the non-executive Directors and independent non-executive Directors) has undertaken (i) not to approve, and to procure the Company not to approve, the registration of any transfer of the Domestic Shares owned by the Initial Management Shareholders within a period of 12 months or six months, as the case may be, after the Listing Date; and (ii) to submit a copy of the undertakings in favour of the Stock Exchange and the Company in relation to the restriction on disposal of the Domestic Shares given by the Initial Management Shareholders to 西安工商行政管理局 (the Administration of Industry and Commerce of Xi'an) for filing purpose and request the Administration of Industry and Commerce of Xi'an, after the Listing, (i) to insert a note in the register of the Company's information maintained by the Administration of Industry and Commerce of Xi'an which shall state that all the Domestic Shares held by the Initial Management Shareholders cannot be transferred; and (ii) not to register any transfer of the Domestic Shares held by the Initial Management Shareholders, within their respective moratorium periods under the GEM Listing Rules as stated in this prospectus. According to Jingtian & Gongcheng, the Administration of Industry and Commerce of Xi'an is the relevant authority for the Company to file and register its corporate information.

As at the Latest Practicable Date, the Company's registered capital was RMB50 million divided in 500 million Domestic Shares of RMB0.10 each.

The registered capital of the Company immediately after the completion of the Placing and assuming that the Over-allocation Option is not exercised will be as follows:

Registered capital

Issued:		*RMB*
485,294,118	Domestic Shares of RMB0.10 each in issue *(Note 1)*	48,529,411.80
To be issued:		
161,764,706	H Shares to be issued pursuant to the Placing (including the H Shares converted from Domestic Shares) *(Notes 2 & 3)*	16,176,470.60
Total:		
647,058,824	Shares	64,705,882.40

The registered capital of the Company immediately after the completion of the Placing and assuming the Over-allocation Option is exercised in full will be as follows:

Registered capital

Issued:		*RMB*
483,088,236	Domestic Shares of RMB0.10 each in issue *(Note 1)*	48,308,823.60
To be issued:		
186,029,412	H Shares to be issued pursuant to the Placing (including H Shares converted from Domestic Shares) *(Notes 2 & 3)*	18,602,941.20
Total:		
669,117,648	Shares	66,911,764.80

Notes:

1. Pursuant to an approval issued by the CSRC dated 22 April 2003, the Capital Reorganisation was approved and each Domestic Share of the Company with nominal value of RMB1.00 each was sub-divided into 10 Domestic Shares of nominal value of RMB0.10 each.

2. State-owned Shares held by the State Shareholders were taken into account. Pursuant to a submission report to the MOF and an undertaking, both approved by the MOF on 15 October 2002, the MOF has approved the sale of the State-owned Shares. If the Over-allocation Option is not exercised at all, the total number of H Shares to be issued and sold (as the case may be) will be 161,764,706 H Shares, comprising 147,058,824 New H Shares and 14,705,882 Sale H Shares converted from 14,705,882 Domestic Shares. The 14,705,882 Sale H Shares comprise 3,848,529 Sale H Shares, 5,922,059 Sale H Shares and 4,935,294 Sale H Shares which will be offered for sale by XITIC, BJ Holdings and Shaanxi Silk respectively at the Placing Price under the Placing. If the Over-allocation Option is exercised in full, the total number of H Shares to be issued and sold (as the case may be) will be increased to 186,029,412 H Shares,

comprising 169,117,648 New H Shares and 16,911,764 Sale H Shares converted from 16,911,764 Domestic Shares. The 16,911,764 Sale H Shares comprise 4,425,808 Sale H Shares 6,810,368 Sale H Shares and 5,675,588 Sale H Shares offered by XITIC, BJ Holdings and Shaanxi Silk respectively at the Placing Price for sale under the Placing.

3. Pursuant to a submission report to the MOF and an undertaking both dated 18 September 2002 and approved by the MOF on 15 October 2002, the Company is authorised to offer the State-owned Shares for sale under the Placing.

1. MINIMUM PUBLIC FLOAT

Under the GEM Listing Rules, the minimum level of public float to be maintained by the Company at all times after listing is 25% of the share capital in issue from time to time, so long as no other securities (other than H Shares) have been issued by the Company to the public in the meantime. In the event of any such issue of securities (other than H Shares) to the public, then: (i) 100% of such H Shares must be held by the public; (ii) the percentage of H Shares in public hands shall not be less than 10% of the Company's total issued share capital; and (iii) minimum level of public float of the aggregate of H Shares in issue and such other securities held by the public shall not be less than 25% of the Company's then total issued share capital. At the time of listing of the Company's H shares and assuming that the Over-allocation Option is not exercised, the public float of the Company will be approximately 25%.

2. RANKING

Domestic Shares and H Shares are both ordinary shares in the registered capital of the Company. However, H Shares may only be subscribed for and traded in Hong Kong dollars among legal or natural persons of Hong Kong, Macau, Taiwan or any country other than the PRC. Domestic Shares, on the other hand, may only be subscribed for and traded among legal or natural persons of the PRC (other than Hong Kong, Macau and Taiwan) and must be subscribed for and traded in Renminbi. All dividends in respect of H Shares are to be paid by the Company in Hong Kong dollars whereas all dividends in respect of Domestic Shares are to be paid by the Company in Renminbi.

According to the laws of the PRC, all Domestic Shares held by the Promoters may not be sold within a period of three years from the date of transformation to the Company and ended on 10 October 2003. As at the date of this prospectus, none of the Promoters has sold any Domestic Shares held by him/it. The Domestic Shares are not admitted for listing on any stock exchange and no arrangement has been made for the Domestic Shares to be traded or dealt with on any other authorised trading facility in the PRC.

Except as described above and in relation to the despatch of notices and financial reports to Shareholders, dispute resolution, registration of Shares on different parts of the register of Shareholders, the method of share transfer and the appointment of dividend receiving agents, that are all provided for in the Articles of Association and summarised in appendix V to this prospectus, the Domestic Shares and the H Shares will rank pari passu with each other in all respects and, in particular, will rank equally for all dividends or distributions declared, made or paid after the date of allotment of the H Shares. However, the transfer of Domestic Shares is subject to such restrictions as the relevant PRC laws may impose from time to time.

Save for the Placing, the Company does not propose to carry out a public or private issue or to place securities simultaneously with the Placing in the foreseeable future. The Company has not approved any share or debt issue plan other than the Placing.

INDEBTEDNESS

Borrowings

At the close of business on 31 August 2003, being the latest practicable date for the purpose of this indebtedness statement, the Company had outstanding secured bank borrowings amounted to approximately RMB78.0 million and unsecured bank borrowings amounted to approximately RMB0.8 million. All the secured borrowings are denominated in RMB with interest rates ranging from 5.04% to 5.49% per annum where the unsecured borrowings are denominated in US dollar with interest rate of 3.9% per annum. The following table sets out the maturity profile of the bank borrowings:

	Unsecured bank borrowings *RMB million*
repayable in 2003	0.8

	Secured bank borrowings *RMB million*
repayable in February 2004	18.0
repayable in March 2004 and will be renewed to March 2008	30.0
repayable in May 2004 and will be renewed to May 2007	30.0
	78.0

There was no default of loan repayment up to 31 August 2003. For details of the security for the banking facilities of the Company, please refer to the paragraph headed "Guarantee and security" in this section of the prospectus.

As at 31 August 2003, the Company had outstanding dividends payable of approximately RMB13.3 million. The dividends have been paid in full in September 2003.

On 30 September 2003, the Company has entered into a factoring agreement and has borrowed RMB12 million from Shanghai Pudong Development Bank with a pledge of RMB16 million of trade receivables due from UTStarcom.

Pursuant to the loan agreement entered into between the Agricultural Bank of China and the Company dated 28 March 2002, the Agricultural Bank of China agreed to grant a loan of RMB30 million to the Company as a medium term working capital for the purchase of raw materials at an interest rate of 5.49% per annum. The term of this loan is for a period of 2 years from 29 March 2002 to 28 March 2004. By a mortgage agreement dated 28 March 2002 entered into between the Agricultural Bank of China and the Company, the land use right of the Company in respect of No. 36 Gao Xin Liu Road, Xi'an National Hi-tech Industrial Development Zone and the buildings thereon ("the Properties") were pledged as security for this loan. The Company has obtained an irrevocable written undertaking from the Agricultural Bank of China dated 3 June 2003. Pursuant to such undertaking, the Agricultural Bank of China has irrevocably undertaken to the Company to rollover or renew this loan on the same terms of borrowing when it becomes due. Accordingly, such loan will be renewed in March 2004 for a term of 2 years until March 2006, with a further renewal in March 2006 to March 2008. Such loan is expected to be repaid in full in March 2008. According to a supplemental undertaking dated 4 October 2003, the Agricultural Bank of China shall rollover or renew such loan irrespective of any change in interest rate or the value of the Properties.

Pursuant to the loan agreement entered into between the China Everbright Bank and the Company dated 30 May 2003, the China Everbright Bank agreed to grant a loan of RMB30 million to the Company as working capital at an interest rate of 5.31% per annum. The term of this loan is for a period of one year from 30 May 2003 to 30 May 2004. By a mortgage agreement dated 28 April 2003 entered into between the China Everbright Bank and the Company, the Properties were, with the consent of the Agricultural Bank of China, pledged as security for this loan. The Company has obtained an irrevocable written undertaking from the China Everbright Bank dated 9 June 2003, pursuant to which the China Everbright Bank has irrevocably undertaken to the Company to rollover or renew this loan for three years until May 2007 on the same terms of borrowing when it becomes due, subject to an annual renewal by the China Everbright Bank. This loan is planned to be repaid in full in May 2007. According to a supplemental undertaking dated 4 October 2003, the China Everbright Bank shall rollover or renew such loan irrespective of any change in interest rate or the value of the pledged Properties.

As advised by the Company's PRC legal advisers, Jingtian & Gongcheng, the irrevocable written undertakings issued by the Agricultural Bank of China dated 3 June 2003 and the China Everbright Bank dated 9 June 2003 have been affixed with the seal of the respective banks and reflected the true intention of the two banks. The undertakings are legally binding on the two banks and are legal and valid. Pursuant to Article 22 of the Commercial Bank Laws of the PRC and "Reply to the Questions Regarding the Civil Liabilities of the Branches of the Commercial Banks" issued by the PBOC, the branches of commercial banks do not have legal person status. They develop and conduct businesses within the scope authorized by the head office and their civil liabilities shall be borne by the head office. The liabilities borne by the branches of the commercial banks shall not be limited to the assets managed by them with the authority of the head office. If the assets managed by a branch are not sufficient to cover the civil liability, the excessive part of the civil liability shall be borne by its superior bank and all the way to the head office.

As advised by the Directors, according to the valuation given by Xi'an Zhengheng Asset Appraisal Co., Ltd. (a qualified firm of valuers in the PRC), the aggregate value of the Properties was higher than the aggregate amount of loan granted by the Agricultural Bank of China and the China Everbright Bank to the Company. As advised by Vigers Hong Kong Ltd., the PRC valuation was conducted on the basis of the proposed development plan for the industrial complex whilst the valuation performed by Vigers Hong Kong Ltd., was formulated on the basis of the existing state of the Properties as at the date of valuation, this gave rise to such a difference in the valuation made by Xi'an Zhengheng Asset Appraisal Company Limited and Vigers Hong Kong Ltd.

According to "An explanation regarding the security for a medium term working capital loan of RMB30 million granted to the Company" issued by Agricultural Bank of China on 30 July 2003 (關於西安海天天綫股份有限公司在我行3000萬元中期流動資金貸款抵押物的說明), the Agricultural Bank of China explained that the RMB30 million loan granted to the Company is secured by the Properties. The Properties were valued by Xi'an Zhengheng Asset Appraisal Co., Ltd., a qualified firm of valuers in the PRC at an amount higher than the aggregate amount of loan granted by the Agricultural Bank of China and the China Everbright Bank to the Company. At the time when the loan was granted, the Agricultural Bank of China has strictly complied with its loan procedure of reviewing and approving the loan, and has registered the pledge with the registration authority as required by the Guarantee Law of the PRC. If risks are encountered in recovering this loan, the Agricultural Bank of China will exercise its right as a creditor against the Company by, among other measures, sale of the Properties. If the sales proceeds of the Properties are insufficient to repay the debt owed to the Agricultural Bank of China, the Company is under an obligation to repay any outstanding amount by other assets.

The Agricultural Bank of China acknowledges and consents to the Company creating another pledge on the Properties as security for a consolidated credit of RMB40 million (representing RMB30 million bank loan and RMB10 million bills of exchange) granted by the China Everbright Bank.

The Agricultural Bank of China has confirmed in writing that it was aware that the value of the Properties as given by Vigers Hong Kong Ltd. is approximately RMB38 million. However, that valuation has no effect on the following decisions made by the Agricultural Bank of China: (a) the granting of the loan of RMB30 million to the Company as set out above and the irrevocable written undertaking dated 3 June 2003 issued by the Agricultural Bank of China in relation to the renewal of the loan; (b) the Agricultural Bank of China will not demand early repayment of the RMB30 million loan by the Company despite of the result of the said valuation of Vigers Hong Kong Ltd.; (c) it is the relevant branch to approve the loan to the Company and such branch is not required to seek its central office's approval for this loan; and (d) it has strictly complied with its loan procedure of reviewing and approving the loan to the Company.

According to "An explanation regarding the security for a consolidated credit of RMB40 million granted to Xi'an Haitian Antenna Technologies Co., Ltd." issued by the China Everbright Bank on 30 July 2003 (關於西安海天天綫股份有限公司在我行4000萬元綜合授信抵押物的説明), the China Everbright Bank explained that the consolidated credit of RMB40 million (representing RMB30 million bank loan and RMB10 million bills of exchange) granted to the Company is secured by the Properties. At the time when the consolidated credit was granted, the China Everbright Bank has strictly complied with its loan procedure of reviewing and approving the loan, and has registered the pledge with the registration authority as required by the Guarantee Law of the PRC. If risks are encountered in recovering the amount due under this consolidated credit, the China Everbright Bank will exercise its right as a creditor against the Company. If the sales proceeds of the Properties are insufficient to repay the debt owed to the China Everbright Bank, the Company is under an obligation to repay any outstanding amount by other assets.

The China Everbright Bank acknowledges and consents to the Company creating another pledge on the Properties as security for a loan of RMB30 million granted by the Agricultural Bank of China.

The China Everbright Bank has confirmed in writing that it was aware that the value of the Properties valued by Vigers Hong Kong Ltd. is approximately RMB38 million. However, that valuation has no effect on the following decisions made by the China Everbright Bank: (a) the granting of the consolidated credit RMB40 million (representing RMB30 million bank loan and RMB10 million bills of exchange) to the Company as set out above; and the irrevocable written undertaking issued by the China Everbright Bank dated 9 June 2003 in relation to the renewal of the loan; (b) the China Everbright Bank will not demand early repayment of the RMB40 million (representing RMB30 million bank loan and RMB10 million bills of exchange) consolidated credit by the Company despite of the result of the said valuation of Vigers Hong Kong Ltd.; (c) it is the relevant branch to approve the loan to the Company and such branch is not required to seek its central office's approval for this loan; and (d) it has strictly complied with its loan procedure of reviewing and approving the loan to the Company.

As advised by Jingtian & Gongcheng:

(a) the aforesaid undertakings are legally binding and enforceable.

(b) the form and substance of the aforesaid loan agreements and mortgage agreements comply with the relevant PRC laws and regulations and are legally binding and enforceable;

(c) the Properties were valued in January 2002, by Xi'an Zhengheng Asset Appraisal Co., Ltd. (西安正衡資產評估有限責任公司);

(d) Xi'an Zhengheng Asset Appraisal Co., Ltd. is a qualified firm of valuers in the PRC with the authority to issue the said valuation report;

(e) it is a commercial decision of the banks to adopt the said valuation report to conclude whether the value of the Properties exceeds the secured indebtedness and such decision is not in breach of any relevant PRC laws and regulations;

(f) it is provided under Section 35 of the Guarantee Law of the PRC《中華人民共和國擔保法》, that "where a property is mortgaged and the value of the same exceeds the amount of indebtedness secured, the property can be further mortgaged to secure an amount not exceeding the excess." According to the said section, the Company was entitled to mortgage the Properties to two banks respectively;

(g) Vigers Hong Kong Ltd. gave their opinion of the market value of the Properties. By two written confirmations both dated 30 July 2003, the banks respectively confirmed that they are aware of the valuation opinion of Vigers Hong Kong Ltd. They maintain the view that it is appropriate for them to advance the loans to the Company and will not demand for early repayment of the loans by reason only of the valuation opinion of Vigers Hong Kong Ltd.;

(h) the loans have been registered in the loan register of the PBOC, the relevant authority for loan registration, and the mortgage agreements have been registered with and the original land use right certificate in respect of No. 36 Gao Xin Liu Road, Xi'an National Hi-tech Industrial Development Zone has been kept in the Land and Property Management Bureau of Xi'an National Hi-tech Industrial Development Zone (西安高新技術產業開發區國土資源和房屋管理局). As confirmed by the Directors, loan register (貸款卡) is the sole centralized registry in the PRC which records loan position of a company and Certificate of Other Claims on Land (土地他項權力證明書) is the document issued by the Land and Property Management Bureau of Xi'an National Hi-tech Industrial Development Zone, which is the relevant authority governing the use of land in the PRC; and

(i) the Agricultural Bank of China shall have priority over the claims of the China Everbright Bank in relation to the Properties as the same were first pledged to the Agricultural Bank of China.

Contingent liability

As at 31 August 2003, the Company had bills of exchange which amounted to approximately RMB32.5 million discounted to the bank with recourse.

Guarantee and security

As at 31 August 2003, the Company's banking facilities were secured by the following:

(1) the Company's trade receivables of approximately RMB23.7 million;

(2) the Company's land use right and buildings with a net book value of approximately RMB12.2 million and RMB24.5 million respectively; and

(3) pledged bank deposits of approximately RMB5.8 million.

Disclaimer

Save as aforesaid, at the close of business on 31 August 2003, the Company had no mortgages, charges, debentures or other loan capital, bank overdrafts, loans or other similar indebtedness, liabilities under acceptance (other than normal trade bills), acceptance credits, guarantees, or finance leases and hire purchase commitments or other material contingent liabilities. Save as aforesaid, there were no material changes in indebtedness and contingent liabilities subsequent to 31 August 2003.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Net current assets

As at 31 August 2003, the Company had net current assets of approximately RMB62.4 million. The current assets mainly comprised inventories of approximately RMB32.9 million, trade receivables of approximately RMB123.1 million, bills receivable of approximately RMB0.3

million, other receivables and prepayments of approximately RMB14.6 million, pledged bank deposits of approximately RMB5.5 million and bank balances and cash of approximately RMB17.6 million. The current liabilities comprised of trade payables of approximately RMB41.4 million, bills payable of approximately RMB5.4 million, other payables and accrued charges of approximately RMB11.5 million, taxation payable of approximately RMB11.2 million, dividends payable of approximately RMB13.3 million and bank borrowings due within one year of approximately RMB48.8 million. According to the Directors, the reasons for the decrease in the balances of "pledged bank deposit" and "bank balances and cash" as at 31 August 2003 as compared with those as at 31 May 2003 are as follows:

– The decrease of approximately RMB20.7 million in the balance of the pledged bank deposits was a result of the release of the RMB15 million pledged deposit after the repayment of a RMB15 million bank loan and the settlement of approximately RMB5.7 million for bills of exchange and letters of credit.

– The decrease of approximately RMB21.2 million in bank balances and cash was due to (i) payment of approximately RMB5.2 million for the expansion of testing centre under construction; (ii) repayment of bank loan (net of new loan advanced) of approximately RMB3.3 million and (iii) the use of approximately RMB12.7 million for the Company's daily operations including payment of income tax of RMB1 million.

Borrowings and loan facilities

The Company generally relies on its internal cash flow and banking facilities available to the Company to meet the requirements of its operations. Save for the bank borrowings of approximately RMB78.8 million as disclosed in the paragraph headed "Indebtedness" in this section of the prospectus, as at the 31 August 2003, the Company had unutilised bills of exchange of approximately RMB4.6 million. As at 31 August 2003, the unutilised facility of factoring trade receivables granted by the China Everbright Bank amounted to RMB12 million.

The following table sets out the details of bank borrowings and banking facilities of the Company as at 31 August 2003:

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

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

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

Pursuant to a document on overall facility granted to the Company issued by Shanghai Pudong Development Bank (上海浦東銀行關於對西安海天天綫科技股份有限公司綜合授信的説明) dated 11 August 2003 which provided that 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. The facilities of factoring trade receivables which is revolving in nature, provided that the Company pledges the trade receivables as specified by Shanghai Pudong Development Bank. After each repayment, the Company's credit limit will be restored automatically. Accordingly, the Company will have the flexibility in repaying and utilising such revolving facilities. Under the said document, the Company has entered into two factoring agreements dated 19 August 2003 and 30 September 2003 respectively with Shanghai Pudong Development Bank by which the Company has advanced RMB18 million and RMB12 million respectively.

Pledge of assets

The Company has pledged the following assets for the banking facilities granted to the Company and the carrying value of the assets are as follows:

	As at 31 August 2003 *RMB*
Bank deposits *(Note 1)*	5,810,774
Buildings	24,472,002
Land use right	12,219,722
Trade receivables *(Note 2)*	23,660,000
	66,162,498

Notes: 1. Among the deposit pledged, approximately RMB3 million was pledged for bills of exchange issued, approximately RMB2 million was pledged for letter of credit issued and approximately RMB0.8 million was pledged for letter of quality guarantee issued.

2. The trade receivables are pledged to banks according to factoring agreements.

Debt to equity ratio

The Company's investment in fixed assets for product research and development and testing will continue until the year 2005 as set out in the section headed "Statement of Business Objectives and Strategies" in this prospectus. For such reason, even if the Company will continue to generate cash inflow from its operations, the debt to equity ratio (which is defined as the total bank and other borrowings of the Company divided by the net assets of the Company and was 71.5% as at 31 August 2003) may not be lowered significantly before the end of the year 2005. After the year 2005, as the Company's investment in fixed assets is expected to be lower and assuming that no new business plan will be carried out, debt to equity ratio is expected to be lowered by the increasing cash inflow generated from operation.

According to the Directors, the Company is taking the steps as disclosed in the sub-paragraph headed "Basis of making allowance" and sub-paragraph headed "Inventory" under the section headed "Business" to improve its management of trade receivables and inventory. The improvement in management of these two areas is expected to improve the Company's cash position. According to the Directors, the RMB10 million cash in excess of the amount needed for daily operation will provide sufficient cash reserve for the Company. If the Company accumulates cash that is more than such sufficient cash benchmark, the Company plans to use the additional cash to gradually reduce the level of bank borrowings.

Capital commitments

As at 31 August 2003, the Company had commitments of approximately RMB12 million for capital expenditure contracted for but not provided in the financial statements in respect of the acquisition of property, plant and equipment. Of such amount, nil was paid after 31 August 2003.

Among the approximately RMB12 million commitments, approximately RMB11 million are for further empowering of the Company's research and development capabilities and approximately RMB1 million for testing equipment used in product research and development.

According to the terms of the contracts, amounts contracted for are to be settled by letter of credit and telegraphic transfer and for such total amounts, the latest payment is a sum of approximately RMB6 million which will be settled by the end of year 2003. The balance of approximately RMB6 million will be settled in January 2004. The Company has pledged bank deposit of approximately RMB2 million in August 2003 as security for letter of credit issued for settlement of RMB12 million contracted for.

Financial resources

At the close of business on 31 August 2003, the Company had cash and bank deposits of approximately RMB17.6 million. The Company intends to finance the Company's future operations, capital expenditure and other capital requirements with internally-generated cashflow, the existing banking facilities available to the Company, bank balances available and the net proceeds from the Placing.

Foreign exchange

Renminbi currently is not a freely convertible currency. Currently, the Company receives all of its revenue from sales in the PRC in Renminbi while the export revenue is denominated in US dollars. A portion of the Company's Renminbi revenues must be converted into other currencies to meet the Company's foreign currency obligations including the purchasing of imported equipment and payment of any dividend declared in respect of the H shares. Currently, the Company purchases all of its raw materials for production from the PRC suppliers. The Directors believe that except for payment of imported equipment and payment of any dividend declared in respect of the H Shares, the Company does not have any material foreign exchange exposure.

Under the current foreign exchange system in the PRC, the Company is not able to hedge effectively against currency risk, including future depreciation of Renminbi. Any appreciation or depreciation in value of Renminbi versus the US dollars and Hong Kong dollars could affect the ability of the Company to export its products or to import equipment and materials and to pay dividends in foreign currencies. Please refer to the section headed "Risk Factors – Risks relating to the PRC – Currency conversion and foreign exchange" for details of the Company's foreign exchange risk exposures.

TRADING RECORD

The following table is a summary of the Company's audited results for the two years ended 31 December 2002 and the five months ended 31 May 2003. The summary should be read in conjunction with the accountants' report set out in appendix I to this prospectus.

	For the year ended 31 December 2001 RMB	For the year ended 31 December 2002 RMB	For the five months ended 31 May 2003 RMB
Turnover *(Note 1)*	74,905,651	164,525,831	79,258,672
Cost of sales	(31,174,702)	(73,091,608)	(40,010,304)
Gross profit	43,730,949	91,434,223	39,248,368
Other operating income	159,362	2,120,260	462,948
Distribution costs	(9,659,559)	(17,974,095)	(11,330,755)
Administrative expenses	(6,976,440)	(11,897,950)	(7,583,129)
Other operating expenses	(6,967,389)	(15,095,329)	(7,232,455)
Profit from operations	20,286,923	48,587,109	13,564,977
Finance costs	(671,329)	(4,025,294)	(2,403,029)
Profit before taxation	19,615,594	44,561,815	11,161,948
Taxation *(Note 2)*	–	(8,168,467)	(2,661,209)
Net profit for the year/period	19,615,594	36,393,348	8,500,739
Dividends	–	15,000,000	–
Earnings per share, basic *(Note 3)*	RMB0.039	RMB0.073	RMB0.017

Notes:

1. Turnover represents the amounts received and receivable for goods sold exclusive of value added taxes, less returns and allowances to third parties during the year/period.

2. The amount represents provision for PRC corporate income tax on the Company's estimated assessable profit for the year/period.

   The charge for the year/period can be reconciled to the profit as shown in the income statements as follows:

	Year ended 31 December 2001 RMB	%	Year ended 31 December 2002 RMB	%	Five months ended 31 May 2003 RMB	%
Profit before taxation	19,615,594		44,561,815		11,161,948	
Tax at the domestic income tax rate of 15%	2,942,339	15	6,684,272	15	1,674,292	15
Tax effect of expenses that are not deductible in determining taxable profit	–	–	2,986,833	6.7	1,959,253	17.5
Tax effect on additional tax allowance in respect of domestic acquired machineries	–	–	(832,719)	(1.9)	(566,039)	(5.1)
Tax effect on additional tax allowance in respect of the research and development costs	–	–	(669,919)	(1.5)	(398,047)	(3.5)
Tax effect on additional tax allowance in respect of the government subsidy for export sales	–	–	–	–	(8,250)	(0.1)
Tax effect of tax holiday	(2,942,339)	(15)	–	–	–	–
Tax expense and effective tax rate	–	–	8,168,467	18.3	2,661,209	23.8

The Company is regarded by the Xi'an Municipal Bureau of Science and Technology as a high technology enterprise located at the Xi'an National Hi-tech Industrial Development Zone. Pursuant to relevant laws and regulations in the PRC, the Company is exempted from income tax for the two years starting from their first production year followed by an income tax rate of 15% in the remaining years of operation. Therefore, the Company was exempted from income tax for the first two years since its production commenced in 2000 and is subject to an income tax rate of 15% thereafter.

The increase in effective tax rate for the five months ended 31 May 2003 is mainly attributable to the increase in salaries and bonus payment. As such payment exceeded the maximum amount allowable for deduction, the non-deductible salary expenses increased. As a result, a higher effective tax rate was recorded.

3. The calculation of the basic earnings per Share for the relevant year/period is based on the profit for the year/period and on the basis of 500,000,000 Shares in issue as at the date of this prospectus and assuming that the sub-division of Shares had taken place at the beginning of the Track Record Period.

MANAGEMENT DISCUSSION AND ANALYSIS

Prior to 2000, the turnover of the Company was mainly derived from sales of WLL/PHS base station antenna series due to the fact that the PRC's market for equipment of GSM/CDMA antenna series was predominated by foreign manufacturers. However, following the issue and implementation of Technical Specifications of Base Station as the industry standard for domestic production of base station antennas in May 2000, the Company adopted a strategy to develop its GSM/CDMA antennas. Since then, the Company's sales of GSM/CDMA antenna series have grown significantly. In addition, growth in sales of the indoor distribution system has been increasing due to the strong demand from mobile communication network operators in improving signal coverage in indoor and outdoor out-of-reach ("blind") areas to attract more mobile communication service subscribers and/or to maintain the existing subscriber base. During the second half of the year ended 31 December 2002, the construction work of PHS network started in provinces/ municipalities/regions such as Guangdong, Hebei and Beijing. As a result, orders for WLL/PHS base station antenna series increased substantially. Such increasing trend continued in the five months ended 31 May 2003. At the same time, the sales of GSM/CDMA increased from approximately RMB12.45 million for the five months ended 31 May 2002 to approximately RMB21.27 million for the five months ended 31 May 2003. However, during the five months ended 31 May 2003, the sale of WLL/PHS base station antennas as a percentage of totals was greater than those of GSM/CDMA base station antennas as a percentage of total sales. Sales of WLL/PHS base station antennas as a percentage of total turnover increased from approximately 28.8% for the year ended 31 December 2002 to approximately 65.2% for the five months ended 31 May 2003. On the other hand, although sales of GSM/CDMA base station antenna has increased, such sales as a percentage of total turnover decreased from approximately 56.9% for the year ended 31 December 2002 to approximately 26.8% for the five months ended 31 May 2003. The following is a table showing the turnover breakdown by the Company's product lines:

	Year ended 31 December				**Five months ended 31 May**	
(in RMB million)	**2001**	**%**	**2002**	**%**	**2003**	**%**
WLL/PHS base station antenna series	28.41	37.9	47.4	28.8	51.7	65.2
GSM/CDMA antenna series	41.16	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)*	5.34	7.1	1.9	1.2	1.7	2.2
Total	74.91	100.0	164.5	100.0	79.3	100.0

Note: Sales grouped under "Others" represent sales of antenna products which were specifically produced for certain low volume orders such as 450MHz Yagi antenna. The sales made under this category are non-recurring in nature because those products are tailor-made according to the specific requests from the customer. Hence, sales made under this category fluctuated significantly during the Track Record Period.

Revenue derived from the Company's domestic sales accounted for approximately 97.7%, 91.8% and 96.2% of the Company's total turnover during the Track Record Period respectively. However, the sales contribution generated from overseas has been increasing. The increase in overseas sales was mainly attributable to (i) the initiative of the Company to assign a specific team of 4 sales and marketing staff to promote the Company's products; (ii) the establishment of the international business department in May 2001 for the purpose of expanding its geographical coverage into some overseas markets; and (iii) the appointment of the agent in India to promote the Company's products. The following is a table showing the turnover breakdown by geographical locations:

	Year ended 31 December				**Five months ended 31 May**	
(in RMB million)	**2001**	**%**	**2002**	**%**	**2003**	**%**
PRC	73.2	97.7	151.1	91.8	76.3	96.2
Asia other than the PRC *(Note 1)*	1.7	2.3	13.3	8.1	1.3	1.7
Others *(Note 2)*	–	–	0.1	0.1	1.7	2.1
Total	74.9	100.0	164.5	100.0	79.3	100.0

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 Directors believe that the Company has great growth potential in the international market and are expecting higher turnover from overseas markets in the future. During the five months ended 31 May 2003, while sales to countries/regions in Asia other than the PRC were about the same as in the same period of the year 2002, sales to countries outside Asia increased by approximately RMB1.7 million.

During the Track Record Period, the Company recorded a gross profit margin of approximately 58.4%, 55.6% and 49.5% respectively and a net profit margin of approximately 26.2%, 22.1% and 10.7% respectively. The reason for decrease in both gross and net profit margin during the Track Record Period was owing to (i) the increase in sales contribution from lower profit margin product lines, namely the GSM/CDMA antenna series, than that from the WLL/PHS base station antenna series; and (ii) the decrease in gross profit margin of WLL/PHS base station antenna series as a result of the Company lowering the selling price of WLL/PHS base station antenna series in order to compete with other manufacturers. The following is a table showing the profit analysis of the Company:

	Year ended 31 December		**Five months ended 31 May**
	2001	**2002**	**2003**
	RMB million	*RMB million*	*RMB million*
Revenue	74.9	164.5	79.3
Cost of sales	31.2	73.1	40.0
Gross profit	43.7	91.4	39.3
Net profit	19.6	36.4	8.5
Gross profit margin	58.4%	55.6%	49.5%
Net profit margin	26.2%	22.1%	10.7%

The following is a table showing the profit analysis of the Company by product lines:

Gross profit margin

	For the year ended 31 December 2001	2002	For the five months ended 31 May 2003
WLL/PHS base station antenna series *(Note 1)*	70.8%	60.3%	48.7%
GSM/CDMA antenna series *(Note 2)*	48.6%	53.0%	50.9%
Indoor distribution system series *(Note 3)*	–	60.1%	51.8%
Others *(Note 4)*	67.6%	11.6%	50.3%
Total	58.4%	55.6%	49.5%

Notes:

(1) In 2002, in respect of WLL/PHS base station antenna series, the Company was operating under a competitive environment and lowered the price charged to its customers by 8% to 15% on average. Accordingly, gross profit margin decreased. For the five months ended 31 May 2003, because of intensifying competition, the Company further lowered the selling price by 5% to 21%. As the result, the gross profit margin decreased further.

(2) In 2002, the gross profit margin of GSM/CDMA antenna series increased due to a higher price charged on the upgraded models with some new customers. For the five months ended 31 May 2003, there were not many new or upgraded models sold and the gross profit margin was stable, in comparison with that for the year 2002.

(3) Gross profit margin for the indoor distribution system series was lower for the five months ended 31 May 2003 comparing with that for the whole year of 2002 because the certification of completion of the installation of indoor distribution systems were delayed due to the outbreak of SARS in the PRC in the first few months of 2003. Sales of indoor distribution system are on contract basis and usually involve installation works which normally last for less than one year. On average, an indoor distribution system project lasts for approximately six months. Costs for installation of indoor distribution systems mainly consist of staff expenses in relation to installation works, material costs and subcontracting fee. The relevant direct costs, such as sub-contracting fee, cost of materials for the installation projects are charged to cost of sales at the time when the revenue is recognised, in accordance with the matching principle. However, indirect costs such as the salaries paid to the maintenance team and depreciation of equipment, as they are fixed costs and are not directly associated with each separate contract, are charged to the income statement when incurred. 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.

However, sales of WLL/PHS and GSM/CDMA base station antennas have not been severely affected as such sales would only involve delivery of physical goods. If, for any reasons, such as the outbreak of SARS, such antennas could not be delivered to customers, sales would not be recognised and cost of goods would be recorded as inventory. Therefore, gross profit margins for the Company's sales of WLL/PHS and GSM/CDMA base station antennas were not significantly affected by SARS.

(4) Sales grouped under "Others" represent sales of antenna products which were specifically produced for certain low volume orders such as 450 MHz Yagi antenna. As the selling prices of "Others" antenna and related products are negotiated with the customers on a case-by-case basis in accordance with specific customer's requirements, gross profit margin for "Others" antenna and related products fluctuates significantly.

The following table is the breakdown of administrative expenses and other operating expenses during the Track Record Period:

Administrative expenses	For the year ended 31 December 2001 *RMB*	For the year ended 31 December 2002 *RMB*	Five months ended 31 May 2003 *RMB*
Amortisation for land use right	43,820	259,089	107,954
Audit fee	220,000	250,000	150,000
Bank charges	–	299,140	45,460
Directors' emolument	1,548,362	1,542,835	837,900
Depreciation	856,551	1,096,624	544,768
Education fund expenses	149,462	235,315	163,156
Entertainment	280,834	282,619	216,664
Insurance	51,201	257,258	129,699
Motor vehicle expenses	466,104	425,880	295,926
Other tax (utility, land, building, stamp)	60,133	519,042	348,615
Others	1,308,855	2,562,127	1,444,307
Rental Expenses	551,739	–	–
Salaries	707,977	2,986,782	1,882,887
Staff welfare	342,217	614,022	636,724
Traveling expenses	132,156	108,464	438,790
Union fund expenses	197,029	313,753	205,279
Professional fee	60,000	145,000	135,000
	6,976,440	11,897,950	7,583,129

Other operating expenses	For the year ended 31 December 2001 *RMB*	For the year ended 31 December 2002 *RMB*	For the five months ended 31 May 2003 *RMB*
Amortisation for technological know-how	1,000,000	1,000,000	416,667
Loss on disposal of property, plant and equipment	–	626,465	18,455
Deposits for acquisition of materials written off	–	126,220	–
Allowance for doubtful debts	694,398	4,252,215	1,696,472
Research and development			
Salaries for research and development	2,752,706	3,903,279	2,450,081
Staff welfare for research and development	385,268	546,445	343,009
Depreciation for research and development	426,195	1,650,846	915,291
Miscellaneous expenses for research and development	1,708,822	2,989,859	1,392,480
	6,967,389	15,095,329	7,232,455

The following is a discussion of the results of operations of the Company for each of the two years ended 31 December 2002 and the five months ended 31 May 2003. Such discussion should be read in conjunction with the accountants' report set out in appendix I to this prospectus.

For the year ended 31 December 2001

For the year ended 31 December 2001, the turnover of the Company amounted to approximately RMB74.9 million. The Company developed its GSM/CDMA antenna series to capture a portion of the market share for these products following the issue and implementation of Technical Specifications of Base Station as the industry standard for domestic production of base station antennas. Despite sales of WLL/PHS base station antenna series recorded RMB28.4 million, sales contribution from this product line represented only about 37.9% of the turnover. This was a result of the Company's effort in diversification and expansion of business lines. The new product line, namely the GSM/CDMA antenna series, contributed approximately RMB41.2 million, representing 55.0% of the turnover.

The Company's gross profit for the year amounted to approximately RMB43.7 million and the gross profit margin reached 58.4%.

The Company recorded other operating income of approximately RMB0.2 million in 2001, which mainly comprised of (i) interest income; (ii) sale of raw materials to the designated suppliers that are used in the production of the parts of the Company's products (the raw materials sold are sample of raw materials which the Company requires the designated suppliers to use; and (iii) sales of scrap.

The Company's distribution costs amounted to approximately RMB9.7 million. These expenses represented approximately 12.9% of total turnover in 2001. Distribution costs mainly comprised of traveling expenses, salaries, entertainment expense and expenses incurred for providing guidance and supervision for installation of antennas at the site of the Company's customers.

Administrative expenses, include mainly Directors' emolument, salaries and staff welfare, depreciation of office equipment and motor vehicles expenses, amounted to approximately RMB7.0 million.

Others operating expenses include mainly product research and development related expenses, amounted to approximately RMB7.0 million. The product research and development related expenses represent depreciation for the equipment, salary costs of the personnel in the research and development department, etc. There is no specific/particular project that directly assigned on each activity and therefore, the cost of the research and development cannot be separately identifiable in different projects. Accordingly, those are treated as daily operating costs and charged to the income statement when incurred.

Due to the Company's status of being recognised as a high-technology enterprise, according to the PRC tax regulations, the Company is exempted from income tax for the year ended 31 December 2001.

For the year ended 31 December 2002

For the year ended 31 December 2002, the turnover of the Company amounted to approximately RMB164.5 million, representing an increase of 119.6% over that of the previous year. The reasons for the increase in sales include the following: (a) better sales of WLL/PHS base station antenna series as construction of new PHS network by fixed line telecommunication network operators of the PRC (China Telecom Group and China Netcom Group) in provinces/municipals/ regions such as Guangdong, Hebei and Beijing started; (b) better sales of GSM/CDMA antenna series as members of China Unicom Group were satisfied with the Company's products and ordered more of the Company's antennas for the construction of CDMA network (sales to members of China Unicom Group in aggregate increased from approximately RMB7.3 million in the year 2001 to approximately RMB60.0 million in the year 2002); and (c) contribution from a new product line, indoor distribution system series which was launched in December 2001. Sales of

WLL/PHS base station antenna series contributed approximately RMB47.4 million, represented approximately 28.8% of the Company's total turnover. Sales of GSM/CDMA antenna series recorded approximately RMB93.7 million, represented approximately 56.9% of the Company's total turnover. The new product line, namely the indoor distribution system series, recorded sales of approximately RMB21.5 million, represented approximately 13.1% of the Company's turnover.

The Company's gross profit for the year 2002 increased to approximately RMB91.4 million. During this period, the gross profit margin decreased from 58.4% in 2001 to 55.6% for the year ended 31 December 2002 because of the decrease in gross profit margin of WLL/PHS base station antenna series from 70.8% to 60.3% as a result of the lowering of the selling price of WLL/PHS base station antenna series in order to compete with other manufacturers.

The Company recorded other operating income of approximately RMB2.1 million for the year ended 31 December 2002, which mainly comprised of (i) interest income; (ii) subsidy for export sales received from the PRC Government that is calculated at 0.1% to 0.3% of the amount of export sales made (such subsidy is granted to all companies exporting products as specified by the PRC Government, such as hi-tech products when the companies convert the foreign exchange received from export. Such subsidy is granted to the Company for the implementation of the national policy of encouraging export of the products and has ceased to be granted after the PRC's accession to WTO) The Company had not received subsidy income during the year 2001 because the procedures of application and approval of the subsidy had not been completed before the end of year 2001; (iii) receipt from sale of scraps and sales of raw materials to designated suppliers (the raw materials sold are sample of raw materials which the Company requires the designated suppliers to use); and (iv) income received from services of inspecting networks of the Company's customers and providing independent test on antennas and related products to the Company's customers. The services of inspecting networks of the Company's customers include inspecting the performance of the networks by using testing equipment and providing enhancement recommendations if necessary. The services are provided to the Company's customers as a value added service currently, not as a major business line.

The Company's distribution costs increased by 86.1% to approximately RMB18.0 million comparing to the previous year of approximately RMB9.7 million. It was mainly due to the increase in sales and expansion of product lines and establishment of five new sales contact points in the PRC in addition to the one for the year ended 31 December 2001. During the year ended 31 December 2002, the Company paid commission which amounted to approximately RMB0.6 million to the agent appointed in India who had introduced sales of approximate RMB6.0 million to the Company during the year. No commission expense was recorded for the year ended 31 December 2001. The commission was paid according to a "Sole Selling Agency Agreement" entered into by the agent and the Company pursuant to which a commission was payable to the agent and calculated as 10% of sales introduced by the agent. Distribution costs accounted for approximately 10.9% of turnover for the year ended 31 December 2002.

Administrative expenses increased by 70.6% to approximately RMB11.9 million. Salaries increased from approximately RMB0.71 million to approximately RMB3.0 million because (i) a bonus of approximately RMB0.6 million was paid in January 2002; (ii) the salary to administrative staff increased by approximately 10% to 15% in general (although the number of administrative staff decreased from 66 to 45 due to internal redeployment of staff); and (iii) the recruitment of four senior management staff during 2002 who formulated internal policy and control procedure in monitoring the progress of business expansion, including sale and marketing, product research and development and coordination with Beijing sales contact points. The reason for paying a bonus of approximately RMB0.6 million in January 2002 was because the operating result of the Company exceeded the target set by the Shareholders. However, as the incentive scheme had not been implemented during the year ended 31 December 2001, no bonus was paid during the year. The reason for the salary increment for administrative staff was to maintain the stability of the staff and to reward the staff who have contributed to the development of the Company. Directors' remuneration did not change significantly as both the number of Directors and their basic salaries had not been changed. Other administrative expenses increased from approximately RMB1.3 million to RMB2.6 million because (i) expenses of approximately RMB0.2 million related to the initial preparation of the listing of the Company's shares on the second board of the Shenzhen Stock Exchange in the PRC, which was contemplated by the Directors prior to pursuing the listing application to the Stock Exchange, were incurred and new comparing with the year 2001; and (ii) the increase in office supplies, telephone expense and other expense as result of the expansion of the Company's scale of operation. For example telephone expenses increased substantially due to increased contact with staff stationed outside Xi'an. On the other hand, no rental expenses were recorded during the year ended 31 December 2002. As confirmed by the Directors, rental expenses for the year ended 31 December 2001 represented the rental expenses for office buildings of the Company's then principal place of business. In January 2002, the Company has moved to the leasehold land and building acquired by the Company, which is the Company's current principal place of business and therefore, no such rental expenses were incurred since January 2002. The rental expense for the sales contact points and warehouse are charged to the distribution cost and cost of sales respectively but not administrative expenses.

Other operating expenses increased from approximately RMB7.0 million for the year ended 31 December 2001 to approximately RMB15.1 million. It was mainly due to the increase in product research and development expenses by 72.4% from RMB5.3 million for the year ended 31 December 2001 to RMB9.1 million for the year ended 31 December 2002 as a result of the development of the Company's new products which include various specifications of power amplifier, coupler, low noise amplifier module for repeater, trunk amplifier module and trunk amplifier for the uses in indoor distribution system series. Further, the provision for doubtful debts increased from approximately RMB0.69 million for the year ended 31 December 2001 to approximately RMB4.3 million for the year ended 31 December 2002 because some of the trade receivables have been outstanding for relatively long time and was perceived to be riskier by the Directors and the Directors made full provisions for those debts considered to be doubtful. Higher provision for the year 2002 was also because of stricter approach taken in assessing doubtfulness of the Company's trade receivables. The reason for the increase in amounts overdue was mainly because of the delay of customer construction progress in relation to the Company's indoor distribution system. In addition, loss on disposal of property, plant and equipment increased from nil to approximately RMB0.6 million because the Company disposed of furniture and fixture and production facilities installed in the former production site after the Company had moved into the current site in early 2002. Deposits for acquisition of materials written off increased from nil to approximately RMB0.1 million because a deposit for usage of a mould for processing a part of the Company's antenna products has been forfeited due to termination of production of such part which became outdated.

Finance costs increased from approximately RMB0.7 million for the year ended 31 December 2001 to approximately RMB4.0 million for the year ended 31 December 2002 as a result of the increase in the Company's bank borrowings to finance the expansion of the Company's operation although the Company had been granted a lower rate of interest.

Taxation increased by approximately RMB8.2 million, or 100% in 2002. According to the PRC tax regulations, the Company was subject to an income tax rate of 15% during the year ended 31 December 2002. The effective tax rate for 2002 was approximately 18.3% as certain of the expenses are not deductible when determining taxable profit. Accordingly, the effective tax rate is slightly higher than the statutory tax rate.

For the five months ended 31 May 2003

For the five months ended 31 May 2003, the turnover of the Company increased by approximately 156.0% to approximately RMB79.3 million comparing with the turnover for the five months ended 31 May 2002 which amounted to approximately RMB31 million. The Directors consider that such increase in turnover is mainly due to the continuing network construction of the Company's customers. For the five months ended 31 May 2003, approximately 65.2% of the turnover was attributable to sales of WLL/PHS base station antenna series. Orders of WLL/PHS base station antennas increased because of continued construction of new PHS network as a result of the increasing popularity of Xiaolingtong in the PRC and the success of the Company's existing strategy of maintaining market share by lowering the selling price of the product line. Due to its relatively low hourly rate of service charge, PHS system is an alternative to services provided by the two existing mobile telecommunication operators in the PRC. Therefore, the construction or expansion of PHS networks continued in the PRC. According to the Directors, the business strategy of the Company has not been changed for the five months ended 31 May 2003.

Gross profit for the period amounted to approximately RMB39.2 million. During the period, average gross profit margin decreased from 55.6% for the year 2002 to 49.5%. The gross profit margin of WLL/PHS base station antenna series decreased by a range from 5% to 21% because the Company had adopted a strategy of lowering the selling price for the product line. The Company started subcontracting certain parts of the production process of WLL/PHS base station antenna series since the second half of the year 2002 in order to minimise investment in property, plant and equipment for expanding the Company's production capacity. As a result, for the product line of WLL/PHS base station antenna series, percentage of direct labour costs and factory overheads to total cost of sales decreased while percentage of materials purchase increased. The total cost of production, which included subcontracting cost of WLL/PHS base antenna series, was lower than that recorded in the previous years as a result of subcontracting. However, as the Company continued to lower selling price of existing models of WLL/PHS base station antenna series to maintain its market share and the extent of selling price being lowered was greater than the extent of total cost of production being lowered, gross margin for the product line decreased. The sales of WLL/PHS base station antenna series accounted for approximately 65.2% of the total turnover of the Company for the period. The gross profit margin of GSM/CDMA antenna series was stable as there were not many new or upgraded models sold. Gross profit margin for the indoor distribution system series was lower in the five months ended 31 May 2003 comparing with that in 2002 because the certification of completion of the installation of indoor distribution systems were 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 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 expensed to the income statement while related revenue has not been recognised. Accordingly, gross profit margin for indoor distribution system was lower.

The Company recorded other operating income of approximately RMB0.5 million for the five months ended 31 May 2003, which mainly comprised of subsidy for export sales and network inspection service income. According to the Directors, the settlement terms of the subsidy are based on the amount of RMB converted from foreign currency received by the Company through export sales. Therefore, the calculation for the subsidy granted by the PRC government to the Company was not based on the amount of export sales. In addition, time lag arose between the application and the approval of such subsidy. During the five months ended 31 May 2003 as the foreign currency received and converted through the Company's export sales in 2002 was larger than those received and converted in 2002 for the export sales in 2001, the subsidy received by the Company also increased.

For the five months ended 31 May 2003, distribution costs increased by approximately 59.2% to approximately RMB11.3 million comparing with the distribution costs for the five months ended 31 May 2002 which amounted to approximately RMB7.1 million. The distribution costs represented 14.3% of total turnover for the five months ended 31 May 2003, which is approximately 3.4% higher than that of the year 2002. Distribution costs increased mainly due to (i) an increase in commission expenses by approximately RMB1 million because the Company has been expanding its customer base through referral; (ii) the setting up of another international business division for newly explored markets such as the U.S. so that there are salespersons whom are specifically responsible for the markets of different characteristics; (iii) transportation expenses increased by approximately RMB1 million because 65.2% of the Company's sales during the five months ended 31 May 2003 (comparing with 37.9% and 28.8% respectively for each of the two years ended 31 December 2002) were sales of WLL/PHS base station antenna series to its major customer, UTStarcom, which is located in the city of Hangzhou and not in the city of Xi'an where the Company is located; and (iv) salaries and staff welfare of salespersons increased by approximately RMB0.6 million because the number of staff in sales and marketing department increased as the result of new employment and deployment from other department and there was a general salary increase of approximately 5% to 10% in early 2003. During the five months ended 31 May 2003, the Company paid commission which amounted to approximately RMB1.5 million. Among the approximately RMB1.5 million paid, approximately RMB50,000 was paid to the agent appointed in India who has introduced sales of approximately RMB0.5 million to the Company during the five months; the commission was paid according to a "Sole Selling Agency Agreement" entered into by the agent and the Company pursuant to which a commission was payable to the agent and calculated as 10% of sales introduced by the agent. The remaining of approximately RMB1.45 million commission were paid to companies which introduced customers to the Company based on oral agreement with no fixed commission rate and as a lump sum payment to the respective companies. During the five months ended 31 May 2003, sales to customers introduced by those companies amounted to approximately RMB4.3 million.

Administrative expenses increased by approximately 90.0% to approximately RMB7.6 million, comparing with the administrative expenses for the five months ended 31 May 2002 which amounted to approximately RMB4 million. It included Directors' remuneration and salaries and staff welfare of administrative staff of approximately RMB3 million. These payroll expenses increased in monthly average comparing with the year 2002 mainly because there was a general increase of approximately 10% in salary in early 2003 even though the number of administrative staff decreased from 45 to 36. The reasons for the decrease in the number of administrative staff for the five months ended 31 May 2003 were because they are classified as production staff or sales and marketing staff, instead of as administrative staff as before. The salary increment was made to maintain stability of staff. Salaries, staff welfare, education fund expenses and union fund of administrative staff increased by approximately RMB1.7 million. Director's emolument increased from approximately RMB 0.7 million for the five months ended 31 May 2002 to approximately RMB0.9 million for the five months ended 31 May 2003. The increase is due to the increase in the Directors' basic salary as a result of the general increase in salaries of approximately 10%, which was in line with the general salary increment of other staff in early 2003 while the number of Directors remains unchanged. The aggregate Directors' emolument contracted for the whole of year 2003 is expected to be approximately RMB1.8 million excluding bonuses. Such amount is approximately 13% higher than the actual amount for the year 2002. Travelling expenses increased by approximately RMB0.4 million as the management have to travel more to supervise the expanding sale network and to visit overseas customers and equipment providers. Motor vehicles expenses increased by approximately RMB0.1 million as the number of the Company's vehicles increased.

For the five months ended 31 May 2003, other operating expenses increased by approximately 80% to approximately RMB7.2 million comparing with other operating expenses for the five months ended 31 May 2002 which amounted to approximately RMB4 million. The Directors consider that such increase is mainly due to the increase in product research and development expense of approximately RMB2.0 million. The main reasons for the increase in product research and development expenses are (i) increase of approximately RMB1.0 million in salaries and welfare for research and development staff in the early 2003 resulting from the increase in number of product research and development staff from 132 as at 31 May 2002 to 149 as at 31 May 2003; (ii) increase of approximately RMB0.5 million in depreciation of equipment for product research and development from new equipment; and (iii) increase of approximately RMB0.5 million in office expense for production research and development. It is the result of the Company's continued increase in the investment in developing new products and improving existing products.

For the five months ended 31 May 2003, finance expenses increased by approximately 71.4% to approximately RMB2.4 million comparing with the finance expenses for the five months ended 31 May 2002 which amounted to approximately RMB1.4 million. It was because the Company increased its bank borrowings (total balance of bank borrowings increased from approximately RMB70 million as at 31 May 2002 to approximately RMB97.1 million as at 31 May 2003) to finance the growing business even though the average rate of interest has not been changed significantly.

The increase in effective tax rate from 18.3% to 23.8% for the five months ended 31 May 2003 is mainly attributable to the increase in salaries and bonus payment. As such payment exceeded the maximum amount allowable for deduction, the non-deductible salary expenses increased. As a result, a higher effective tax rate was recorded.

TAXATION

Since the Company is based, and with all of its operations, in the PRC, the Company is only subject to the PRC corporate income taxes, for the two financial years ended 31 December 2002 and the five months ended 31 May 2003.

The Company is regarded by 西安市科學技術局 (Xi'an Municipal Bureau of Science and Technology) as a high-technology enterprise located in Xi'an National Hi-tech Industrial Development Zone. According to the 減免稅審批表 (Examination and approval form for tax reduction and exemption) in which the Company was granted EIT exemption for the period from 29 January 2000 to 29 January 2002 issued by 西安市雁塔區地方稅務局 (Local Taxation Bureau of Yanta District in Xi'an) dated 18 September 2000, 雁塔區地方稅務局關於對西安海天天線科技股份有限公司減免企業所得稅問題的批覆 (Written Reply of Local Taxation Bureau of Yanta District concerning questions of EIT reduction and exemption on Xi'an Haitian Antenna Technologies Co. Ltd.) issued by the 西安市雁塔區地方稅務局 (Local Taxation Bureau of Yanta District in Xi'an) dated 16 November 2001, 關於西安海天通訊設備有限公司享受稅收減免優惠政策說明函件 (Explanatory statement concerning preferential treatment policy of tax reduction and exemption for Xi'an Haitian Communications) issued by 西安高新技術產業開發區管理委員會 (Management committee of Xi'an National Hi-tech Industrial Development Zone) dated 22 August 2002 and as confirmed by the legal opinion issued by Jingtian & Gongcheng, due to the Company's status as a recognised high-technology enterprise according to《財政部、國家稅務總局關於企業所得稅若干優惠政策的通知》("Notice of Ministry of Finance and State Taxation Administration Concerning Certain Preferential Policies for EIT"), the Company is exempted from income tax for the first two years of production followed by an income tax rate of 15% from the third year. Therefore, the Company was exempted from income tax for the two years ended 31 December 2001 and is subject to an income tax payable of 15% thereafter. According to 企業所得稅匯算清繳檢查報告表 (the inspection report on the payment of enterprise income tax), income tax rate and the income tax for the two financial years ended 31 December 2002 had been approved.

According to Jingtian & Gongcheng and as confirmed by the relevant tax authorities, during the Track Record Period, the Company has complied with the requirements of national and local tax laws and regulations and paid various tax in accordance with the relevant PRC laws. The Company has not violated any relevant laws and regulations in relation to taxation and has not been punished in relation thereto. The relevant tax authorities have confirmed on 18 November 2001, 6 March 2003, 21 July 2003 and 3 September 2003 that there are no tax disputes involving the Company during the Track Record Period and up to August 2003. Jingtian & Gongcheng confirmed that Xi'an Haitian Communications, the predecessor of the Company, also complied with the requirements of national and local tax laws and regulations and no tax liabilities were outstanding since the establishment of Xi'an Haitian Communications on 13 October 1999 to the transformation to the Company on 11 October 2000 according to 變更主管稅務機關申請審批 (The Approval of Application in respect of the Alteration of Governing Tax Authority) issued by 西安市雁塔區地方稅務局 (Local Taxation Bureau of Yanta District in Xin).

According to 企業技術開發費稅前扣除管理辦法(國稅發[1999] 49號) (Methods for administration on deduction of research and development costs from taxable profit of corporations) a national policy promulgated by the State General Bureau of Taxation (國家稅務總局) that a deduction of taxable profit equivalent to 50% of the total of research and development expenses for the taxation year is granted if a company's research and development expenses increased by 10% comparing with that of last taxable year. The Company is eligible to have the above mentioned benefit as long as the relevant national policy and tax rules and laws remain valid.

According to 技術改造國產設備投資抵免企業所得稅暫行辦法(財稅字[1999] 290號) (Provisional methods for deduction of corporation income tax for investment in domestic plant and equipment for technologically advancement), a national policy promulgated by the Ministry of Finance and the State General Bureau of Taxation that a deduction of income tax payable equivalent to 40% of the total amount of equipment manufactured in the PRC and purchased for the purpose of technology advancement of the Company is granted. The Company is eligible to have the above mentioned benefit as long as the relevant national policy and tax rules and laws remain valid.

VALUE-ADDED TAX AND BUSINESS TAX

The Company's provision of products to its customers is subject to a value-added tax of 17% while its provision of services (such as performing independent tests on antennas and related products not produced by the Company and inspecting the networks operated by the Company's customers) is subject to a business tax at rate between 3% to 5%.

PROPERTY INTERESTS

Properties owned and occupied by the Company in the PRC

The Company owns and occupies a parcel of industrial land located in No. 36 Gao Xin Liu Road, Xi'an National Hi-tech Industrial Development Zone, Xi'an, Shaanxi Province, the PRC and the buildings erected thereon. The property comprises a parcel of land with a site area of approximately 32,001.98 sq. m., ("the Land") and six buildings with a total gross floor area of approximately 14,813.91 sq.m. ("the Buildings") and were completed in or about 2001. The land use rights have been granted to the Company for a term of 50 years from 4 August 2000 to 4 August 2050 for industrial purpose.

According to the PRC legal opinion dated 24 October 2003 issued by Jingtian & Gongcheng, the PRC legal advisers to the Company:

1. The Company is the lawful and sole owner of the Land and the Buildings, namely Plant Nos. 1 and 2, a power station, a guard room, a test centre and Building No. 2 all located at No. 36 Gao Xin Liu Road, Xi'an National Hi-tech Industrial Development

Zone. The Company is entitled to occupy, use, transfer, lease or charge the Land and the Buildings.

2. The Land and the Buildings are subject to a mortgage of RMB30,000,000 in favour of Agricultural Bank of China, for a term from 29 March 2002 to 28 March 2006 and another mortgage to secure a facility amount to the maximum of RMB40,000,000 in favour of the China Everbright Bank, for a term from 28 April 2003 to 28 April 2006.

3. The Company has obtained the building ownership certificate in respect of five of the Buildings. According to a document issued by Real Estate Administration Bureau of Xi'an National Hi-tech Industrial Development Zone on 15 July 2002 entitled "An Explanation of the Consent Granted to Xi'an Haitian Antenna Technologies Co., Ltd. to Apply for Building Ownership Certificate in respect of Building No. 2", the Company was granted an approval from Planning and Environmental Protection Bureau of Xi'an National Hi-tech Industrial Development Zone on 18 December 2000 with respect to an overall planning of its new factory complex ("Old Planning"). In October 2001, the Company made a new planning of its new factory complex, and obtained an approval from Planning and Environmental Protection Bureau of Xi'an National Hi-tech Industrial Development Zone on 21 January 2002. The Real Estate Administration Bureau was of the opinion that the Company shall apply for the building ownership certificate of the completed buildings under the Old Planning, including Building No. 2 in conjunction with those under the new planning to be completed thereafter.

   According to Vigers Hong Kong Ltd., as at 31 August 2003, the value of the building of which the Company has not yet obtained the building ownership certificate, namely Building No. 2, amounted to RMB2 million. In addition, the net book value of such building amounted to approximately RMB1.92 million and RMB1.9 million as at 31 May 2003 and 31 August 2003 respectively.

Properties rented and occupied by the Company in the PRC

As at the Latest Practicable Date, the Company had 10 leased properties (for details of the properties, please refer to the properties referred to in Group II of the property valuation report in appendix II to this prospectus) being office, staff quarters or warehouses in the PRC which covered the regions of Beijing, Hangzhou of Zhejiang, Nanjing of Jiangsu, Wuhan of Hubei, Fuzhou of Fujian and Xi'an of Shaanxi.

It is the Company's policy that for those lease agreements which will be renewed or signed after May 2003, (i) lease agreements will not be signed unless relevant property right and/or use right documents are obtained and the landlords agree to undertake all registration procedures and (ii) the Company will only sign the standard lease agreements drafted by Jingtian & Gongcheng, which will require the landlords to provide complete ownership record and to undertake the registration procedures in relation to the subject properties.

As at the Latest Practicable Date, the Company has not set up any branches in the PRC nor any sales office overseas.

Property valuation

Vigers Hong Kong Ltd., an independent valuer, has undertaken an assessment for the Company with regard to the valuation of its property interests in the PRC as at 31 August 2003. The full text of the letter, summary of values and valuation certificate with regard to such property interests are set out in appendix II of this prospectus.

DIVIDEND POLICY

Holders of the H Shares and Domestic Shares will share proportionately, on a per Share basis, all dividends and other distributions declared by the Board and approved by the Shareholders. Under the Articles, unless otherwise approved by an ordinary resolution of the general meeting of Shareholders, the Company may only distribute final dividends once a year. Shareholders may, by an ordinary resolution passed at annual general meeting, authorise the Board to declare and pay an interim dividend after it has considered the financial position of the Company and subject to compliance with all relevant laws and administrative regulations. The Board will declare dividend, if any, in Renminbi, with respect to the H Shares on a per H Share basis and such dividend will be paid in Hong Kong dollars. The declaration of dividend is subject to the approval of the Shareholders at annual general meetings. According to the PRC laws and as provided in the Articles, the Company may only distribute dividend after it has made allowance for: (1) recovery of losses (if any); (2) allocation to the statutory common reserve fund; (3) allocation to the statutory common welfare fund; and (4) allocation to a discretionary common reserve fund if approved by its Shareholders. Under PRC laws, the Company's distributable profits will be equal to the sum of (i) its net profit determined in accordance with PRC accounting standards and regulations or that in accordance with Hong Kong generally accepted accounting principles, whichever is lower; and (ii) the distributable profits as at the beginning of the relevant year less allowance for losses and allocation to the statutory and discretionary funds.

During the year ended 31 December 2002, the Company declared dividends of RMB15 million out of the distributable reserves as at 31 December 2001. The Directors presently do not intend to recommend the payment of any dividend by the Company in respect of the year ending 31 December 2003. The declaration, payment and amount of future dividends will be at the discretion of the Board and will depend upon, among other things, the Company's business and operating results, operations capital requirements and surplus, cashflow, general financial condition, contractual restrictions and such factors as the Board may deem relevant. The Directors would draw investors' attention that the dividend declared during the Track Record Period is not and will not be considered as a binding precedent on the dividend policy of the Company in the future.

The Directors confirm that all of the dividends payable as at 31 May 2003 was paid in September 2003 from the internal resources of the Company.

DISTRIBUTABLE RESERVES

Upon the listing of the H Shares on the GEM and the adoption of the Articles, the distributable reserve will be determined in accordance with the Mandatory Provisions as incorporated in the Articles which are governed by the PRC laws. In accordance with the the PRC laws, the reserve available for distribution is the lower of (i) the net profit determined in accordance with accounting principles generally accepted in the PRC and (ii) the net profit determined in accordance with Hong Kong Statement of Standard Accounting Practices.

As at 31 May 2003, the Company's distributable reserves amounted to approximately RMB41,310,358.

STATUTORY SURPLUS RESERVE

The Articles requires the appropriation of 10% of its profit after taxation each year to the statutory surplus reserve until the balance reaches 50% of the registered share capital. According to the provision of the Articles, in normal circumstances, the statutory surplus reserve shall only be used for making up losses, capitalisation into share capital and expansion of the Company's production and operation.

As at 31 May 2003, the Company's statutory surplus reserve amounted to approximately RMB5,831,000.

STATUTORY PUBLIC WELFARE FUND

Pursuant to the Company Law, the Company shall make allocation from its profit after taxation at the rate of 5% to 10% to the statutory public welfare fund. The statutory public welfare fund can only be utilised on capital items for employees collective welfare. Individual employees only have the right to use these facilities, the titles to which will remain with the Company. The statutory public welfare fund forms part of the shareholder's equity but is non-distributable other than in liquidation.

As at 31 May 2003, the Company's statutory public welfare fund amounted to approximately RMB3,339,000.

WORKING CAPITAL

The Directors are of the opinion that, taking into account the internally generated resources of the Company, bank financing available to the Company and the estimated net proceeds from the issue of H Shares (excluding the Over-allocation Shares) under the Placing and in the absence of unforeseeable circumstances, the Company has sufficient working capital for its present requirements.

ADJUSTED NET TANGIBLE ASSETS

The following pro forma statement of adjusted net tangible assets of the Company is based on the audited net assets of the Company as at 31 May 2003 as shown in the accountants' report set out in appendix I to this prospectus, adjusted as described below:

	RMB'000
Audited net assets of the Company as at 31 May 2003	100,479
Less: intangible assets	
Land use right	(12,284)
Technological know-how	(7,250)
Audited net tangible assets of the Company as at 31 May 2003	80,945
Unaudited net profit of the Company for the three months ended 31 August 2003	9,762
Estimated net proceeds of the Placing *(Note 1)*	65,720
Adjusted net tangible assets	156,427
Adjusted net tangible asset value per Share *(Note 2)*	RMB0.24

Notes:

(1) The estimated net proceeds from the Placing, after deducting related expenses and the amount payable to the Vendors, are based on the Placing Price of HK$0.55 per H share (being the lowest point of the Placing Price range stated in this prospectus) and take no account of any H Shares which may be issued pursuant to the exercise of the Over-allocation Option.

(2) The adjusted net tangible asset value per share is arrived at based on 647,058,824 Shares in issue immediately after the Placing and take no account of any H Shares to the issued pursuant to the Over-allocation Option.

(3) The surplus of approximately RMB0.7 million and RMB0.6 million arose from the revaluation of the Company's leasehold buildings and land use right, representing approximately 0.39% and 0.32% of the adjusted net tangible assets of the Company, would not be incorporated in the financial statements of the Company for the year ending 31 December 2003. If the revaluation surplus was incorporated into the Company's financial statements for the year ending 31 December 2003, the depreciation and amortisation charge of the Company would be increased by approximately RMB22,000 and RMB12,000. The valuation was performed on an open market value basis by Vigers Hong Kong Ltd., an independent valuer, the details of which are set out in appendix II.

In accordance with the accounting policy adopted by the Company, land use right and leasehold buildings are stated in the balance sheet at cost less accumulated depreciation and amortisation and accumulated impairment losses. Accordingly, the net surplus arising from revaluation of leasehold buildings and land use right are not recognised in the financial statements of the Company.

CAPITALISATION OF PRODUCT RESEARCH AND DEVELOPMENT EXPENSES

To maintain the Company's potential for future development, the Company invests significantly in product research and development, for the two years ended 31 December 2002 and the five months ended 31 May 2003, total of product research and development costs amounted to approximately RMB5.3 million, RMB9.1 million and RMB5.1 million respectively. As these costs mainly represent salary and staff welfare of research and development staff, and depreciation of equipment which are daily operating costs and cannot be directly related to specific products. In accordance with the Hong Kong Statement of Standard Accounting Practice 29, the costs do not fulfill the criteria for capitalisation. Therefore, up to the Latest Practicable Date, no product research and development costs have been capitalised in the Company's balance sheet.

During the Track Record Period, the Company has commenced research and development of antenna and related products for the 3G mobile communication and incurred expenses directly related to research and development which amounted to approximately RMB0.6 million. In accordance with the Hong Kong Statement of Standard Accounting Practice 29, the expenditure does not fulfill the criteria for capitalisation. Therefore, up to the Latest Practicable Date, no expenditure of research and development of antenna and related products for the 3G mobile communication has been capitalised in the Company's balance sheet.

DISCLOSURE UNDER CHAPTER 17 OF THE GEM LISTING RULES

As at 31 May 2003, trade receivables due from members of China Unicom Group (in aggregate), UTStarcom, members of China Mobile Group (in aggregate) and other trade customers (in aggregate) amounted to approximately RMB50.6 million, approximately RMB18.8 million, approximately RMB12.7 million and approximately RMB17.0 million respectively. Such trade receivables in an aggregate amount of RMB99,087,709 owed by a total of 42 debtors which are trade customers and Independent Third Parties.

Details of trade receivables outstanding from three of the Company's major customers are disclosed below. As at 31 May 2003, the ageing analysis of the Company's trade receivables from China Unicom Group (in aggregate), UTStarcom and China Mobile Group (in aggregate) was as follows:

	China Unicom Group *RMB*	**UTStarcom** *RMB*	**China Mobile Group** *RMB*
0 – 60 days	12,959,391	18,779,393	5,799,673
61 – 120 days	3,686,460	–	191,747
121 – 180 days	6,533,452	–	1,060,903
181 – 240 days	8,380,473	–	1,770,526
241 – 365 days	16,726,311	–	2,315,856
Over 365 days	2,264,539	–	1,569,865
	50,550,626	18,779,393	12,708,570
Less: Allowance for doubtful debts	(2,364,718)	–	(1,143,847)
	48,185,908	18,779,393	11,564,723

In addition, as at 31 August 2003, the ageing analysis of the Company's trade receivables from China Unicom Group (in aggregate), UTStarcom and China Mobile Group (in aggregate) was as follows:

	China Unicom Group *RMB*	**UTStarcom** *RMB*	**China Mobile Group** *RMB*
0 – 60 days	22,222,570	13,596,764	10,992,075
61 – 120 days	7,574,281	17,877,559	7,933,519
121 – 180 days	5,043,105	1,401,700	1,383,155
181 – 240 days	4,638,570	–	67,500
241 – 365 days	11,669,957	–	2,606,074
Over 365 days	11,301,499	–	1,839,787
	62,449,982	32,876,023	24,822,110
Less: Allowance for doubtful debts	(2,364,718)	–	(1,143,847)
	60,085,264	32,876,023	23,678,263

All of the above trade receivables are unsecured and repayable in accordance with terms specified in the contracts governing the relevant transactions. No collateral is required to be made by the three customers and no interest is charged on such balances. Despite the balances from China Unicom Group (in aggregate), UTStarcom and China Mobile Group (in aggregate) represented approximately 62.5%, 23.2% and 15.7% respectively of the Company's net tangible assets as at 31 May 2003, such balances from these three customers as at 31 August 2003 represented approximately 69.0%, 36.3% and 27.4% respectively, which was more than 25%, of the Company's net tangible assets as at 31 August 2003. This constitutes a disclosure obligation on the part of the Company pursuant to Rule 17.15 of the GEM Listing Rules as the relevant advance to an entity from the Company exceeds 25% of the Company's net tangible assets. Taken into account the net proceeds from the Placing, the adjusted net tangible assets of the Company as stated in the subsection headed “Adjusted Net Tangible Assets” under the section headed “Financial information” to this prospectus, would be approximately RMB156.4 million (“Adjusted Net Tangible Assets”). Accordingly, the trade receivables from China Unicom Group, UTStarcom and China Mobile Group as at 31 August 2003 represented approximately 39.9%, 21% and 15.9% of the Adjusted Net Tangible Assets. Each of China Mobile Group, China Unicom Group and UTStarcom is independent from each other. Save for the aforesaid, the Directors have confirmed that, as at the Latest Practicable Date, they were not aware of any circumstances which would give rise to a disclosure requirement under Rule 17.15 of the GEM Listing Rules. According to the Directors, the terms of such advance are on normal commercial terms and in the ordinary course of business.

According to the Directors, the Company has not encountered any negative impact to its operations or business despite the Company’s significant exposure to China Unicom Group, UTStarcom and China Mobile Group. In addition, the Directors believe that with the strong backing of these customers, the Company is able to further expand its business as one of the leading providers of the base station antennas and related products in the PRC. Since there are only two mobile telecommunication operators in the PRC for GSM/CDMA networks as at the Latest Practicable Date, namely China Unicom Group and China Mobile Group, and UTStarcom as a major supplier to China Telecom for PHS/WLL base station antennas, reliance on these customers becomes industry norm and practice for the Company’s nature of business.

As confirmed by the Directors, for the purpose of disclosure according to Rule 17.15 of the GEM Listing Rules, trade receivables pledged or factored to banks as securities for bank borrowings are included as part of outstanding advances to customers. Save for the above the Directors confirmed that there is no other disclosure obligation under Rule 17.15 to Rule 17.21 of the GEM Listing Rules.

NO MATERIAL ADVERSE CHANGE

The Directors confirm that since 31 May 2003 (being the date to which the latest audited financial information of the Company was made up), there has been no material adverse change in the financial or trading position or prospects of the Company.

SPONSOR'S AGREEMENT

CPY has entered into a sponsor's agreement with the Company whereby, for a fee, CPY will act as the Company's continuing sponsor for the period from the Listing Date to 31 December 2005 (being the last day of the second full financial year of the Company after its listing on GEM).

SPONSOR'S INTEREST IN THE COMPANY

Except as otherwise disclosed herein, neither CPY nor any of its associates, its directors or employees has or may have accrued any material benefits as a result of the successful outcome of the Placing, other than the following:

(i) in taking up underwriting obligations under the Placing and Underwriting Agreement;

(ii) by way of underwriting commissions by CPY International and/or its fellow subsidiaries, holding companies or affiliates by acting as one of the Placing Underwriters or as a manager;

(iii) an advisory and documentation fee payable to CPY as the Sponsor of the Placing;

(iv) in relation to a sponsor agreement entered into between CPY and the Company to which CPY has been appointed as sponsor of the Company for the remainder of the financial year of the Company ending 31 December 2003 and for the two financial years ending 31 December 2005, pursuant to which the Company shall pay an agreed fee to CPY for the provision of relevant services;

(v) certain fellow subsidiaries, holding companies or associates or affiliates of CPY, whose ordinary businesses involve the trading of and dealing in securities (including derivatives), may derive commission from the trading and dealing in the securities (including derivatives) of the Company; and

(vi) certain of the fellow subsidiaries, holding companies or associates or affiliates of CPY may purchase or sell securities of the Company or hold them for investment purposes.

Save as provided under the Placing and Underwriting Agreement and for the grant by the Company of the Over-allocation Option to the Placing Underwriters exercisable by the Lead Manager (on behalf of the Placing Underwriters), none of the Sponsor, the Lead Manager and the Placing Underwriters and their respective associates has any shareholding interests in the Company nor any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any shares in the Company nor any interest in the Placing.

No director or employee of the Sponsor who is involved in providing advice to the Company has or may have any interest in any class of securities of the Company (including options or rights to subscribe for such securities but, for the avoidance of doubt, excluding interests in securities that may be subscribed for or purchased by any such director or employee pursuant to the Placing) as a result of the Placing. No director or employee of the Sponsor has a directorship in the Company.

PLACING UNDERWRITERS

CPY International
Worldwide Finance (Securities) Limited
G.K. Goh Securities (H.K.) Limited
JS Cresvale Capital Limited
Asian Capital (Corporate Finance) Limited
First Shanghai Securities Limited
Guotai Junan Securities (Hong Kong) Limited
China Southern Securities (Hong Kong) Limited
Okasan International (Asia) Limited
Shenyin Wanguo Capital (H.K.) Limited
Sun Hung Kai International Limited
SBI E2-Capital Securities Limited
Polaris Securities (Hong Kong) Limited
Vinco Capital Limited
Crosby Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Placing and Underwriting Agreement

Pursuant to the Placing and Underwriting Agreement, the Company is offering the New H Shares for subscription by, and the Vendors are offering the Sale H Shares for sale to, investors, in each case by way of the Placing, all at the Placing Price. In addition, the Company and the Vendors have granted the Over-allocation Option to the Sole Bookrunner and Lead Manager exercisable by it (for itself and on behalf of the Placing Underwriters) at any time and from the date of this prospectus up to 23 November 2003 to require the Company to issue up to an aggregate of 22,058,824 additional New H Shares and the Vendors to sell up to an additional 2,205,882 Sale H Shares, representing in aggregate 15% of the Placing Shares initially offered under the Placing to cover over-allocations under the Placing, if any. The Over-allocation Option will only be exercisable by the Lead Manager (for itself and on behalf of the Placing Underwriters) where the Placing Price is HK$0.70 or above.

Subject to the GEM Listing Committee granting the listing of, and permission to deal in, the H Shares (subject only to allotment by the Company or, as the case may be, transfer from the Vendors) on or before 23 November 2003 (or such later date as the Sole Bookrunner and Lead Manager (for itself and on behalf of the Placing Underwriters) may agree in writing with the Company (for itself and on behalf of the Vendors)) and to certain other conditions set out in the Placing and Underwriting Agreement being satisfied by the times referred to in the Placing and Underwriting Agreement, the Placing Underwriters have severally agreed to subscribe for or purchase (or procure placees to subscribe for or purchase) the Placing Shares according to their respective underwriting commitment.

Grounds for termination

The Sole Bookrunner and Lead Manager (for itself and on behalf of the Placing Underwriters) is entitled to terminate the Placing and Underwriting Agreement by notice in writing to the Company (for itself and on behalf of the Vendors) at any time prior to 6:00 p.m. (Hong Kong time) on the date immediately preceding the Listing Date upon occurrence of the following events at or prior to such time:

(i) there shall develop, occur or come into effect:

(a) any new law or regulation or any change in existing laws or regulations or any change in the interpretation or applications thereof by any court or other competent authority, which in the absolute opinion of the Sole Bookrunner and Lead Manager (on behalf of the Placing Underwriters) has or may have a material adverse effect on the business or financial conditions or prospects of the Company; or

(b) any change in Hong Kong, the PRC, Taiwan, Asia, national, regional or international financial, political, military, industrial or economic conditions or prospects; or

(c) any change in the conditions of the Hong Kong or international securities markets (or in conditions affecting a sector only of such market) including, for the avoidance of doubt, any significant adverse change in the index level or volume of turnover of any such markets; or

(d) without prejudice to paragraph (b) or (c) above, the imposition of any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange due to exceptional financial circumstances or otherwise; or

(e) a change or development involving a prospective change in Hong Kong, the PRC or other jurisdiction in taxation or exchange controls which will or can reasonably be expected to affect materially and adversely the Company or the present or prospective shareholders of the Company in their capacity as such; or

(f) the imposition of economic sanctions, withdrawal of trading privileges, embargo, restraint or prohibition of import and export, in whatever form, by the U.S. or the European Union (or any member thereof) on Hong Kong or the PRC;

and any such event, in the absolute opinion of the Sole Bookrunner and Lead Manager (on behalf of the Placing Underwriters), has or may have a material adverse effect on the success of the Placing, or makes it inadvisable or inexpedient to proceed with the Placing; or

(ii) there comes to the notice of the Sponsor, the Sole Bookrunner and Lead Manager and/or the Placing Underwriters any matter or event showing any of the representations and warranties contained in the Placing and Underwriting Agreement to be untrue or inaccurate or, if repeated immediately after the occurrence thereof, would be untrue or inaccurate in any respect reasonably considered by the Sole Bookrunner and Lead Manager (on behalf of the Placing Underwriters) to be material or showing any of the undertakings contained in the Placing and Underwriting Agreement or other obligations or undertakings expressed to be assumed by or imposed on the Company, the Vendors, such of the Initial Management Shareholders as named in the Placing and Underwriting Agreement ("Covenantors", all being Promoters), and the executive Directors under the Placing and Underwriting Agreement not to have been complied with in any respect considered by the Sole Bookrunner and Lead Manager to be material; or

(iii) any material statement contained in this prospectus has become or been discovered to be untrue, incorrect or misleading in any respect; or

(iv) matters have arisen or have been discovered which would, if this prospectus was to be issued at that time, constitute a material omission therefrom; or

(v) there is any adverse change in the business or in the financial or trading position or prospects of the Company which in the absolute opinion of the Sole Bookrunner and Lead Manager (on behalf of the Placing Underwriters) is material in the context of the Placing.

Undertakings

(i) Each of the Covenantors severally undertakes to and covenants with the Company, the Sponsor, the Sole Bookrunner and Lead Manager and the Placing Underwriters that:

(a) he or it will fully and strictly comply with all restrictions (if any) applicable to him or it from time to time under the GEM Listing Rules and the Company Law on the disposal by it, or by the registered holder, of any Relevant Securities in respect of which he or it is (directly or indirectly), the beneficial owner, unless appropriate waiver has been granted by the Stock Exchange or other relevant authorities;

(b) he or it shall not sell, transfer or otherwise dispose of (or enter into any agreement to dispose of), save pursuant to a pledge or charge to an authorized institution under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) as security for a bona fide commercial loan, any of its Relevant Securities or any interest therein, or any shares held directly or indirectly by him or it of any of the Relevant Securities or interests nor permit the registered holder to dispose of (or enter into any agreement to dispose of) any of his or its direct or indirect interest in the Relevant Securities during a period of 12 months (or, as regards Mr. Chen and Shaanxi Mant only, six months) from the Listing Date; and

(c) subject to any waiver being granted by the Stock Exchange under the GEM Listing Rules and set out in this prospectus, he or it shall enter into an escrow agreement with an escrow agent acceptable to the Stock Exchange and the Sponsor and place in escrow, with such escrow agent, his or its Relevant Securities during the restriction period applicable to him or it as referred to in sub-paragraph (b) above.

(ii) Each of the Covenantors also severally undertakes to and covenants with the Company, the Sponsor, the Sole Bookrunner and Lead Manager and the Placing Underwriters that:

(a) in the event that he or it disposes of his or its Relevant Securities after the restriction under paragraph (i) above applicable to him or it lapses, all reasonable steps will be taken to ensure that such disposal will not create a false or disorderly market in the H Shares; and

(b) in the event that he or it pledges or charges any direct or indirect interest in the Relevant Securities or in any shares in any company controlled by him or it, which is the beneficial owner of the Relevant Securities within a period commencing on the date of the Placing and Underwriting Agreement and ending on the date when the restriction under paragraph (i) applicable to him or it lapses, he or it must inform the Company, the Sponsor and the Lead Manager immediately thereafter, disclosing to the Company, the Sponsor and the Lead Manager the details of such pledge or charge including the number and class of securities being pledged or charged and the purpose for which the pledge or charge is made and in the event that he or it becomes aware that the pledgee or chargee has disposed of or intends to dispose of such interest, of such disposal or such intention to dispose and the number of securities affected.

The Company undertakes to and covenants with the Sponsor, the Sole Bookrunner and Lead Manager and the Placing Underwriters that, and each of the Covenantors and the executive Directors undertakes to and covenants with the Sponsor, the Sole Bookrunner and Lead Manager and the Placing Underwriters to procure that, save with the prior written consent of the Lead Manager (on behalf of the Placing Underwriters) (such consent not to be unreasonably withheld or delayed) and in compliance with the GEM Listing Rules and the applicable laws, the Company will not, save pursuant to the Placing, or the exercise of the Over-allocation Option or any capitalisation issue or any consolidation, sub-division or capital reduction of Shares or by way of scrip dividend schemes or other similar arrangement in accordance with the Articles of Association: (a) within the period of six months from the Listing Date, issue or agree to issue any shares or any other securities in the Company or grant or agree to grant any options, warrants or other rights carrying the rights to subscribe for, or otherwise convert into, or exchange for, H Shares or any other securities in the Company; and (b) at any time during the period of 12 months from the Listing Date, unless permitted by the GEM Listing Rules, issue any shares or any other securities in the Company or grant or agree to grant any options, warrants or other rights carrying the rights to subscribe for, or otherwise convert into or exchange for shares or securities in the Company so as to result in the Covenantors, either individually or taken together with the others of them, cease to be a controlling shareholder (within the meaning of the GEM Listing Rules) of the Company.

Each of the Company, the Covenantors and the executive Directors undertakes to and covenants with the Sponsor, the Lead Manager and the Placing Underwriters that, save with the prior written consent of the Sponsor (on behalf of the Placing Underwriters) (such consent not to be unreasonably withheld or delayed) and in compliance with the GEM Listing Rules and the applicable laws, the Company will not within the period of six months from the Listing Date purchase any shares or any other securities of the Company.

Commission and expenses

The Underwriters will receive a commission of 4% of the Placing Price per Placing Share, out of which they will pay any sub-underwriting commissions and selling concessions. The Sponsor will also receive an advisory and documentation fee. Such commissions, documentation fees and expenses, together with the Stock Exchange listing fees, legal and other professional fees, and printing and other expenses relating to the Placing, which are estimated to amount in aggregate to approximately HK$20 million (assuming that the Over-allocation is not exercised at all), will be payable by the Company and the Vendors in the proportion of 90.9% to 9.1%. In addition, the SFC transaction levy, the investor compensation levy and the Stock Exchange trading fees in respect of the New H Shares shall be borne by the Company solely. The Vendors shall be solely responsible for fixed transfer duty and ad valorem seller's stamp duty (if any) in respect of the sale and transfer of the Sale H Shares, the SFC transaction levy, the investor compensation levy and the Stock Exchange trading fees in respect of the Sale H Shares. The expenses incurred upon the exercise of the Over-allocation Option will be borne by the Company and the Vendors in the same proportion.

THE PLACING PRICE PAYABLE ON SUBSCRIPTION

The Placing Price will be not more than HK$1.15 and is expected to be not less than HK$0.55. In addition to the Placing Price, investors are also required to pay a 1% brokerage, 0.005% Stock Exchange trading fee, 0.005% SFC transaction levy and 0.002% investor compensation levy. Assuming that the Placing Price is agreed to be HK$1.15 per Placing Share (being the highest point of the indicative Placing Price range as set out in this prospectus), the total Placing Price payable by investors will be HK$4,646.55 per board lot of 4,000 H Shares.

PLACING

The Company is initially offering 147,058,824 New H Shares for subscription and the Vendors are initially offering an aggregate of 14,705,882 Sale H Shares for sale pursuant to the Placing. The Vendors are offering the Sale H Shares in accordance with the Regulations for the Reduction of State Shareholding. The Placing is fully underwritten by the Placing Underwriters subject to the terms and conditions of the Placing and Underwriting Agreement.

Pursuant to the Placing, the Placing Underwriters or selling agents nominated by the Placing Underwriters on behalf of the Company or, as the case may be, the Vendors shall initially place the 161,764,706 Placing Shares at the Placing Price (plus 1% brokerage, 0.005% Stock Exchange trading fee, 0.005% SFC transaction levy and 0.002% investor compensation levy) payable by the subscribers and/or purchasers of the Placing Shares. The Placing Shares will be placed with professional and institutional investors and other investors anticipated to have sizeable demands for the Placing Shares in Hong Kong and other parts of Asia. Professional investors generally include brokers, dealers and companies (including fund managers) whose ordinary businesses involve dealing in shares and other securities and entities which regularly invest in shares and other securities.

The total number of Placing Shares to be placed pursuant to the Placing may change as a result of any exercise of the Over-allocation Option.

TRANSFER OF SALE H SHARES

According to a letter from the MOF dated 2 July 2002, the nature of shareholdings of XITIC, BJ Holdings and Shaanxi Silk was determined as State ownership. Accordingly, each of XITIC, BJ Holdings and Shaanxi Silk is required to reduce their respective shareholdings by converting some of their Domestic Shares such interests into H Shares and offering them for sale under the Placing pursuant to the Regulations for the Reduction of State Shareholdings. XITIC, BJ Holdings and Shaanxi Silk are required to reduce an aggregate of 14,705,882 Domestic Shares, comprising 3,848,529 Domestic Shares held by XITIC, 5,922,059 Domestic Shares held by BJ Holdings and 4,935,294 Domestic Shares held by Shaanxi Silk respectively. These Domestic Shares will be transferred upon completion of the Placing to the purchasers (or their nominee) and each of the Vendors has authorised the Company to sell the 14,705,882 Sale H Shares in aggregate converted from the said 14,705,882 Domestic Shares for and on its behalf. The net proceeds arising from the sale of the 14,705,882 Sale H Shares will then be deposited into a designated bank account of the MOF.

In the event that the Over-allocation Option is exercised in full, each of XITIC, BJ Holdings and Shaanxi Silk will be required to transfer an additional 577,279 Domestic Shares, 888,309 Domestic Shares and 740,294 Domestic Shares respectively, who has also authorised the Company to sell the additional 2,205,882 Sale H Shares in aggregate converted from the said 2,205,882 Domestic Shares for and on its behalf. The net proceeds arising from the sale of the 2,205,882 Sale H Shares will then be deposited into a designated bank account of the MOF.

All transfer of the Sale H Shares to the placees or their designated person(s) will be effected on the Company's register of members in the PRC. An indication of interest in the Placing Shares shall constitute an irrevocable instruction by the investors to the Company that the registration of all Sale H Shares in respect of which the relevant application is accepted shall be removed from the Company's principal register of members in the PRC to the Company's branch register of H Shares maintained in Hong Kong prior to the issue of certificates for H Shares to the placees or their designated person(s).

DETERMINING THE PLACING PRICE

The Placing Underwriters are soliciting from prospective investors indications of interest in acquiring the Placing Shares. Prospective investors will be required to specify the number of Placing Shares they would be prepared to acquire either at different prices or at particular price.

The Placing Price is expected to be determined by agreement between the Sole Bookrunner and Lead Manager (on behalf of the Placing Underwriters) and the Company (for itself and on behalf of the Vendors) on or before 6 p.m. on 28 October 2003, or such later date as may be agreed by the Sole Bookrunner and Lead Manager (on behalf of the Placing Underwriters) and the Company (for itself and on behalf of the Vendors). **If the Sole Bookrunner and Lead Manager (on behalf of the Placing Underwriters) and the Company are not able to reach an agreement on the Placing Price by 6 p.m. on 28 October 2003 or the said later time, the Placing will not become unconditional and will lapse.** In such case, an announcement will be made on the GEM website.

If, based on the level of interest expressed by prospective investors under the book-building process, the Sole Bookrunner and Lead Manager (on behalf of the Placing Underwriters, and with the consent of the Company (for itself and on behalf of the Vendors) thinks it appropriate, the indicative Placing Price range may be reduced below that stated in this prospectus. **Potential investors should be aware that the final Placing Price may be, but is not currently expected to be, lower than the indicative Placing Price range stated in this prospectus.**

In such case, an announcement will be made on the GEM website. Such announcement will also include confirmation or revision, as appropriate, of the working capital at present, the offer statistics as currently set out in the section headed "Summary" of this prospectus and any other financial information which may change as a result of any such reduction.

CONDITIONS OF THE PLACING

Acceptance of applications for the Placing Shares under the Placing are conditional upon:

1. the GEM Listing Committee granting the listing of, and permission to deal in, the H Shares to be issued or sold pursuant to the Placing and the exercise of the Over-allocation Option;

2. the Placing Price having been granted between Sole Bookrunner and Lead Manager (on behalf of the Placing Underwriters) and the Company (for itself and on behalf of the Vendors) on or before 6 p.m. on 28 October 2003 or such later date as may be agreed by the Sole Bookrunner and Lead Manager (on behalf of the Underwriters) and the Company (for itself and on behalf of the Vendors); and

3. the obligations of the Placing Underwriters under the Placing and Underwriting Agreement becoming unconditional (including, if relevant, as a result of the waiver of any condition(s) by CPY International on behalf of the Placing Underwriters), and the Placing and Underwriting Agreement not being terminated in accordance with the terms of the Placing and Underwriting Agreement or otherwise, in each case, on or before the dates and times specified in the Placing and Underwriting Agreement (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than 23 November 2003, being the date which is 30 days after the date of this prospectus.

If the Sole Bookrunner and Lead Manager (on behalf of the Placing Underwriters) and the Company (for itself and on behalf of the Vendors) are not able to reach an agreement on the Placing Price by 6 p.m. on 28 October 2003, the Placing will not become unconditional and will lapse.

If such conditions have not been fulfilled or waived prior to the times and dates specified, the Placing will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Placing will be published by the Company on the GEM website on the next day following such lapse.

The Company will not issue any temporary documents of title.

OVER-ALLOCATION OPTION

In connection with the Placing, the Company and the Vendors have granted the Over-allocation Option to the Placing Underwriters, exercisable by CPY International for itself and on behalf of the Sponsor and the Placing Underwriters, at any time and from time to time exercisable within 30 days from the date of this prospectus to require the Company to issue up to an additional 22,058,824 New H Shares, and the Vendors to sell up to an additional 2,205,882 Sale H Shares in aggregate both at the Placing Price representing approximately 15% of the Placing Shares initially being offered under the Placing solely to cover any over-allocations in the Placing, if any. Pursuant to section 3 of the Price Stabilising Rules, stabilising action may only take place, among other factors, where the total value of the New H Shares at the Placing Price is not less than HK$100 million. Accordingly, for the purpose of compliance with the Price Stabilising Rules, the Over-allocation Option can only be exercised where the Placing Price is HK$0.70 or above. Whether or not the Over-allocation Option is exercised in full, the proportion of the additional Sale H Shares to be converted from the Domestic Shares held by each of the Vendors and offered for sale shall be the same as the proportion of the Sale H Shares initially offered for sale by each of them under the Placing as referred to in the paragraph headed “Transfer of Sale H Shares” in this section.

The Placing Shares initially offered under the Placing will constitute approximately 25.0% of the Company’s registered share capital before the exercise of the Over-allocation Option and approximately 27.8% of the enlarged registered share capital of the Company immediately following the exercise of the Over-allocation Option in full. In the event that the Over-allocation Option is exercised, an announcement will be made on the GEM website. The Placing Underwriters or any one or more of them, as the case may be, will also receive a commission of 4% of the Placing Price in respect of the Over-allocation Option.

STABILISATION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities.

In connection with the Placing, CPY International (on behalf of the Placing Underwriters) may over-allocate up to an aggregate of 24,264,706 additional H Shares (such over-allocations may be covered by exercising the Over-allocation Option in full or in part at any time and from time to time within 30 days from the date of this prospectus or by purchasing H Shares in the secondary market) and/or through stock borrowing arrangements from certain placees under the Placing and/or effect transactions which stabilise or maintain the market price of the H Shares at levels other than those which might otherwise prevail. Pursuant to section 3 of the Price Stabilising Rules, stabilising action may only take place, among other factors, where the total value of the New H Shares at the Placing Price is not less than HK$100 million. Accordingly, for the purpose of compliance with the Price Stabilising Rules, any stabilisation activities can only be done where the Placing Price is HK$0.70 or above. Assuming that the Placing Price is HK$0.70 and the Over-allocation is not exercised at all, the total value of the New H Shares will amount to HK$102,941,176.80. Any such over-allocation, purchase, stock borrowing and/or transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements. Should stabilising transactions be effected in connection with the distribution of Placing Shares, they will be done and discontinued at any time at the absolute discretion of CPY International. As a result, demand for the H Shares, and its market price, may fall after the discontinuation of the stabilising transactions.

Prospective investors should also note the warnings regarding stabilising actions as set out in the paragraph headed "Stabilising action" under the section headed "Information about this prospectus and the Placing" in this prospectus.

COMMENCEMENT OF DEALINGS IN H SHARES

Dealings in H Shares on the GEM is expected to commence on 5 November 2003. H Shares will be traded in board lots of 4,000 each.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of listing of, and permission to deal in, the H Shares on GEM as well as the compliance with the stock admission requirements of HKSCC, the H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the H Shares on GEM or any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made for the H Shares to be admitted into CCASS.

In respect of dealings in the H Shares which may be settled through CCASS, investors should seek the advice of their stockbroker or other professional adviser for details of those settlement arrangements and how such arrangements will affect their rights and interests.

The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the auditors and reporting accountants of the Company, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong.

德勤·關黃陳方會計師行

Certified Public Accountants
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Deloitte Touche Tohmatsu

24 October 2003

The Directors
Xi’an Haitian Antenna Technologies Co., Ltd.
Core Pacific – Yamaichi Capital Limited

Dear Sirs,

We set out below our report on the financial information regarding Xi’an Haitian Antenna Technologies Co., Ltd. (the “Company”) and Xi’an Haitian Communications Equipment Company Limited (the “Predecessor”) for the two years ended 31 December 2002 and the five months ended 31 May 2003 (the “Relevant Periods”) for inclusion in the prospectus of the Company dated 24 October 2003 (the “Prospectus”).

The Predecessor was established in Xi’an, the People’s Republic of China (the “PRC”) on 13 October 1999 as a limited liability company. Through a reorganisation as more fully explained in the paragraph headed “Incorporation” in appendix VI to the Prospectus (the “Reorganisation”), the Predecessor was reorganised into the Company. The Company was established in Xi’an, the PRC on 11 October 2000 as a joint stock limited company. Upon establishment, the Company is continued to carry on the business activities of the Predecessor for research and development, manufacture and sale of base station antennas and related products. At the time of its establishment, the Company’s registered share capital was RMB50,000,000 divided into 50,000,000 Domestic Shares of RMB1.00 each. Pursuant to a resolution passed in an extraordinary general meeting of the Company held on 17 June 2002 and an approval issued by the China Securities Regulatory Commission (the “CSRC”) on 22 April 2003, each of the Company’s Domestic Shares with nominal value of RMB1.00 each was subdivided into 10 Domestic Shares with nominal value of RMB0.10 each.

The statutory financial statements of the Company were prepared in accordance with the relevant accounting principles and financial regulations applicable to companies established in the PRC. The statutory auditors of the Company was Deloitte Touche Tohmatsu Shanghai CPA for the two years ended 31 December 2002.

For the purposes of this report, we have, however, audited in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants, the financial statements of the Company prepared under accounting principles generally accepted in Hong Kong (the “Underlying Financial Statements”) for the Relevant Periods.

We have examined the Underlying Financial Statements for the Relevant Periods in accordance with the Auditing Guideline “Prospectuses and the Reporting Accountant” as recommended by the Hong Kong Society of Accountants.

The Underlying Financial Statements are the responsibility of the directors of the Company. The directors of the Company are responsible for the contents of the Prospectus in which this report is included. It is our responsibility to compile the financial information set out in this report from the Underlying Financial Statements to form an independent opinion on the financial information and to report our opinion to you.

In our opinion, the financial information gives, for the purpose of this report, a true and fair view of the state of affairs of the Company as at 31 December 2001, 31 December 2002 and 31 May 2003 and of the results and cash flows of the Company for each of the two years ended 31 December 2002 and the five months ended 31 May 2003.

I. FINANCIAL INFORMATION

Income statements

	Notes	Year ended 31 December 2001 *RMB*	Year ended 31 December 2002 *RMB*	Five months ended 31 May 2003 *RMB*
Turnover	2	74,905,651	164,525,831	79,258,672
Cost of sales		(31,174,702)	(73,091,608)	(40,010,304)
Gross profit		43,730,949	91,434,223	39,248,368
Other operating income	3	159,362	2,120,260	462,948
Distribution costs		(9,659,559)	(17,974,095)	(11,330,755)
Administrative expenses		(6,976,440)	(11,897,950)	(7,583,129)
Other operating expenses	4	(6,967,389)	(15,095,329)	(7,232,455)
Profit from operations	5	20,286,923	48,587,109	13,564,977
Finance costs	6	(671,329)	(4,025,294)	(2,403,029)
Profit before taxation		19,615,594	44,561,815	11,161,948
Taxation	8	–	(8,168,467)	(2,661,209)
Net profit for the year/period		19,615,594	36,393,348	8,500,739
Dividends	9	–	15,000,000	–
Earnings per share, basic	10	RMB0.039	RMB0.073	RMB0.017

Balance sheets

	Notes	As at 31 December 2001 *RMB*	As at 31 December 2002 *RMB*	As at 31 May 2003 *RMB*
NON-CURRENT ASSETS				
Land use right	11	12,651,537	12,392,448	12,284,494
Technological know-how	12	8,666,667	7,666,667	7,250,000
Property, plant and equipment	13	36,206,422	51,398,720	52,327,188
Club debenture		280,000	280,000	280,000
Deposits for acquisition of land use right/property, plant and equipment		1,098,713	750,000	1,288,257
Pledged bank deposits	27	–	527,483	523,183
		58,903,339	73,015,318	73,953,122
CURRENT ASSETS				
Inventories	14	20,766,514	32,759,464	39,937,265
Trade receivables	15	24,802,836	98,593,928	91,782,329
Other receivables and prepayments		7,000,778	11,528,610	15,261,461
Amount due from a director	16	45,008	–	–
Amount due from a related company	17	2,987,319	–	–
Pledged bank deposits	27	1,740,250	10,664,019	26,169,030
Bank balances and cash		18,111,140	20,988,295	38,845,181
		75,453,845	174,534,316	211,995,266
CURRENT LIABILITIES				
Trade payables	18	11,359,968	34,000,088	44,725,345
Bills payable		1,740,250	13,756,080	8,254,887
Other payables and accrued charges		4,829,122	13,514,819	11,620,123
Amount due to a related party	17	–	60,000	–
Amount due to a shareholder	19	2,221,791	–	–
Taxation		–	7,816,783	10,477,992
Dividends payable		3,620,192	13,299,158	13,299,158
Bank and other borrowings – due within one year	20	40,000,000	43,123,497	67,090,935
		63,771,323	125,570,425	155,468,440
NET CURRENT ASSETS		11,682,522	48,963,891	56,526,826
		70,585,861	121,979,209	130,479,948
CAPITAL AND RESERVES				
Capital	21	50,000,000	50,000,000	50,000,000
Reserves	22	20,585,861	41,979,209	50,479,948
		70,585,861	91,979,209	100,479,948
NON-CURRENT LIABILITY				
Bank and other borrowings – due after one year	20	–	30,000,000	30,000,000
		70,585,861	121,979,209	130,479,948

Statements of changes in equity

	Registered/ share capital *RMB* *(Note 21)*	Statutory surplus reserve *RMB* *(Note 22(a))*	Statutory public welfare fund *RMB* *(Note 22(b))*	Accumulated profits *RMB*	Total *RMB*
At 1 January 2001	50,000,000	215,253	530,609	224,405	50,970,267
Net profit for the year	–	–	–	19,615,594	19,615,594
Transfer	–	1,913,015	956,508	(2,869,523)	–
At 31 December 2001	50,000,000	2,128,268	1,487,117	16,970,476	70,585,861
Net profit for the year	–	–	–	36,393,348	36,393,348
Transfer	–	3,702,803	1,851,402	(5,554,205)	–
Dividends	–	–	–	(15,000,000)	(15,000,000)
At 31 December 2002	50,000,000	5,831,071	3,338,519	32,809,619	91,979,209
Net profit for the period	–	–	–	8,500,739	8,500,739
At 31 May 2003	50,000,000	5,831,071	3,338,519	41,310,358	100,479,948

Cash flow statements

	Note	Year ended 31 December 2001 RMB	2002 RMB	Five months ended 31 May 2003 RMB
OPERATING ACTIVITIES				
Cash generated from operations	23	7,946,105	9,735,058	15,613,505
Interest paid		(1,521,850)	(4,205,294)	(2,403,029)
Dividend paid		–	(5,321,034)	–
Government grant received		–	2,000,000	120,000
PRC Taxation paid		–	(351,684)	–
NET CASH GENERATED FROM OPERATING ACTIVITIES		6,424,255	1,857,046	13,330,476
INVESTING ACTIVITIES				
Purchase of land use right/property, plant and equipment		(27,346,737)	(20,146,532)	(2,686,727)
Increase in pledged bank deposits		(1,740,250)	(9,451,252)	(15,500,711)
Deposit for purchase of land use right/ property, plant and equipment		(1,098,713)	(750,000)	(1,288,257)
Repayment from a related party		1,310,626	–	–
Interest received		65,096	82,501	34,606
Proceeds from disposals of property, plant and equipment		–	383,686	61
NET CASH USED IN INVESTING ACTIVITIES		(28,809,978)	(29,881,597)	(19,441,028)
FINANCING ACTIVITIES				
New bank and other borrowings raised		40,000,000	114,340,000	70,000,000
Repayment to a shareholder		(3,365,008)	(2,221,791)	–
Repayment of borrowings		–	(81,216,503)	(46,032,562)
NET CASH GENERATED FROM FINANCING ACTIVITIES		36,634,992	30,901,706	23,967,438
INCREASE IN CASH AND CASH EQUIVALENTS		14,249,269	2,877,155	17,856,886
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		3,861,871	18,111,140	20,988,295
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash		18,111,140	20,988,295	38,845,181

Notes to the financial information

1. Significant accounting policies

The financial information set out in this report has been prepared under the historical cost convention and in accordance with the principal accounting policies set out below which conform with accounting principles generally accepted in Hong Kong.

Turnover

Turnover represents the amounts received and receivable for goods sold exclusive of value added taxes, less returns and allowances, to third parties during the year/period.

Revenue recognition

Sale of goods is recognised when goods are delivered and title has passed.

Subsidy income from government authority is recognised when the conditions relating to the subsidy have been fulfilled.

Interest income is accrued on a time proportion basis by reference to the principal outstanding and at the interest rate applicable.

Service income is recognised when services are provided.

Land use right

Land use right is stated at cost less accumulated amortisation and identified impairment losses. The cost of land use right is amortised on a straight line basis over the period of the right.

Technological know-how

Technological know-how represents purchase cost for the technical knowledge and skill in developing and manufacturing telecommunication products, is stated at cost less accumulated amortisation and identified impairment loss.

Amortisation is calculated to write off the cost of the technological know-how over their estimated useful lives, using the straight line method, up to ten years.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Properties in the course of development for production, rental or administrative purposes, or for purpose not yet determined, are carried at cost, less any identified impairment loss. Depreciation of these assets, on the same basis as other assets, commences when the assets are ready for their intended use.

Depreciation is provided to write off the cost of items of property, plant and equipment, other than properties under construction, over their estimated useful lives from the date on which they become fully operational, and after taking into account their estimated residual value, using the straight line method, at the following rates per annum:

Buildings	$3^1/_3$%
Plant and machinery	10% – $33^1/_3$%
Furniture, fixtures and equipment	20%
Motor vehicles	$12^1/_2$%

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Club debenture

Club debenture is stated at cost less identified impairment losses.

Impairment of assets

At each balance sheet date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of the asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, cost of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average cost method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year/period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years/period, and it further excludes income statement items that are never taxable and deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) of from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the assets realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Research and development costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally generated intangible asset arising from the development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight line basis over its useful life, which is usually no more than five years.

Where no internally generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Foreign currencies

Transactions in currencies other than Renminbi ("RMB") are translated at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on translation are dealt with in the income statement.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs and are deducted in reporting the related expense. Grants related to depreciable assets are presented as a deduction from the carrying amount of the relevant asset and are released to income over the useful lives of the assets. Grants related to expense items are recognised in the same period as those expenses are charged in the income statement and are deducted in reporting the related expense.

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight line basis over the relevant lease term.

Retirement benefits costs

Payments to a state-managed retirement benefit scheme are charged as an expense as they fall due. Payments made to state-managed retirement benefit scheme are dealt with as payments to defined contribution benefit scheme where the Company's obligations under the scheme are equivalent to those arising in a defined contribution retirement benefit scheme.

2. Segment information

As sale of telecommunication products is the only reportable business segment of the Company and the operations of the Company are mainly carried out in the PRC. No segment information is presented.

3. Other operating income

	Year ended 31 December		Five months ended 31 May
	2001	**2002**	**2003**
	RMB	*RMB*	*RMB*
Interest income	65,096	82,501	34,606
Government subsidy for export sales *(Note)*	–	25,904	344,865
Sales of materials	83,223	30,496	44,269
Service income	–	1,962,584	23,122
Others	11,043	18,775	16,086
	159,362	2,120,260	462,948

Note: The subsidy from the government recognised by the Company is the grant for encouraging export sales in the PRC.

4. Other operating expenses

	Year ended 31 December		Five months ended 31 May
	2001	**2002**	**2003**
	RMB	*RMB*	*RMB*
Allowance for doubtful debts	694,398	4,252,215	1,696,472
Amortisation of technological know-how	1,000,000	1,000,000	416,667
Deposits for acquisition of materials written off	–	126,220	–
Loss on disposal of property, plant and equipment	–	626,465	18,455
Research and development costs	5,272,991	9,090,429	5,100,861
	6,967,389	15,095,329	7,232,455

5. Profit from operations

	Year ended 31 December 2001 RMB	2002 RMB	Five months ended 31 May 2003 RMB
Profit from operations has been arrived at after charging:			
Directors' and supervisors' remunerations *(note 7)*	1,716,806	1,683,961	909,503
Other staff costs	9,676,209	16,193,897	8,794,603
Retirement benefit scheme contributions (excluding those of directors and supervisors)	40,362	174,743	131,190
Total staff costs	11,433,377	18,052,601	9,835,296
Less: Staff costs included in the research and development costs	(3,137,973)	(4,449,724)	(2,793,090)
	8,295,404	13,602,877	7,042,206
Allowance for inventories	–	487,980	191,627
Amortisation of land use right (charged to administrative expenses)	43,820	259,089	107,954
Auditors' remuneration	220,000	250,000	150,000
Cost of inventories recognised in the income statement	31,174,702	73,091,608	40,010,304
Depreciation of property, plant and equipment	1,734,636	5,042,796	2,489,743
Less: Depreciation included in the research and development costs	(426,195)	(1,650,846)	(915,291)
	1,308,441	3,391,950	1,574,452
Rentals of premises under operating leases	1,517,100	926,657	230,824
Less: Rentals of staff quarters included in staff costs	(87,350)	(216,500)	(77,100)
	1,429,750	710,157	153,724

6. Finance costs

	Year ended 31 December 2001 RMB	2002 RMB	Five months ended 31 May 2003 RMB
Interest on bank and other borrowings wholly repayable within five years	1,151,850	3,953,423	2,403,029
Guarantee fee for bank borrowings	370,000	71,871	–
	1,521,850	4,025,294	2,403,029
Less: Amounts capitalised in properties under construction	(850,521)	–	–
	671,329	4,025,294	2,403,029

Borrowing costs capitalised during the year ended 31 December 2001 arose on the general borrowing pool and are calculated by applying a capitalised rate of 6.4% to expenditure on qualifying assets.

7. Directors', supervisors' and employees' remunerations

The emoluments of the directors and supervisors for the Relevant Periods are all below HK$1,000,000 (equivalent to approximately RMB1,060,000) and are as follows:

	Year ended 31 December		Five months ended 31 May
	2001	2002	2003
	RMB	*RMB*	*RMB*
Fees	–	–	–
Basic salaries and allowances	1,577,440	1,517,909	904,667
Bonus	135,710	156,000	–
Retirement benefits scheme contributions	3,656	10,052	4,836
	1,716,806	1,683,961	909,503
Director A	677,800	676,960	360,013
Director B	324,512	365,140	220,067
Director C	408,050	362,735	200,320
Director D	6,000	6,000	2,500
Director E	6,000	6,000	2,500
Director F	6,000	6,000	2,500
Director G	6,000	6,000	2,500
Director H	6,000	6,000	2,500
Director I	36,000	36,000	15,000
Director J	36,000	36,000	15,000
Director K	36,000	36,000	15,000
	1,548,362	1,542,835	837,900
Supervisor A	6,000	6,000	2,500
Supervisor B	6,000	6,000	2,500
Supervisor C	6,000	6,000	2,500
Supervisor D	100,200	75,350	42,177
Supervisor E	50,244	47,776	21,926
	168,444	141,126	71,603

The five highest paid individuals included three directors during the Relevant Periods, details of whose emoluments are included above. The emoluments of the remaining individuals for the Relevant Periods are as follows:

	Year ended 31 December		Five months ended 31 May
	2001	2002	2003
	RMB	*RMB*	*RMB*
Basic salaries and allowances	438,100	531,946	381,257
Bonus	3,240	–	–
Retirement benefit scheme contributions	3,276	2,512	3,143
	444,616	534,458	384,400

The aggregate emoluments of each of the five highest paid individuals during the Relevant Periods were below HK$1,000,000 (equivalent to approximately RMB1,060,000).

During the Relevant Periods, no emoluments were paid by the Company to any of the directors, supervisors or the five highest paid individuals (including directors, supervisors and employees) as an inducement to join or upon joining the Company or as compensation for loss of office. None of the directors and supervisors has waived any emoluments during the Relevant Periods.

8. Taxation

The amount represents provision for PRC corporate income tax on the Company's estimated assessable profit for the year/period.

The charge for the year/period can be reconciled to the profit as shown in the income statements as follows:

	Year ended 31 December 2001		Year ended 31 December 2002		Five months Year ended 31 May 2003	
	RMB	*%*	*RMB*	*%*	*RMB*	*%*
Profit before taxation	19,615,594		44,561,815		11,161,948	
Tax at the domestic income tax rate of 15%	2,942,339	15	6,684,272	15	1,674,292	15
Tax effect of expenses that are not deductible in determining taxable profit	–	–	2,986,833	6.7	1,959,253	17.5
Tax effect on additional tax allowance in respect of domestic acquired machineries	–	–	(832,719)	(1.9)	(566,039)	(5.1)
Tax effect on additional tax allowance in respect of the research and development costs	–	–	(669,919)	(1.5)	(398,047)	(3.5)
Tax effect on additional tax allowance in respect of the government subsidy for export sales	–	–	–	–	(8,250)	(0.1)
Tax effect on tax holiday	(2,942,339)	(15)	–	–	–	–
Tax expense and effective tax rate	–	–	8,168,467	18.3	2,661,209	23.8

The Company is regarded by the Xi'an Municipal Bureau of Science and Technology as a high technology enterprise located at the Xi'an National Hi-tech Industrial Development Zone. Pursuant to relevant laws and regulations in the PRC, the Company is exempted from income tax for the two years starting from their first production year followed by an income tax rate of 15% in the remaining years of operation. Therefore, the Company was exempted from income tax for the first two years since its production commenced in 2000 and is subject to an income tax payable of 15% thereafter.

There was no significant unprovided deferred taxation for the Relevant Periods or at the respective balance sheet dates.

9. Dividends

No dividend has been declared by the Company during the year ended 31 December 2001 and for the five months ended 31 May 2003.

During the year ended 31 December 2002, the Company declared dividends of RMB15,000,000.

The rates of dividends and the number of shares ranking for dividends are not presented as such information is not meaningful having regard to the purpose of this report.

10. Earnings per share

The calculation of the basic earnings per share for the Relevant Periods is based on the profit for the year/period for the Relevant Periods and on the basis of 500,000,000 shares in issue as at the date of the prospectus and assume that the sub-division of shares had taken place at the beginning of the Relevant Periods.

11. Land use right

	RMB
COST	
At 1 January 2001	–
Additions	12,695,357
At 31 December 2001, 31 December 2002 and 31 May 2003	12,695,357
AMORTISATION	
At 1 January 2001	–
Provided for the year	43,820
At 31 December 2001	43,820
Provided for the year	259,089
At 31 December 2002	302,909
Provided for the period	107,954
	410,863
NET BOOK VALUE	
At 31 May 2003	12,284,494
At 31 December 2002	12,392,448
At 31 December 2001	12,651,537

The cost of land use right is amortised over 49 years on a straight line basis.

12. Technological know-how

	RMB
COST	
At 1 January 2001, 31 December 2001, 31 December 2002 and 31 May 2003	10,000,000
AMORTISATION	
At 1 January 2001	333,333
Provided for the year	1,000,000
At 31 December 2001	1,333,333
Provided for the year	1,000,000
At 31 December 2002	2,333,333
Provided for the period	416,667
	2,750,000
NET BOOK VALUE	
At 31 May 2003	7,250,000
At 31 December 2002	7,666,667
At 31 December 2001	8,666,667

The technological know-how represents the technical knowledge and skill used for developing and manufacturing of WLL/PHS antennas and the base station antenna for GSM/CDMA mobile telecommunication system. The technological know-how was previously held by Professor Xiao Liangyong ("Professor Xiao"), a director and a shareholder of the Company. According to the shareholder agreement entered into between the Shareholders of the Company, it was agreed that the technological know-how held by Professor Xiao be injected into the Company at an amount of RMB10,000,000 as part of his contribution to the increase in paid-up capital in September 2000.

The cost of the technological know-how is amortised over a period of ten years on a straight line basis.

13. Property, plant and equipment

	Buildings	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Properties under construction	Total
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
COST						
At 1 January 2001	1,198,277	5,305,978	968,987	2,061,409	1,259,268	10,793,919
Additions	–	5,306,691	793,507	273,600	21,623,636	27,997,434
At 31 December 2001	1,198,277	10,612,669	1,762,494	2,335,009	22,882,904	38,791,353
Additions	–	2,878,592	3,947,408	1,194,017	13,225,228	21,245,245
Disposals	(112,590)	(1,235,944)	(131,630)	–	–	(1,480,164)
Transfers	24,367,604	10,432,935	1,307,593	–	(36,108,132)	–
At 31 December 2002	25,453,291	22,688,252	6,885,865	3,529,026	–	58,556,434
Additions	443,560	163,987	2,551,508	–	277,672	3,436,727
Disposals	–	–	(35,938)	–	–	(35,938)
At 31 May 2003	25,896,851	22,852,239	9,401,435	3,529,026	277,672	61,957,223
DEPRECIATION AND AMORTISATION						
At 1 January 2001	–	662,278	86,037	101,980	–	850,295
Provided for the year	99,835	1,112,603	249,062	273,136	–	1,734,636
At 31 December 2001	99,835	1,774,881	335,099	375,116	–	2,584,931
Provided for the year	792,089	2,899,249	955,366	396,092	–	5,042,796
Eliminated on disposals	(11,163)	(404,238)	(54,612)	–	–	(470,013)
At 31 December 2002	880,761	4,269,892	1,235,853	771,208	–	7,157,714
Provided for the period	339,071	1,418,038	558,021	174,613	–	2,489,743
Eliminated on disposals	–	–	(17,422)	–	–	(17,422)
At 31 May 2003	1,219,832	5,687,930	1,776,452	945,821	–	9,630,035
NET BOOK VALUE						
At 31 May 2003	24,677,019	17,164,309	7,624,983	2,583,205	277,672	52,327,188
At 31 December 2002	24,572,530	18,418,360	5,650,012	2,757,818	–	51,398,720
At 31 December 2001	1,098,442	8,837,788	1,427,395	1,959,893	22,882,904	36,206,422

The buildings are situated on land held under medium-term land use right in the PRC.

	As at 31 December 2001	2002	As at 31 May 2003
	RMB	*RMB*	*RMB*
Interest capitalised in properties under construction	850,521	–	–
Less: Government grant *(Note)*	(800,000)	–	–
Net amount of interest capitalised	50,521	–	–

Note: The government grant is obtained specifically to subsidy interest expenditure incurred for obtaining external finance by the Company for construction of property, plant and equipment. Such government grant has been received in 2002.

14. Inventories

	As at 31 December		As at 31 May
	2001	**2002**	**2003**
	RMB	*RMB*	*RMB*
Raw materials	8,684,806	11,560,906	11,839,120
Work in progress	2,291,121	4,667,815	2,597,537
Finished goods	9,790,587	16,530,743	25,500,608
	20,766,514	32,759,464	39,937,265

Allowances for inventories amounted to Nil, RMB487,980 and RMB191,627, respectively was made, representing 100% of the relevant inventories costs during the Relevant Periods.

15. Trade receivables

For the receivables from the subsidiaries and branch offices of China Mobile Communications and China United Telecommunications Corporation, the amounts are settled by instalments which are mutually determined and agreed by the relevant parties. Generally, the Company allows a credit period from 90 days to 240 days to its trade customers. The aged analysis of trade receivables is as follows:

	As at 31 December		As at 31 May
	2001	**2002**	**2003**
	RMB	*RMB*	*RMB*
Aged:			
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

Included in the trade receivables as at 31 May 2003, an amount of RMB43 million, is expected to be collected by the end of 2004. As the settlement is expected to be realised in the normal course of the Company's operating cycle, it's therefore shown as a current asset.

16. Amount due from a director

The amount was unsecured, non-interest bearing and was fully settled during the year ended 31 December 2002.

Details of amount due from a director are as follows:

	As at 1 January	As at 31 December		As at 31 May
Name of director	**2001**	**2001**	**2002**	**2003**
	RMB	*RMB*	*RMB*	*RMB*
Mr. Xiao Bing	–	45,008	–	–
Maximum amount outstanding during the year/period		45,008	45,008	–

Mr. Xiao Bing is a son of Professor Xiao and he is a director of the Company.

17. Amount due from (to) a related company/party

(a) Details of amount due from a related company are as follows:

Name of related company	As at 31 December 2001 RMB	2002 RMB	As at 31 May 2003 RMB
Xi'an Haitong Antenna Co., Ltd. （西安海通天綫有限責任公司）	2,987,319	–	–

Mr. Li Jun, son-in-law of Professor Xiao, has beneficial interest in Xi'an Haitong Antenna Co., Ltd. (西安海通天綫有限責任公司).

The amount was unsecured, non-interest bearing and was fully settled during the year ended 31 December 2002.

(b) The amount due to a related party, Ms. Xiao Lei, a daughter of Professor Xiao Liangyong, was unsecured, non-interest bearing and was fully settled during the period ended 31 May 2003.

18. Trade payables

The aged analysis of trade payables is as follows:

	As at 31 December 2001 RMB	2002 RMB	As at 31 May 2003 RMB
Aged:			
0 – 60 days	8,347,219	21,680,747	29,498,659
61 – 120 days	1,919,300	5,885,630	3,674,945
121 – 365 days	1,093,449	6,370,953	9,969,572
Over 365 days	–	62,758	1,582,169
	11,359,968	34,000,088	44,725,345

19. Amount due to a shareholder

The amount represented advance from Professor Xiao, which was unsecured, non-interest bearing and was fully settled during the year ended 31 December 2002.

Had the balance due to a shareholder been interest bearing at the prevailing interest rate, the Directors of the Company believe that the profit for the year/period of the Company for the Relevant Periods would have decreased by:

	Year ended 31 December 2001 RMB	2002 RMB	Five months ended 31 May 2003 RMB
Notional interest expense	143,000	24,000	–

20. Bank and other borrowings

	As at 31 December 2001 RMB	2002 RMB	As at 31 May 2003 RMB
Bank loans			
Secured	20,000,000	71,923,497	97,090,935
Unsecured	20,000,000	–	–
Other loan – unsecured	–	1,200,000	–
	40,000,000	73,123,497	97,090,935
The bank and other borrowings are repayable as follows:			
Within one year	40,000,000	43,123,497	67,090,935
More than one year, but not exceeding two years	–	30,000,000	–
More than two years, but not exceeding five years	–	–	30,000,000
	40,000,000	73,123,497	97,090,935
Less: Amount repayable within one year shown under current liabilities	(40,000,000)	(43,123,497)	(67,090,935)
	–	30,000,000	30,000,000

The other loan from an independent third party was unsecured, charged interest at 0.565% per month and was fully repaid in January 2003.

Subsequent to the balance sheet date, the Company has obtained an irrecoverable written undertaking from a bank. Pursuant to such undertaking, the bank has irrecoverably undertaken to the Company to renew a two-year term loan of RMB30,000,000 (original due in March 2004) which need to be repaid on or before March 2008. Accordingly, the loan of RMB30,000,000 is classified as a non-current liability as at 31 May 2003.

21. Capital

The capital of the Company before the Reorganisation represents the registered paid-up capital.

	Number of shares	Value RMB
Registered, issued and fully paid share capital at 1 January 2001 and 31 December 2001	50,000,000	50,000,000
Subdivision of each issued share into 10 shares of RMB0.10 each *(Note)*	450,000,000	–
Registered, issued and fully paid share capital at 31 December 2002 and 31 May 2003	500,000,000	50,000,000

* *There were no movements in capital for the two years ended 31 December 2001, 2002 and the five months ended 31 May 2003.*

Note: Pursuant to the resolutions of the shareholders of the Company passed on 17 June 2002, every share of RMB1.00 each is subdivided into 10 shares of RMB0.10 each.

22. Reserves

(a) *Statutory surplus reserve*

The Company's Articles of Association requires the appropriation of 10% of its profit after taxation each year to the statutory surplus reserve until the balance reaches 50% of the registered share capital. According to the provision of the Company's Articles of Association, in normal circumstances, the statutory surplus reserve shall only be used for making up losses, capitalisation into share capital and expansion of the Company's production and operation.

(b) *Statutory public welfare fund*

Pursuant to the PRC Company Law, the Company shall make allocation from its profit after taxation at the rate of 5% to 10% to the statutory public welfare fund. The statutory public welfare fund can only be utilised on capital items for employees collective welfare. Individual employees only have the right to use these facilities, the titles to which will remain with the Company. The statutory public welfare fund forms part of the shareholder's equity but is non-distributable other than in liquidation.

23. Reconciliation of profit before taxation to net cash generated from operating activities are as follows:

	Year ended 31 December 2001 *RMB*	Year ended 31 December 2002 *RMB*	Five months ended 31 May 2003 *RMB*
Profit before taxation	19,615,594	44,561,815	11,161,948
Adjustments for:			
Interest expenses	671,329	4,205,294	2,403,029
Interest income	(65,096)	(82,501)	(34,606)
Depreciation and amortisation of property, plant and equipment	1,734,636	5,042,796	2,489,743
Amortisation of land use right	43,820	259,089	107,954
Amortisation of technological know-how	1,000,000	1,000,000	416,667
Loss on disposal of property, plant and equipment	–	626,465	18,455
Allowance for doubtful debts	694,398	4,252,215	1,696,472
Allowance for inventories	–	487,980	191,627
Operating cash flows before movements in working capital	23,694,681	60,353,153	18,451,289
Increase in inventories	(8,626,731)	(12,480,930)	(7,369,428)
(Increase) decrease in trade receivables	(13,089,814)	(78,043,307)	5,115,127
Increase in other receivables and prepayments	(5,867,204)	(5,327,832)	(3,732,851)
(Increase) decrease in amount due from a director	(45,008)	45,008	–
(Increase) decrease in amount due from a related company	(2,987,319)	2,987,319	–
Increase in trade payables	9,050,757	22,640,120	10,725,257
Increase (decrease) in bills payable	1,740,250	12,015,830	(5,501,193)
Increase (decrease) in other payables and accrued charges	4,076,493	7,485,697	(2,014,696)
Increase (decrease) in amount due to a director	–	60,000	(60,000)
Cash generated from operations	7,946,105	9,735,058	15,613,505

24. Operating lease commitments

The Company as lessee

Minimum lease payments paid under operating leases during the year/period:

	Year ended 31 December 2001 *RMB*	Year ended 31 December 2002 *RMB*	Five months ended 31 May 2003 *RMB*
Premises	1,517,100	926,657	230,824

At the respective balance sheet dates, the Company had outstanding commitments payable under non-cancellable operating leases in respect of rented premises which fall due as follows:

	As at 31 December 2001 *RMB*	As at 31 December 2002 *RMB*	As at 31 May 2003 *RMB*
Within one year	348,040	476,333	553,926
In the second to fifth year inclusive	172,700	374,024	325,020
	520,740	850,357	878,946

Operating lease payments represent rental payable by the Company for its office premises, warehouse and staff quarters. Leases are negotiated for an average term of two years with fixed rentals.

25. Capital commitments

	As at 31 December 2001 *RMB*	2002 *RMB*	As at 31 May 2003 *RMB*
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	1,066,950	372,990	16,829,174

26. Contingent liabilities

At 31 December 2001, the Company and Xi'an Qing Song Keji Co., Ltd. 西安青松科技股份有限公司, a company in which 西安國際信托投資有限公司 ("XITIC"), a shareholder of the Company, has 10% beneficial interest, had given cross guarantee of an amount up to RMB10,000,000 to a bank in respects of banking facilities granted to Xi'an Qing Song Keji Co., Ltd. and the Company and the banking facilities utilised by Xi'an Qing Song Keji Co., Ltd. was amounted to RMB5,000,000 at 31 December 2001. The cross guarantee was released on 26 December 2002.

At 31 May 2003, discounted bills with recourse of the Company were amounted to RMB38,941,530. At 31 December 2001 and 2002, the Company did not have any discounted bills.

27. Pledge of assets

The Company has pledged the following assets for the banking facilities granted by the banks to the Company and the carrying value of the assets are as follows:

	As at 31 December 2001 *RMB*	2002 *RMB*	As at 31 May 2003 *RMB*
Bank deposits *(Note)*	1,740,250	11,191,502	26,692,213
Buildings	–	24,572,530	24,677,019
Land use right	12,651,537	12,392,448	12,284,494
Trade receivables	–	11,923,497	6,560,346
	14,391,787	60,079,977	70,214,072

Note: Included in the amount, an amount of RMB527,483 as at 31 December 2002 and RMB523,183 as at 31 May 2003 was pledged to a bank to secure the guarantee issued by a bank in favour of an overseas customer for the quality assurance of the goods the customers acquired from the Company. The guarantee will not expire within twelve months from the balance sheet date and is therefore such pledged bank deposit is shown as a non-current asset.

In addition to the above, as at 31 December 2001, XITIC issued corporate guarantees amounted to RMB20,000,000 to banks to secure banking facilities granted to the Company and 18,000,000 shares of the Company held by Professor Xiao in the Company and plant and machinery of the Company with net book value of RMB4,136,030 were pledged to XITIC as counter guarantees. Such security and guarantees were released during the year ended 31 December 2002.

28. Related party disclosures

During the years/period, the Company entered into the following transactions with related parties:

Name of related party	*Notes*	Nature of transactions	Year ended 31 December 2001 *RMB*	2002 *RMB*	Five months ended 31 May 2003 *RMB*
Mr. Xiao Bing	*(i)*	Rental expenses paid by the Company for its office	1,200,150	–	–
Ms. Xiao Lei	*(i)*	Rental expenses paid by the Company for its sale contact point	60,000	60,000	25,000
Xi'an Haitong Antenna Co., Ltd. 西安海通天綫有限責任公司	*(ii)*	Sales of goods	3,621,640	595,729	100,682
Shaanxi Mant Knowledge Industrial Co., Ltd. 陝西門德知識產業開發有限責任公司	*(ii), (iii)*	Consultancy service fee paid by the Company for business advices	60,000	–	–
XITIC .	*(ii), (iii)*	Guarantee service fee paid to XITIC as a guarantor of the Company	190,000	71,871	–
Xi'an Zhengheng Asset Appraisal Co., Ltd 西安正衡資產評估有限責任公司	*(ii), (iv)*	Valuation fee paid in respect of valuation of the Company	–	140,000	40,000

Notes:

(i) Rentals were charged in accordance with the lease terms mutually agreed between the relevant parties. The lease from Mr. Xiao Bing was terminated on 30 September 2001.

(ii) Considerations for the transactions were paid at terms determined and agreed between the relevant parties. The transactions were carried out at market price, or where no market prices were available, at cost plus a percentage profit mark-up.

(iii) The above party is a shareholder of the Company.

(iv) Xi'an Zhengheng Asset Evaluation Co., Ltd. and Xi'an Zhengheng Investment & Advisory Co., Ltd, a shareholder of the Company, are under the control of their common shareholders.

Also, the Company had certain balances with its shareholder, director and related company/party, details of these are set out in notes 16, 17 and 19.

At 31 December 2001, the Company had given cross guarantee to Xi'an Qing Song Keji Co. Ltd. Details of these are set out in note 26.

In addition to the above, as at 31 December 2001, XITIC issued corporate guarantees to the banks. Details of these are set out in note 27.

The directors have represented that the above transactions were undertaken in the ordinary course of business on terms mutually agreed between the Company and the related parties. The directors have represented that other than rental expenses paid to Ms. Xiao Lei, the Company will discontinue the above transactions following the listing of Shares of the Company on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

29. Retirement benefits scheme

The Company participates in a defined contribution retirement scheme organised by the relevant local government authority in the PRC. Certain employees of the Company eligible to participate in the retirement scheme are entitled to retirement benefits from the scheme. The local government authority is responsible for the pension liabilities to these retired employees. The Company is required to make monthly contributions to the retirement scheme up to the time of retirement of the eligible employees, at 20% of the local standard basic salaries.

As at 31 December 2001, 2002 and 31 May 2003, the Company had no significant obligation apart from the contribution as stated above.

30. Government grants

Other than as disclosed in notes 3 and 13, the Company received a government grant of RMB1,200,000 during the year ended 31 December 2002 and RMB120,000 during the five months ended 31 May 2003 respectively towards the development of a 3G product. The amount received in respect of the government grant is repayable if the development of a 3G product is not completed. As at 31 December 2002 and 31 May 2003, as the development of a 3G product is not yet completed, the amount has not yet recognised in the income statement and is included as other payables.

31. Distributable reserves

In accordance with the Articles of Association of the Company, the reserve available for distribution is the lower of amount determined under accounting principles generally accepted in the PRC and the amount determined under the principles generally accepted in Hong Kong. Based on the financial statements of the Company prepared in accordance with the relevant accounting principles and financial regulations applicable to companies established in the PRC, the Company's distributable reserves were RMB16,919,955, RMB33,393,781 and RMB41,310,358 as at 31 December 2001, 31 December 2002 and 31 May 2003.

The Company has reserve amounting to RMB16,919,955, RMB32,809,619 and RMB41,310,358 respectively available for distribution to shareholders as at 31 December 2001, 2002 and 31 May 2003.

32. Directors' and Supervisors' remuneration

Save as disclosed herein, no remuneration has been paid or is payable by the Company to the Company's directors and supervisors in respect of the Relevant Periods.

Under the arrangements presently in force, the aggregate remuneration of the Company's directors and supervisors for the year ending 31 December 2003 is estimated to be approximately RMB1,796,000 (excluding any management bonus which may be paid).

33. Subsequent events

The following transactions took place subsequent to 31 May 2003:

On 18 October 2003, shareholders' resolutions were passed to approve the matters set out in the paragraph headed "Further information about the Company" in appendix VI to the Prospectus.

II. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company in respect of any period subsequent to 31 May 2003.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

The following is the text of a letter, summary of valuation and a valuation certificate, prepared for the purpose of incorporation in the prospectus dated 24 October 2003 issued to the Company, received from Vigers Hong Kong Ltd., an independent property valuer, in connection with its valuation of the property interests of the Company in the PRC as at 31 August 2003.

Vigers Hong Kong Ltd.
International Property Consultants

10th Floor, The Grande Building
398 Kwun Tong Road
Kwun Tong
Kowloon
Hong Kong

VIGERS 威格斯

24 October 2003

The Directors
Xi'an Haitian Antenna Technologies Co., Ltd.
No. 36 Gao Xin Liu Road
Xi'an National Hi-tech Industrial Development Zone
Xi'an
Shaanxi Province
The PRC

Dear Sirs,

In accordance with your instructions for us to value the property interests of Xi'an Haitian Antenna Technologies Co., Ltd. (the "Company") in the People's Republic of China ("the PRC"), we confirm that we have carried out inspection, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the open market values of such property interests as at 31 August 2003 ("date of valuation").

Our valuation is our opinion of the open market value which we would define as intended to mean – "the best price at which the sale of an interest in property would have been completed unconditionally for cash consideration on the date of valuation assuming:

(a) a willing seller;

(b) that, prior to the date of valuation, there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of price and terms and for the completion of the sale;

(c) that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation;

(d) that no account is taken of any additional bid by a prospective purchaser with a special interest; and

(e) that both parties to the transaction had acted knowledgeably, prudently and without compulsion."

In valuing the property interest in Group I which is owned and occupied by the Company in the PRC, we have adopted a combination of the market and depreciated replacement cost approaches in assessing the land portions of the property and the buildings and structures standing on the land respectively. Hence, the sum of the two results represents the market value of the property as a whole. In the valuation of the land portions, reference has been made to the standard land price in Shaanxi Province and the sales comparables in the locality. As the nature of the buildings and structures cannot be valued on the basis of open market value, they have therefore been valued on the basis of their depreciated replacement costs. The depreciated replacement cost approach considers the cost to reproduce or replace in new condition the property appraised in accordance with current construction costs for similar property in the locality, with allowance for accrued depreciation as evidenced by observed condition or obsolescence present, whether arising from physical, functional or economic causes. The depreciated replacement cost approach generally furnishes the most reliable indication of value for property in the absence of a known market based on comparable sales.

The property interests in Group II which are rented and occupied by the Company have no commercial value due to their short-term nature or the prohibition against assignment, sub-letting or otherwise due to lack of substantial profit rent.

Our valuation has been made on the assumption that the owner sells the property interests on the open market in its existing state without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which would affect the value of the property interests.

We have been provided with copies of title documents relating to such property interests. We have not, however, searched the original documents to verify ownership or to verify existence of any amendment which does not appear on the copies handed to us. All documents and leases have been used for reference only. All dimensions, measurements and areas are approximations.

In undertaking our valuation of the property in the PRC, we have relied on the legal opinion provided by the Company's PRC legal adviser ("the PRC Legal Opinion").

From the PRC Legal Opinion, we understand the current status of titles, grant of major approvals, licences and documents of the property in Group I are as follows:

		The Property in Group I
(a)	State-owned Land Use Rights Grant Contract	Yes
(b)	State-owned Land Use Rights Certificate	Yes
(c)	Building Ownership Certificate	Yes

Note: There is a building with a gross floor area of approximately 1,400 sq.m. which is without Building Ownership Certificate (for details, please refer to Note Nos. 6c and 7 of the valuation certificate for Property No. 1).

We have inspected the exterior and, where possible, the interior of the properties. However, we have not carried out a structural survey nor have we inspected woodwork or other parts of the structures which are covered, unexposed or inaccessible and we are therefore unable to report that any such parts of the property interests are free from defect.

We have relied to a considerable extent on information provided by the Company and have accepted advice given to us by the Company on such matters as planning approvals or statutory notices, easements, tenure, occupation, lettings, site and floor areas and in the identification of those property interests in which the Company has a valid interest.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the property interests nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interests are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

Unless otherwise stated, all monetary amounts stated are in Renminbi. The exchange rate used in valuing the property interests in the PRC on 31 August 2003 was HK$1 = RMB1.06. There has been no significant fluctuation in the exchange rate between that date and the date of this letter.

In valuing the property interests, we have complied with all the requirements contained in Chapter 8 of the Rules Governing the listing of securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

Our valuations have also been prepared in accordance with the Hong Kong Guidance Notes on Valuation of Property Assets (2nd Edition) published by the Hong Kong Institute of Surveyors in March 2003.

We enclose herewith a summary of our valuation and the valuation certificate.

Yours faithfully,
For and on behalf of
VIGERS HONG KONG LTD.
Raymond Ho Kai Kwong,
Registered Professional Surveyor
MRICS, MHKIS
Executive Director
Head of Valuation Department

Note: Raymond K. K. Ho, Chartered Surveyor, MRICS, MHKIS has over seventeen years' experience in undertaking valuation of properties in Hong Kong and Macau and has over ten years' experience in the valuation of properties in the PRC.

SUMMARY OF VALUATION

Property	Open market value in existing state as at 31 August 2003
Group I – Property interest owned and occupied by the Company in the PRC	
1. An industrial complex located at No. 36 Gao Xin Liu Road, Xi'an National Hi-tech Industrial Development Zone, Xi'an, Shaanxi Province, the PRC	RMB38,000,000 (equivalent to HK$35,849,057)
Sub-total:	**RMB38,000,000 (equivalent to HK$35,849,057)**
Group II – Property interests rented and occupied by the Company in the PRC	
2. Room 101, Unit 4, Block 12, Yi Yuan Court, Court No. 4, Cui Wei Road, Hai Dian District, Beijing, the PRC	No commercial value
3. Room 101, No. 28 Zhang Sheng Ci, Fu Zi Miao, Nanjing, Jiangsu Province, the PRC	No commercial value
4. Room 204, No. 71 Nan Ying New Village, Gulou District, Fuzhou, Fujian Province, the PRC	No commercial value
5. Level 3, Block 2, Hong Xing Residential Block, Bei Hu Street, Jianghan District, Wuhan, Hubei Province, the PRC	No commercial value
6. 1st Floor, No. 218 (formerly known as No. 64) Tian Mu Shan Road, Hangzhou, Zhejiang Province, the PRC	No commercial value
7. No. 015B, 6th Floor, Beijing Bai Sheng Building, No. 37 Financial Street, Xicheng District, Beijing, the PRC	No commercial value
8. Room 908, 9th Floor, Xi'an Gao Xin Guo Shui Building, South End of Gao Xin Road, Xi'an National Hi-tech Industrial Development Zone, Xi'an, Shaanxi Province, the PRC	No commercial value

SUMMARY OF VALUATION

	Property	Open market value in existing state as at 31 August 2003
9.	Room 2 on 4th Floor, 5th Floor, 6th Floor and 7th Floor of Unit 3 and Room 2 on 1st Floor, 2nd Floor, 3rd Floor, 5th Floor and 7th Floor and Room 1 on 3rd Floor, 5th Floor, 6th Floor and 7th Floor of Unit 4, Tower 1 of Huang Jia Garden, No. 20 Gao Xin Road, Xi'an National Hi-tech Industrial Development Zone, Xi'an, Shaanxi Province, the PRC	No commercial value
10.	Warehouse No. 1 situated at Si Zu Shuang Shui Mo Cun, Zhang Ba Xiang, Yanta District, Xi'an, Shaanxi Province, the PRC	No commercial value
11.	Warehouse No. 2 situated at Si Zu Shuang Shui Mo Cun, Zhang Ba Xiang, Yanta District, Xi'an, Shaanxi Province, the PRC	No commercial value
12.	Lao Cun Bei Street, Cha Zhang Village, Zhang Ba Gou Office, Yanta District, Xi'an, Shaanxi Province, the PRC	No commercial value
	Sub-total:	**No commercial value**
	Grand total:	**RMB38,000,000 (equivalent to HK$35,849,057)**

VALUATION CERTIFICATE

Group I – Property interest owned and occupied by the Company in the PRC

	Property	Description and Tenure	Particulars of occupancy	Open market value in existing state as at 31 August 2003
1.	An industrial complex located at No. 36 Gao Xin Liu Road, Xi'an National Hi-tech Industrial Development Zone, Xi'an, Shaanxi Province, the PRC	The property comprises a parcel of industrial land with a site area of approximately 32,001.98 sq.m. and 6 buildings and structures and other ancillary facilities erected thereon. The buildings and structures were completed in 2001. The buildings of the property with Building Ownership Certificate issued have a total gross floor area of approximately 13,413.91 sq.m. which is subdivided as follow: **Building** / **Gross Floor Area (sq.m.)** Plant No. 1: 9,204.64 Plant No. 2: 3,089.73 Test Centre: 449.21 Power Station: 616.19 Guard Room: 54.14 Total: 13,413.91 Plant No. 4 (also known as Building No. 2) which does not have Building Ownership Certificate, has a gross floor area of approximately 1,400 s.q.m. (Please refer to Notes Nos. 6c and 7 below) The land use rights term of the property will expire on 4 August 2050.	The property is occupied by the Company for industrial and ancillary purposes.	RMB38,000,000 (equivalent to HK$35,849,057)

Notes:

1. Pursuant to a State-owned Land Use Rights Grant Contract dated 4 August 2000 entered into between The Administrative Committee of Xi'an National Hi-tech Industrial Development Zone (Party A) and Xi'an Haitian Communications Equipment Company Limited (Party B), Party B agreed to purchase the subject site at a consideration of RMB12,431,500.

2. According to an approval issued by the People's Government of the Shaanxi Province dated 29 September 2000 and a document issued by the Economic System Reform Commission Office of the Shaanxi Province dated 30 September 2000, the Company was established as a result of transformation of Party B in accordance with the relevant PRC law.

3. Pursuant to a State-owned Land Use Rights Certificate (Document No.: Xi Gao Ke Ji Guo Yong (2001) Zi No. 37746), the land use rights of the property having a site area of approximately 32,001.98 sq.m. and an expiry date of 4 August 2050 for industrial use has been granted to the Company.

4. According to a Building Ownership Certificate (Document No.: Gao Xin Qu Zi No. 105010407-20-1) dated 17 July 2002, the building ownership of 5 buildings of the property with a total gross floor area of approximately 13,413.91 sq. m. is vested in the Company.

5. Pursuant to the PRC Legal Opinion, we understand that the current status of titles, grant of major approvals, licences and documents of the property are as follows:

(a)	State-owned Land Use Rights Grant Contract	Yes
(b)	State-owned Land Use Rights Certificate	Yes
(c)	Building Ownership Certificate	Yes

6. The PRC Legal Opinion states that:

As Party B was transformed to the Company in accordance with the relevant PRC laws, the Company legally entitles to the benefits and is subject to the obligations under the Stated-owned Land Use Rights Grant Contract.

(a) The Company is the lawful sole owner of the land use rights and the buildings, namely Plant Nos. 1 and 2, a power station, a guard room and a test centre located at No. 36 Gao Xin Liu Road, Xi'an National Hi-tech Industrial Development Zone. The Company is entitled to occupy, use, transfer, lease or charge the land and these buildings. In addition, the Company is required to pay no land or additional premium on the land related to these buildings for such occupation, use, transfer, lease or charge.

(b) The property is subject to a mortgage of RMB30 million in favour of Agricultural Bank of China, Xi'an National Hi-tech Industrial Development Zone Branch for a term from 29 March 2002 to 28 March 2006. In addition, the property is subject to another mortgage to secure a facility amount to the maximum of RMB40 million in favour of China Everbright Bank, Xi'an National Hi-tech Industrial Development Zone Branch for a term from 28 April 2003 to 28 April 2006. If the Company fails to repay the loans, the banks may enforce their rights under the relevant security agreements. As a result, the Company may have to relocate its production facilities. Both banks have irrevocably undertaken to grant a rollover or renewal of the Company's bank loans of RMB60 million in aggregate in the three consecutive years and on the same terms of borrowings when they become due.

(c) According to a document issued by Real Estate Administration Bureau of Xi'an National Hi-tech Industrial Development Zone on 15 July 2002 entitled "An Explanation of the Consent Granted to Xi'an Haitian Antenna Technologies Co., Ltd. to apply for Building Ownership Certificate in respect of Building No. 2", the Company was granted an approval from Planning and Environmental Protection Bureau of Xi'an National Hi-tech Industrial Development Zone on 18 December 2000 with respect to an overall planning of its new factory complex ("Old Planning"). In October 2001, the Company made a new planning of its new factory complex, and obtained an approval from Planning and Environmental Protection Bureau of Xi'an National Hi-tech Industrial Development Zone on 21 January 2002. The Real Estate Administration Bureau was of the opinion that the Company shall apply for the building ownership certificate of its completed building (i.e. Building No. 2) under the Old Planning in conjunction with those under the new planning to be completed thereafter. Although the Company has not been granted the relevant Building Ownership Certificate, in effect, the Company is entitled to occupy, use, transfer, lease or charge Building No. 2.

7. Even though the Building Ownership Certificate of Building No. 2 has not yet been obtained, we have included the value of the building, which was RMB2,000,000 as at 31 August 2003 in our valuation, on the grounds that the PRC Legal Opinion states that the Company is, in effect, entitled to occupy, use, transfer, lease or charge Building No. 2.

8. We have relied on the PRC Legal Opinion and prepared our valuation on the following assumptions:

(a) The Company is entitled to transfer the property with the residual term of its land use rights at no extra land premium or other onerous payment payable to the government.

(b) All consent, approval and licence from relevant government authorities for development of the property are/will be granted without any onerous conditions or undue delay. The development of the property is/will be in compliance with the relevant planning regulations.

Group II – Property interests rented and occupied by the Company in the PRC

	Property	Description and Tenure	Particulars of occupancy	Open market value in existing state as at 31 August 2003
2.	Room 101, Unit 4, Block 12, Yi Yuan Court, Court No. 4, Cui Wei Road, Hai Dian District, Beijing, the PRC	The property comprises a unit of a 6-storey building completed in or about 1999. The property has a gross floor area of approximately 140.12 sq.m..	The property is leased from a connected party to the Company for a term from 1 January 2003 to 31 December 2004 at a monthly rent of RMB5,000 exclusive of management fees as well as water and electricity charges. The property is occupied by the Company for domestic purpose.	No commercial value

Notes:

1. The connected party is Xiao Lei who is the daughter of Professor Xiao.

2. We have been provided with a legal opinion on the tenancy agreement prepared by the Company's PRC legal advisor, which contains that, inter alia, the following information:

   (a) The Permit to Lease has been issued by 北京市海淀區國土資源和房屋管理局 (Land Resources and Real Estate Administration Bureau of Haidian District, Beijing).

   (b) The landlord of the property has the right to lease the property to the Company and the Company has the legal rights and obligation under the tenancy agreement to occupy the property during the rental period.

   (c) The tenancy agreement dated 10 January 2003 is legal, effective and legally binding.

   (d) The rights of the parties to the tenancy agreement are protected by the PRC Laws.

	Property	Description and Tenure	Particulars of occupancy	Open market value in existing state as at 31 August 2003
3.	Room 101, No. 28 Zhang Sheng Ci, Fu Zi Miao, Nanjing, Jiangsu Province, the PRC	The property comprises a unit of a 6-storey building completed in the 1990's. The property has a gross floor area of approximately 71 sq.m..	The property is leased from an independent third party to the Company for a term from 3 June 2003 to 2 June 2004 at a monthly rent of RMB1,400. The property is occupied by the Company for domestic purpose.	No commercial value

Note:

1. We have been provided with a legal opinion on the tenancy agreement prepared by the Company's PRC legal advisor, which contains that, inter alia, the following information:

   (a) The Tenancy Registration Certificate has been issued by 南京市房地產市建管理處 (Nanjing City Real Estate and City Construction Administration Department).

   (b) The landlord of the property has the right to lease the property to the Company and the Company has the legal rights and obligation under the tenancy agreement to occupy the property during the rental period.

   (c) The tenancy agreement dated 7 May 2003 is legal, effective and legally binding.

   (e) The rights of the parties to the tenancy agreement are protected by the PRC Laws.

	Property	Description and Tenure	Particulars of occupancy	Open market value in existing state as at 31 August 2003
4.	Room 204, No. 71 Nan Ying New Village, Gulou District, Fuzhou, Fujian Province, the PRC	The property comprises a unit of a 7-storey building completed in or about 1995. The property has a gross floor area of approximately 70 sq.m..	The property is leased from an independent third party to the Company for a term from 15 July 2002 to 14 July 2004 at a monthly rent of RMB1,500 exclusive of telephone, water, electricity and gas charges, management fees, etc.. The property is occupied by the Company for domestic purpose.	No commercial value

Note:

1. We have been provided with a legal opinion on the tenancy agreement prepared by the Company's PRC legal advisor, which contains that, inter alia, the following information:

   (a) The Permit to Lease has been issued by 福州市鼓樓區房地產交易所 (Fuzhou City Gulou District Real Estate Exchange Bureau).

   (b) The landlord of the property has the right to lease the property to the Company and the Company has the legal rights and obligation under the tenancy agreement to occupy the property during the rental period.

   (c) The tenancy agreement dated 19 July 2002 is legal, effective and legally binding.

   (d) The rights of the parties to the tenancy agreement are protected by the PRC Laws.

	Property	Description and Tenure	Particulars of occupancy	Open market value in existing state as at 31 August 2003
5.	Level 3, Block 2, Hong Xing Residential Block, Bei Hu Street, Jianghan District, Wuhan, Hubei Province, the PRC	The property comprises Level 3 of a 8-storey building completed in or about 1995. The property has a gross floor area of approximately 74.66 sq. m..	The property is leased from an independent third party to the Company for a term from 8 March 2003 to 8 March 2004 at an annual rent of RMB13,200. The property is occupied by the Company for domestic purpose.	No commercial value

Note:

1. We have been provided with a legal opinion on the tenancy agreement prepared by the Company's PRC legal advisor, which contains that, inter alia, the following information:

   (a) The effectiveness of the lease is demonstrated by the landlord holding the Building Ownership Certificate of the property and 武漢市江漢區房地產管理局 (Wuhan City Jianghan District Real Estate Administration Bureau) has endorsed on the tenancy agreement.

   (b) The landlord of the property has the right to lease the property to the Company and the Company has the legal rights and obligation under the tenancy agreement to occupy the property during the rental period.

   (c) The tenancy agreement dated 8 March 2003 is legal, effective and legally binding.

   (d) The rights of the parties to the tenancy agreement are protected by the PRC Laws.

	Property	Description and Tenure	Particulars of occupancy	Open market value in existing state as at 31 August 2003
6.	1st Floor, No. 218 (formerly known as No. 64) Tian Mu Shan Road, Hangzhou, Zhejiang Province, the PRC	The property comprises the 1st floor of a 6-storey building completed in the 1990s. The property has a gross floor area of approximately 120 sq.m..	The property is leased from an independent third party to the Company for a term from 5 December 2002 to 4 December 2003 at an annual rent of RMB17,000 exclusive of water and electricity charges. The property is occupied by the Company as warehouse.	No commercial value

Note:

1. We have been provided with a legal opinion on the tenancy agreement prepared by the Company's PRC legal advisor, which contains that, inter alia, the following information:

   (a) The Permit to Lease has been issued by 杭州市西湖區房地產管理局 (Hangzhou City Xihu District Real Estate Administration Bureau).

   (b) The landlord of the property has the right to lease the property to the Company and the Company has the legal rights and obligation under the tenancy agreement to occupy the property during the rental period.

   (c) The tenancy agreement dated 5 December 2002 is legal, effective and legally binding.

   (d) The rights of the parties to the tenancy agreement are protected by the PRC Laws.

	Property	Description and Tenure	Particulars of occupancy	Open market value in existing state as at 31 August 2003
7.	No. 015B, 6th Floor, Beijing Bai Sheng Building, No. 37 Financial Street, Xicheng District, Beijing, the PRC	The property comprises a unit of a 10-storey building completed in or about 1998. The property has a gross floor area of approximately 92 sq.m..	The property is leased from an independent third party to the Company for a term from 10 February 2003 to 9 February 2004 at a monthly rent of RMB12,592.5 inclusive of management fees. The property is occupied by the Company as office.	No commercial value

Note:

1. We have been provided with a legal opinion on the tenancy agreement prepared by the Company's PRC legal advisor, which contains that, inter alia, the following information:–

   (a) The landlord of the property has the right to lease the property to the Company and the Company has the legal rights and obligation under the tenancy agreement to occupy the property during the rental period.

   (b) The tenancy agreement dated 14 January 2003 is legal, effective and legally binding.

   (c) The rights of the parties to the tenancy agreement are protected by the PRC Laws.

	Property	Description and Tenure	Particulars of occupancy	Open market value in existing state as at 31 August 2003
8.	Room 908, 9th Floor, Xi'an Gao Xin Guo Shui Building, South End of Gao Xin Road, Xi'an National Hi-tech Industrial Development Zone, Xi'an, Shaanxi Province, the PRC	The property comprises a unit of a 12-storey building completed in the 1990's. The property has a gross floor area of approximately 25 sq.m..	The property is leased from an independent third party to the Company for a term from 1 September 2002 to 31 August 2003 at a monthly rent of RMB1,375 exclusive of water, electricity, air-conditioning charges and management fees. The property is occupied by the Company as office.	No commercial value

Note:

1. We have been provided with a legal opinion on the tenancy agreement prepared by the Company's PRC legal advisor, which contains that, inter alia, the following information:

   (a) The Permit to Lease has been issued by 西安市房地產交易管理中心 (Xi'an City Real Estate and Exchange Administration Centre).

   (b) The landlord of the property has the right to lease the property to the Company and the Company has the legal rights and obligation under the tenancy agreement to occupy the property during the rental period.

   (c) The tenancy agreement dated 1 September 2002 is legal, effective and legally binding.

   (d) The rights of the parties to the tenancy agreement are protected by the PRC Laws.

	Property	Description and Tenure	Particulars of occupancy	Open market value in existing state as at 31 August 2003
9.	Room 2 on 4th Floor, 5th Floor, 6th Floor and 7th Floor of Unit 3 and Room 2 on 1st Floor, 2nd Floor, 3rd Floor, 5th Floor and 7th Floor and Room 1 on 3rd Floor, 5th Floor, 6th Floor and 7th Floor of Unit 4, Tower 1 of Huang Jia Garden, No. 20 Gao Xin Road, Xi'an National Hi-tech Industrial Development Zone, Xi'an, Shaanxi Province, the PRC	The property comprises 13 residential units of a 7-storey building completed in the 1990s. The property has a total gross floor area of approximately 934.05 sq.m..	The property is leased from an independent third party to the Company for a term from 6 August 2003 to 5 August 2004 at a total monthly rent of RMB10,400 exclusive of management fee. The property is occupied by the Company for domestic purpose.	No commercial value

Note:

1. We have been provided with a legal opinion on the tenancy agreement prepared by the Company's PRC legal advisor, which contains that, inter alia, the following information:

   (a) The Permit to Lease has been issued by 西安市房地產交易管理中心 (Xi'an City Real Estate and Exchange Administration Centre).

   (b) The landlord of the property has the right to lease the property to the Company and the Company has the legal rights and obligation under the tenancy agreement to occupy the property during the rental period.

   (c) The tenancy agreement dated 31 July 2003 is legal, effective and legally binding.

   (d) The rights of the parties to the tenancy agreement are protected by the PRC Laws.

	Property	Description and Tenure	Particulars of occupancy	Open market value in existing state as at 31 August 2003
10.	Warehouse No. 1 situated at Si Zu, Shuang Shui Mo Cun, Zhang Ba Xiang, Yanta District, Xi'an, Shaanxi Province, the PRC	The property comprises three 1-storey buildings and a 2-storey security guard room completed in or about 2002. The property has a total gross floor area of approximately 1,300 sq.m..	The property is leased from an independent third party to the Company for a term from 1 April 2002 to 31 March 2005 at a monthly rent for each year exclusive of water and electricity charges as follows: **Year** / **Monthly Rental** *(RMB)* 1/4/2002-31/3/2003 7,800 1/4/2003-31/3/2004 9,100 1/4/2004-31/3/2005 10,400 The property is occupied by the Company as warehouse.	No commercial value

Note:

1. We have been provided with a legal opinion on the tenancy agreement prepared by the Company's PRC legal advisor, which contains that, inter alia, the following information:

   (a) The Permit to Lease has been issued by 西安市房地產交易管理中心 (Xi'an City Real Estate and Exchange Administration Centre).

   (b) The landlord of the property has the right to lease the property to the Company and the Company has the legal rights and obligation under the tenancy agreement to occupy the property during the rental period.

   (c) The tenancy agreement dated 6 March 2002 is legal, effective and legally binding.

   (d) The rights of the parties to the tenancy agreement are protected by the PRC Laws.

	Property	Description and Tenure	Particulars of occupancy	Open market value in existing state as at 31 August 2003
11.	Warehouse No. 2 situated at Si Zu, Shuang Shui Mo Cun, Zhang Ba Xiang, Yanta District, Xi'an, Shaanxi Province, the PRC	The property comprises two 2-storey buildings completed in or about 2002. The property has a total gross floor area of approximately 881 sq.m..	The property is leased from an independent third party to the Company for a term from 1 June 2002 to 31 May 2005 at a monthly rent for each year, exclusive of water and electricity charges as follows: **Year** — **Monthly Rental** *(RMB)* 1/6/2002-31/5/2003 — 5,286 1/6/2003-31/5/2004 — 7,048 1/6/2004-31/5/2005 — 8,810 The property is occupied by the Company as warehouse.	No commercial value

Note:

1. We have been provided with a legal opinion on the tenancy agreement prepared by the Company's PRC legal advisor, which contains that, inter alia, the following information:

   (a) The Permit to Lease has been issued by 西安市房地產交易管理中心 (Xi'an City Real Estate and Exchange Administration Centre).

   (b) The landlord of the property has the right to lease the property to the Company and the Company has the legal rights and obligation under the tenancy agreement to occupy the property during the rental period.

   (c) The tenancy agreement dated 31 May 2002 is legal, effective and legally binding.

   (d) The rights of the parties to the tenancy agreement are protected by the PRC Laws.

Property	Description and Tenure	Particulars of occupancy	Open market value in existing state as at 31 August 2003
12. Lao Cun Bei Street, Cha Zhang Village, Zhang Ba Gou Office, Yanta District, Xi'an, Shaanxi Province, the PRC	The property comprises a 3-storey building completed in or about 2002. The property has a gross floor area of approximately 825 sq.m..	The property is leased from an independent third party to the Company for a term from January 2003 to December 2005 at an annual rent of RMB30,000 exclusive of water and electricity charges. The property is occupied by the Company for domestic purpose.	No commercial value

Note:

1. We have been provided with a legal opinion on the tenancy agreement prepared by the Company's PRC legal advisor, which contains that, inter alia, the following information:

   (a) The Permit to Lease has been issued by 西安市房地產交易管理中心 (Xi'an City Real Estate and Exchange Administration Centre).

   (b) The landlord of the property has the right to lease the property to the Company and the Company has the legal rights and obligation under the tenancy agreement to occupy the property during the rental period.

   (c) The tenancy agreement dated 20 December 2002 is legal, effective and legally binding.

   (d) The rights of the parties to the tenancy agreement are protected by the PRC Laws.

TAXATION OF SECURITY HOLDERS

The following is a summary of certain PRC and Hong Kong tax consequences of the ownership of H Shares by an investor that purchases H Shares in connection with the Placing and holds the H Shares as capital assets. This summary does not purport to address all material tax consequences of the ownership of H Shares, and does not take into account the specific circumstances of any particular investors (such as tax-exempted entities, certain insurance companies, maker-dealer, investors liable for alternative minimum tax, investors that actually or constructively own 10% or more of the voting shares of the Company, investors that hold H Shares as part of a straddle or a hedging or conversion transaction whose functional currency is not the U.S. dollar, some of which may be subject to special rules. This summary is based on the tax laws of the PRC and Hong Kong as in effect on the date of this prospectus which are subject to change (or changes in interpretation), possibly with retrospective effect.

The discussion does not address any aspects of Hong Kong or PRC taxation other than income taxation, capital taxation, stamp taxation and estate taxation. Prospective investors are urged to consult their tax advisers regarding the PRC, Hong Kong and other tax consequences of owning and disposing of H Shares.

Taxation of dividends

PRC taxation

Individual investors. According to the individual Income Tax Law of the PRC, as amended on 31 October 1993 and took effect on 1 January 1994, and amended on 30 August 1999 and took effect on the same date, respectively, dividends paid by PRC companies are ordinarily subject to a PRC withholding tax levied at a flat rate of 20%. For a foreign individual who is not a resident of the PRC, the receipt of dividends from a company in the PRC is normally subject to a withholding tax of 20%, unless reduced by an applicable tax treaty. However, the PRC State Administration of Taxation (the "SAT"), the PRC central government tax authority which succeeded the State Tax Bureau issued, on 21 July 1993, the "Notice of the PRC State Administration of Taxation Concerning the Taxation of Gains on Transfer of and Dividends from Shares (Equities) Received by Foreign Investment Enterprises, Foreign Enterprises and Foreign Individuals (《關於外商投資企業、外國企業和外藉個人取得股票(股權)轉讓收益和股息所得稅收問題的通知》國稅發〔1993〕045號)" ("Tax Notice") which states that dividends paid by a PRC company to individuals with respect to shares listed on an overseas stock exchange ("Overseas Shares"), such as H Shares, are not subject to PRC withholding tax. The relevant tax authority has not collected withholding tax on dividend payments on Overseas Shares.

The Amendments to the Individual Income Tax Law of the PRC (關於修改《中華人民共和國個人所得稅法》的決定) (the "Amendments") were promulgated on 31 October 1993 and became effective on 1 January 1994. The Amendments state that they shall supersede the provisions of any contradictory prior administrative regulations concerning individual income tax. Pursuant to the requirements of the Amendments and the amended Individual Income Tax Law (《國稅總局關於外藉個人持有中國境內上市公司股票所得的股息有關稅收問題的函》國稅函發〔1994〕440號), foreign individuals are subject to withholding tax on dividends paid by a PRC company at a rate of 20% unless specifically exempted by the tax authority of the State Council. However, in a letter dated 26 July 1994 to the State Economic Restructuring Commission, the Securities Commission and CSRC, the SAT reiterated the temporary tax exemption stated in the Tax Notice for dividends received from a PRC company listed overseas. In the event that this letter is withdrawn, a 20% tax may be withheld on dividends in accordance with the Amendments and the Individual Income Tax Law. Such withholding tax may be reduced pursuant to an applicable double taxation treaty.

Enterprises. According to the Income Tax Law of the PRC Concerning Foreign Investment Enterprises and Foreign Enterprises (中國外商投資企業及外國企業所得稅法), dividends paid by PRC companies (other than Foreign Investment Enterprises) to foreign enterprises with no permanent establishment in the PRC are ordinarily subject to a PRC withholding tax levied at a flat rate of 20%. However, according to the Tax Notice, a foreign enterprise with no permanent establishment in the PRC receiving dividends paid with respect to a PRC company's Overseas Shares will temporarily not be subject to the 20% withholding tax. If such withholding tax becomes applicable in the future, the rate could be reduced pursuant to an applicable double taxation treaty.

Tax treaties. Investors who do not reside in the PRC and reside in countries which have entered into double-taxation treaties with the PRC may be entitled to a reduction of the withholding tax imposed on the payment of dividends to investors of the Company who do not reside in the PRC. The PRC currently has double-taxation treaties with a number of other countries, which include Australia, Canada, France, Germany, Japan, Malaysia, the Netherlands, Singapore, the United Kingdom and the United States.

Hong Kong Taxation

No tax will be payable in Hong Kong in respect of dividends paid by the Company.

Taxation of capital gains

PRC taxation

The Tax Notice provides that gains realised by foreign enterprises that are holders of Overseas Shares (which would include the H Shares) would, temporarily, not be subject to capital gains taxes. As to individual holders of Overseas Shares, the Provisions for Implementation of Individual Income Tax Law of the PRC (中國個人所得稅法實施條例) (the "Provisions"), issued on 28 January 1994, stipulated that gains realised on the sale of equity shares would be subject to income tax at a rate of 20%. The Provisions empower the MOF to draft detailed tax rules on the mechanism for collecting such tax, which shall be implemented upon approval by the State Council. However, no income tax on gains realised on sale of equity shares has been collected. Gains on the sale of shares by individuals were temporarily exempted from individual income tax pursuant to notices issued by the MOF and the SAT dated 20 June 1994, 9 February 1996 and 30 March 1998, respectively. In the event such temporary exemption is withdrawn or ceases to be effective, individual holders of H Shares may be subject to capital gains tax at the rate of 20% unless such tax is reduced or eliminated by an applicable double taxation treaty.

Hong Kong Taxation

No tax is imposed in Hong Kong in respect of capital gains from the sale of property (such as the H Shares). Trading gains from the sale of property by persons carrying on a business in Hong Kong, where such gains are derived from or arose in Hong Kong from such business, will be chargeable to Hong Kong profits tax which is imposed at the rate of 17.5% on corporations and at a maximum rate of 15.5% on individuals for the year of assessment 2003/2004. Gains from sales of the H Shares effected on the Stock Exchange will be considered to be derived from or to have arisen in Hong Kong. Liability for Hong Kong profits tax would thus arise in respect of trading gains from sale of H Shares realised by persons carrying on a business of trading or dealing in securities in Hong Kong.

TAXATION OF THE COMPANY BY HONG KONG

The Directors do not consider that any of the income of the Company is derived from or arises in Hong Kong for the purpose of Hong Kong profits tax. The Company will, therefore, not be subject to Hong Kong profits tax.

Additional Hong Kong tax considerations

Stamp duty

Hong Kong stamp duty will be payable by the purchaser on every purchase and by the seller on every sale of H Shares. The duty is charged at the ad valorem rate of HK$1 per HK$1,000 or part thereof of the consideration for, or (if greater) the value of, the H Shares transferred (i.e. a total of HK$2 per HK$1,000 or part thereof is currently payable on a typical sale and purchase transaction of H Shares). In addition, a fixed duty of HK$5 is currently payable on an instrument of transfer of H Shares. Where one of the parties is resident outside Hong Kong and does not pay the ad valorem duty due by it, the duty not paid will be assessed on the instrument of transfer (if any) and will be payable by the transferee.

Estate duty

Estate duty is imposed upon the principal value of property situated in Hong Kong passing on the death of a person. H Shares are regarded as property situated in Hong Kong for estate duty purposes. Hong Kong estate duty is imposed on the principal value of a deceased's estate at graduated rates from 5% to 15%. In respect of the estate of persons dying on or after 1 April 1998, no estate duty is payable where the principal value of the estate does not exceed HK$7.5 million. The maximum rate of 15% applies where the principal value of the estate exceeds HK$10.5 million.

TAXATION OF THE COMPANY BY THE PRC

Income tax

With effect from 1 January 1994, income tax payable by PRC domestic enterprises is governed by the PRC Enterprise Income Tax Provisional Regulations (「中國企業所得稅暫行條例」) ("EIT Regulations"). The EIT Regulations provide for an income tax rate of 33% unless a lower rate is provided by law, administrative regulations or State Council regulations.

The "Notice of Certain Preferential Policies on Enterprise Income Tax"《關於企業所得稅若干優惠政策的通知》財稅字[1994] 001號) promulgated by the Ministry of Finance and State Tax Bureau provides that "all domestic enterprises of hi-tech nature recognized by a state-grade hi-tech development zone are eligible for a preferential enterprise income tax rate of 15% and all newly established hi-tech enterprises shall enjoy 2 years of tax exemption holidays from the year when production commences." Since the Company is recognized as a hi-tech enterprise by Xi'an National Hi-tech Industrial Development Zone, a state-grade hi-tech development zone, the Company therefore is eligible and entitled for the preferential enterprise income tax rate of 15% (including 2 years of tax exemption holidays on 2000 and 2001).

Business tax

Pursuant to the Provisional Regulations of the PRC Concerning Business Tax (「中國營業稅暫行條例」), effective from 1 January 1994 and the implementing rules, business tax is imposed on enterprises which provide taxable services, transfer intangible property or sell real estate in the PRC. The business tax is levied at a rate from 3% to 5% on the provision of taxable services, transfer of intangible property or sale of real estate in the PRC.

Additional PRC tax considerations

PRC stamp tax

PRC stamp tax is imposed on the transfer of shares in PRC companies that are publicly-traded under the Provisional Regulations Concerning Questions of Taxation on Enterprises Experimenting with the Share System (「股份制試點企業有關稅收問題的暫行規定」) ("Provisional Regulations"). However, such stamp tax should not apply to the acquisition or disposal by non-PRC investors of H Shares outside the PRC by virtue of the Provisional Regulations which became effective on 1 October 1988. The Provisional Regulations provide that PRC stamp tax is imposed only on documents executed or received within the PRC which are legally binding in the PRC and are protected under the PRC law.

Estate tax

Currently, no liability for estate tax under PRC law and regulations will arise from non-PRC nationals holding H shares. However, Estate Tax might be imposed on non-PRC nationals holding H Shares in the future when the relevant governing authorities determine that the enforcement of estate tax is necessary.

FOREIGN EXCHANGE

The lawful currency of the PRC is the Renminbi, which is subject to foreign exchange control and is not freely convertible into foreign exchange at this time. The SAFE, under the authority of the PBOC, is empowered with the functions of administering all matters relating to foreign exchange, including the enforcement of foreign exchange control regulations.

Prior to 31 December 1993, a quota system was used for the management of foreign currency. Any enterprise requiring foreign currency was required to obtain a quota from the local SAFE office before it could convert Renminbi into foreign currency through the PBOC or other designated banks. Such conversion had to be effected at the official rate prescribed by the SAFE on a daily basis. Renminbi could also be converted into foreign currency at swap centers. The exchange rates used by swap centres were largely determined by the demand for, and the supply of, foreign currencies and the Renminbi requirements of enterprises in the PRC. Any enterprise that wish to buy or sell foreign currency at a swap centre first had to obtain the approval of the SAFE.

On 28 December 1993, the PBOC, under the authority of the State Council, promulgated the Notice Concerning Further Reform of the Foreign Currency Control System (「外滙管理體制」) (the "Notice"), effective from 1 January 1994. The Notice announced the abolition of the system of foreign exchange quotas, the implementation of conditional convertibility of Renminbi in current account items, the establishment of the system of settlement and payment of foreign exchange by banks, and the unification of the official Renminbi exchange rate and the market rate for Renminbi established at swap centres. On 26 March 1994. PBOC promulgated the "Provisional Regulations for the Administration of Settlement, Sale and Payment of Foreign Exchange" (the "Foreign Exchange Provisional Regulations"). The Foreign Exchange Provisional Regulations set out detailed provisions regulating the sale and purchase of foreign exchange by enterprises, economic organisations and social organisations in the PRC.

On 29 January 1996, the State Council promulgated the Regulations of the People's Republic of China for the Control of Foreign Exchange (「中華人民共和國外滙管理條例」) (the "Control of Foreign Exchange Regulations") which became effective from 1 April 1996. The Control of Foreign Exchange Regulations classify all international payments and transfers into current account items and capital account items. Current account items are no longer subject to SAEC approval while capital account items still are. The Control of Foreign Exchange Regulations were subsequently amended on 14 January 1997. This latest amendment affirmatively states that the State shall not restrict international current account payments and transfers.

On 20 June 1996, the PBOC promulgated the "Regulations for Administration of Settlement, Sale and Payment of Foreign Exchange" (「結滙、售滙及付滙管理規定」) (the "Settlement Regulations") which took effect on 1 July 1996. The Settlement Regulations superseded the Provisional Regulations and abolished the remaining restrictions on convertibility of foreign exchange in respect of current account items while retaining the existing restrictions on foreign exchange transactions in respect of capital account items. On the basis of the Settlement Regulations, the PBOC also published the "Announcement on the Implementation of Foreign Exchange Settlements and Sales at Banks by Foreign-invested Enterprises (「中國人民銀行關於對外商投資企業實行銀行結售滙的公告」)" (the "Announcement"). The Announcement permits foreign-invested enterprises to open, on the basis of their needs, foreign exchange settlement accounts for current account receipts and payments of foreign exchange along with specialised accounts for capital account receipts and payments at designated foreign exchange banks.

On 25 October 1998, the PBOC and the SAFE promulgated the Notice Concerning the Discontinuance of Foreign Exchange Swapping Business (「關於停辦外滙調劑業務的通知」), pursuant to which and with effect from 1 December 1998, all foreign exchange swapping business in the PRC for foreign-invested enterprises shall be discontinued, while the trading of foreign exchange by foreign-invested enterprise shall come under the banking system for the settlement and sale of foreign exchange.

Since 1 January 1994, the former dual exchange rate system for Renminbi has been abolished and replaced by a managed floating exchange rate system, which is determined by demand and supply. The PBOC sets and publishes daily the Renminbi-US dollar base exchange rate. This exchange rate is determined with reference to the transaction price for Renminbi-US dollar in the inter-bank foreign exchange market on the previous day. The PBOC will also, with reference to exchange rates in the international foreign exchange market, announce the exchange rates of Renminbi against other major currencies. In foreign exchange transactions, designated foreign exchange banks may, within a specified range, freely determine the applicable exchange rate in accordance with the exchange rate announced by the PBOC.

Save for foreign-invested enterprises or other enterprises which are specially exempted by relevant regulations, all entities in China (with the exception of certain foreign trade companies and precaution-type enterprises with import-export operation right, which may be permitted to retain a certain amount of their foreign exchange income from their current account transactions and to use such monies to make foreign exchange payments for their current account transactions and permitted capital account transactions) must sell their foreign exchange income to designated foreign exchange banks. Foreign exchange income from loans issued by organisations outside the territory or from the issuance of bonds and shares (for example, foreign exchange income received by the Company from the sale of shares overseas) in not required to be sold to designated foreign exchange banks, but may be deposited in foreign exchange accounts at the designated foreign exchange banks.

Chinese enterprises (including foreign-invested enterprises) which require foreign exchange for transactions relating to current account items, may, without the approval of SAFE effect payment from their foreign exchange account or convert and pay at the designated foreign exchange banks, on the strength of valid receipts and proof. Foreign-invested enterprises which need foreign exchange for the distribution of profits to their shareholders, and Chinese enterprises which in accordance with regulations are required to pay dividends to shareholders in foreign exchange (like the Company), may on the strength of board resolutions on the distribution of profits and other relevant documents required effect payment from their foreign exchange account or convert and pay at the designated foreign exchange banks.

Convertibility of foreign exchange in respect of capital account items, like direct investment and capital contribution, is still subject to restrictions and prior approval from SAFE and the relevant branch must be sought.

Dividends to holders of H Shares are declared in Renminbi and are required to be paid in Hong Kong dollars.

This appendix sets out summaries of PRC company and securities regulations, certain material differences between the Company Law and Hong Kong company law, additional regulatory provisions introduced by the Hong Kong Stock Exchange in relation to PRC joint stock limited companies and the Articles of Association. The main objective is to provide investors with an overview of the rights and obligations of shareholders of the Company and the principal legal and regulatory provisions applicable to the Company.

I. PRC LEGAL AND REGULATORY PROVISIONS

(1) Company Law

On 29 December 1993, the Standing Committee of the Eighth NPC adopted the Company Law which came into effect on 1 July 1994 and was amended on 25 December 1999. Companies established under laws, administrative regulations, local laws and the Standard Opinion for Limited Liability Companies, and the Standard Opinion for Joint Stock Limited Companies formulated by the relevant departments of the State Council before the implementation of the Company Law will not be affected by the Company Law and shall continue to be recognised. Those companies which have not wholly complied with the provisions of the Company Law shall comply with the relevant requirements within a specified period of time. The State Council may separately promulgate detailed implementing measures.

Set out below is a summary of the major provisions of the Company Law, the Special Regulations and the Mandatory Provisions. On 4 July 1994, the Special Regulations were passed at the Second Standing Committee Meeting of the State Council, and they were promulgated and implemented on 4 August 1994. The Special Regulations are formulated according to the provisions of Sections 85 and 155 of the Company Law in respect of the overseas share subscription and listing of joint stock limited companies. The Mandatory Provisions were issued jointly by the Securities Commission and the State Economic Restructuring Commission on 27 August 1994, prescribing provisions which must be incorporated into the articles of association of joint stock limited companies to be listed overseas. Accordingly, the Mandatory Provisions have been incorporated in the Articles of Association (which are summarised in this appendix V). References to a "company" are to a joint stock limited company established under the Company Law with overseas listed foreign invested shares.

Copies of the Chinese text of the Company Law, Special Regulations and the Mandatory Provisions together with copies of an unofficial English translations thereof are available for inspection as mentioned in the section headed "Documents Delivered to the Registrar of Companies and Available for Inspection" in appendix VII.

General

A "joint stock limited company" is a corporate legal person incorporated under the Company Law, whose registered capital is divided into shares of equal par value. The liability of its shareholders is limited to the extent of the Shares held by them, and the liability of the company is limited to the full amount of all the assets owned by it.

A State-owned enterprise that is restructured into a company must comply with the conditions and requirements specified by law and administrative regulations, for the modification of its operation mechanisms, the systematic handling and evaluation of the company's assets and liabilities and the establishment of internal management organs.

A company must conduct its business in accordance with the laws and professional ethics, promote the concept of a socialist market economy and be subject to the supervision of the government and the general public.

A company may invest in other limited liability companies and joint stock companies and the company's liabilities with respect to such invested companies are limited to the amount invested. However, apart from investment companies and holding companies specified by the State Council, the amount of a company's aggregate investment in other companies may not exceed 50% of its net assets.

Incorporation

A company may be incorporated by promotion or public subscription.

A company may be incorporated by a minimum of five promoters, but at least half of the promoters must reside within the PRC. According to the Special Regulations, State-owned enterprises or enterprises with the majority of their assets owned by the State can be restructured in accordance with the relevant regulations to become joint stock limited companies which may issue shares to overseas investors. These companies if incorporated by public subscription may have less than five subscribers and can issue new shares once incorporated.

Companies incorporated by promotion are companies the entire registered capital of which is subscribed for by the promoters. Where companies are incorporated by public subscription, not less than 35% of their total shares must be subscribed for by the promoters and the remainder of their shares shall be offered to the public.

The registered capital of a company is the amount of its total paid up capital as registered with the relevant administration for industry and commerce. The minimum registered capital of a company is RMB10 million. The total capital of a company which proposes to apply for its shares to be listed on a stock exchange must not be less than RMB50 million.

The establishment of a company must be approved by the department authorised by the State Council or by the provincial level people's government.

The promoters shall convene an inaugural meeting within 30 days after the issued shares have been fully paid up, and shall give notice to all subscribers or make an announcement of the date of the inaugural meeting 15 days before the meeting. The inaugural meeting may be convened only with the presence of shareholders holding shares representing more than 50% of the voting rights in the company. At the inaugural meeting, matters including the adoption of draft articles of association proposed by the promoter(s) and the election of the board of directors and the supervisory committee of the company will be dealt with. All resolutions of the meeting require the approval of subscribers with at least half of the voting rights present at the meeting.

Within 30 days after the conclusion of the inaugural meeting, the board of directors shall apply to the registration authority for registration of the establishment of the company. A company is formally established and has the status of a legal person after the approval of registration had been given by the relevant administration for industry and commerce and a business licence has been issued. Companies established by the public subscription method shall file a report on the offer of shares with the securities administration department of the State Council for record.

A company's promoters shall individually and collectively be liable for: (i) the payment of all expenses and liabilities incurred in the incorporation process if the company cannot be incorporated; (ii) the repayment of subscription monies to the subscribers together with interest at bank rates for a deposit of the same term if the company cannot be incorporated; and (iii) damages suffered by the company as a result of the default of the promoters in the course of incorporation of the company. According to the Provisional Regulations Concerning the Issue and Trading of Shares promulgated by the State Council on 22 April 1993 (which is only applicable to issue and trading of shares in the PRC and their related activities), if a company is established by means of subscription, the promoters of such company are required to assume joint responsibility for the accuracy of the contents of the prospectus and to ensure that the prospectus does not contain any misleading statement or omit any material information.

Share capital

The promoters may make capital contribution in cash, or in kind or by way of injection of assets, industrial property rights, non-patented technology or land use rights based on their appraised value. The amount of investment made in the form of industrial property rights and non-patented technology may not exceed 20% of the registered capital of the company.

If a capital contribution is made other than in cash, a valuation and verification of the property contributed must be carried out and converted into shares.

A company may issue registered or bearer share certificates. However, shares issued to promoters, state-authorised investment organisations and PRC legal persons shall be in the form of registered share certificates, and may not be registered under a different name or in the name of an agent.

The Special Regulations and the Mandatory Provisions provide that shares issued to foreign investors and listed overseas be issued in registered form and shall be denominated in Renminbi and subscribed for in foreign currency.

Under the Special Regulations and the Mandatory Provisions, shares issued to foreign investors and investors from the territories of Hong Kong, Macau and Taiwan and listed overseas are known as overseas listed foreign invested shares, and those shares issued to investors within the PRC other than the territories specified above are known as domestic invested shares.

A company may offer its shares to the public overseas with approval by the securities administration department of the State Council. Specific measures shall be specifically formulated by the State Council. Under the Special Regulations, upon approval of CSRC, a company may agree, in the Placing and Underwriting Agreement in respect of an issue of overseas listed foreign invested shares, to retain not more than 15% of the aggregate number of overseas listed foreign invested shares proposed to be issued after accounting for the number of underwritten shares.

The share offering price may be equal to or greater than the par value, but may not be less than par value.

The transfer by a shareholder of its shares must be carried out through a lawfully established stock exchange. Transfer of registered shares by a shareholder must be made by means of an endorsement or by other means stipulated by a law or by administrative regulations. Bearer share certificates are transferred by delivery of the certificates to the transferee.

Shares held by a promoter of a company may not be transferred for three years after the company's establishment. Directors, supervisors and managers of a company shall not transfer the shares they hold in the company during their term of office. There is no restriction under the Company Law as to the percentage of shareholding a single shareholder may hold in a company. However, according to the Provisional Regulations Concerning the Issue and Trading of Shares, a PRC individual shareholder cannot own more than 0.5% of the outstanding domestically issued common shares of a listed company.

Transfers of shares may not be entered in the register of shareholders within 30 days before the date of a shareholders' meeting or within five days before the record date set for the purpose of distribution of dividends.

Increase in capital

Under the Company Law, an increase in capital in a company by means of an issue of new shares must be approved by shareholders in general meeting and meet the following conditions:

(i) the previous issue of shares has been fully subscribed for and at least one year has elapsed since that issue, but under the Special Regulations, if a company increases its capital for the issue of overseas listed foreign invested shares, the time period elapsed since the last issue of shares may be less than 12 months;

(ii) the company has been profitable for the last three consecutive years and is able to make dividend payments to its shareholders;

(iii) there has been no false reporting in the company's financial and accounting documents during the last three years; and

(iv) the company's expected profit rate is comparable to the bank deposit rate for the same term.

Once the shareholders in general meeting have passed a resolution to issue new shares, the board of directors must apply to the authorised department of the State Council or to the provincial level people's government for approval. Public offers require the approval of the securities administration department of the State Council.

After payment in full for the new shares issued, a company must change its registration with the relevant administration for industry and commerce and issue a public notice accordingly.

Reduction of share capital

Subject to the minimum registered capital requirements, a company may reduce its registered capital in accordance with the following procedures prescribed by the Company Law:

(i) the company shall prepare a balance sheet and an inventory of the assets;

(ii) the reduction of registered capital must be approved by shareholders in general meeting;

(iii) the company shall inform its creditors of the reduction in capital within 10 days and publish an announcement of the reduction in the newspaper at least three times within 30 days after the resolution approving the reduction has been passed;

(iv) the creditors of the company may within the statutory prescribed time limit require the company to pay its debts or provide guarantees covering the debts; and

(v) the company must apply to the relevant administration for industry and commerce for registration of the reduction in registered capital.

Repurchase of shares

A company may not purchase its own shares other than for the purpose of reducing its capital by cancelling its shares or merging with another company holding its shares or such other purposes permitted by law and administrative regulations. The Mandatory Provisions provide that upon obtaining approvals in accordance with the articles of association of the company and from the relevant supervisory authorities, a company may repurchase its issued shares for the foregoing purposes by way of a general offer to its shareholders or purchase on a stock exchange or an off-market contract.

Under the Company Law, within 10 days following the purchase of a company's own shares, a company must in accordance with applicable law and administrative regulations cancel that portion of its shares, change its registration and issue a public notice.

Transfer of shares

Shares may be transferred in accordance with the relevant laws and regulations.

A shareholder may only effect a transfer of its shares on a stock exchange established in accordance with law. Registered shares may be transferred after the shareholders endorse their signatures on the back of the share certificates or in any other manner specified by applicable laws and regulations.

Shares issued to promoters may not be transferred within three years after the establishment of the company. Shares held by directors, supervisors and the manager of a company may not be transferred during their term of office with the company.

There is no restriction under the Company Law as to the percentage shareholding of a single shareholder of a company.

Shareholders

Shareholders have such rights and obligations as set down in the articles of association of the company. The articles of association of a company are binding on each shareholder.

Under the Company Law, the rights of a shareholder include:

(i) to attend in person or appoint a proxy to attend shareholders' general meetings, and to vote in respect of the number of shares held;

(ii) to transfer his shares at a legally established stock exchange in accordance with the Company Law and the articles of association of the company;

(iii) to inspect the company's articles of association, minutes of shareholders' general meetings and financial and accounting reports and to make proposals or enquiries in respect of the company's operations;

(iv) if a resolution adopted by a shareholders' general meeting or the board of directors violates any law or administrative regulations or infringes the lawful rights and interests of shareholders, to institute an action in the People's Court demanding that the illegal infringing action be stopped;

(v) to receive dividends in respect of the number of shares held;

(vi) to receive surplus assets of the company upon its termination in proportion to his or her shareholding; and

(vii) any other shareholders' rights specified in the company's articles of association.

The obligations of a shareholder include the obligation to abide by the company's articles of association, to pay the subscription monies in respect of the shares subscribed for, to be liable for the company's debts and liabilities to the extent of the amount of subscription monies agreed to be paid in respect of the shares taken up by him and any other shareholders' obligation specified in the company's articles of association.

General meetings

The shareholders' general meeting is the organ of authority of the company, which exercises its powers in accordance with the Company Law.

The shareholders' general meeting exercises the following powers:

(i) to decide on the company's operational policies and investment plans;

(ii) to elect or remove the directors and decide on matters relating to the remuneration of directors;

(iii) to elect or remove the supervisors who are representatives of shareholders and decide on matters relating to the remuneration of supervisors;

(iv) to examine and approve reports of the board of directors;

(v) to examine and approve reports of the supervisory committee;

(vi) to examine and approve the company's proposed annual financial budget and final accounts;

(vii) to examine and approve the company's proposals for profit distribution and for recovery of losses;

(viii) to decide on any increase or reduction in the company's registered capital;

(ix) to decide on the issue of bonds by the company;

(x) to decide on issues such as merger, division, dissolution and liquidation of the company and other matters; and

(xi) to amend the articles of association of the company.

Shareholders' general meetings is required to be held once every year. An extraordinary shareholders' general meeting is required to be held within two months after the occurrence of any of the following circumstances:

(i) the number of directors is less than the number provided for in the Company Law or less than two-thirds of the number specified in the company's articles of association;

(ii) the aggregate losses of the company which are not made up reach one-third of the company's total share capital;

(iii) a request by shareholders holding 10% or more of the company's shares;

(iv) when deemed necessary by the board of directors; or

(v) when more than two independent directors propose to convening it.

Shareholders' general meetings shall be convened by the board of directors, and presided over by the chairman of the board of directors.

Notice of the meeting shall be given to all shareholders 30 days before the meeting under the Company Law and 45 days under the Special Regulations and the Mandatory Provisions, stating the matters to be considered at the meeting. Under the Special Regulations and the Mandatory Provisions, shareholders wishing to attend are required to give to the company written confirmation of their attendance 20 days prior to the meeting. Under the Special Regulations, at an annual general meeting of a company, shareholders holding 5% or more of the voting rights in the company are entitled to propose to the company in writing new resolutions to be considered at that meeting, which if within the powers of a shareholders' general meeting, are required to be added to the agenda of that meeting.

Shareholders present at a shareholders' general meeting have one vote for each share they hold.

Resolutions of the shareholders' general meeting must be adopted by more than half of the votes cast by shareholders present in person (including those represented by proxies) at the meeting, with the exception of matters relating to merger, division or dissolution of a company which must be adopted by shareholders with more than two-thirds of the voting rights held by shareholders present (including those represented by proxies) at the meeting. According to the Mandatory Provisions, the increase or reduction of share capital, the issue of bonds or debentures, and any other matters in respect of which the shareholders by ordinary resolution so decide, must be approved by more than two-thirds of the shareholders present in the general meeting. Amendments to the articles of association of a company must be approved by more than two-thirds of the shareholders present in general meeting.

Shareholders may appoint representatives to attend shareholders' general meetings by a written appointment document stating the scope of exercising the voting rights.

There is no specific provision in the Company Law regarding the number of shareholders constituting a quorum in a shareholders' meeting. However, the Special Regulations and the Mandatory Provisions provide that a company's annual general meeting may be convened when replies to the notice of that meeting from shareholders holding shares representing 50% of the voting rights in the company have been received 20 days before the proposed date, or if that 50% level is not achieved, the company shall within five days of the last day for receipt of the replies notify shareholders by public announcement of the matters to be considered at the meeting and the date and place of the meeting and the annual general meeting may be held thereafter. The Mandatory Provisions require class meetings to be held in the event of a variation or derogation of the class rights of a class. Holders of domestic invested shares and holders of overseas listed foreign invested shares are deemed to be different classes of shareholders for this purpose.

Directors

A company shall have a board of directors, which shall consist of five to nineteen members. Under the Company Law, each term of office of a director shall not exceed three years. A director may serve consecutive terms if re-elected.

Meetings of the board of directors shall be convened at least twice a year. Notice of meeting shall be given to all directors at least 10 days before the meeting. The board of directors may provide for a different method of giving notice and notice period for convening an extraordinary meeting of the board of directors.

Under the Company Law, the board of directors exercises the following powers:

(i) to convene the shareholders' general meeting and report on its work to the shareholders;

(ii) to implement the resolutions of the shareholders' general meeting;

(iii) to decide on the company's business plans and investment plans;

(iv) to formulate the company's proposed annual financial budget and final accounts;

(v) to formulate the company's proposals for profit distribution and for recovery of losses;

(vi) to formulate proposals for the increase or reduction of the company's registered capital and the issue of corporate bonds;

(vii) to prepare plans for the merger, division or dissolution of the company;

(viii) to decide on the company's internal management structure;

(ix) to appoint or dismiss the company's general manager, and based on the general manager's recommendation, to appoint or dismiss deputy general managers and financial officers of the company and to decide on their remuneration; and

(x) to formulate the company's basic management system.

In addition, the Mandatory Provisions provide that the board is also responsible for formulating the proposals for amendment of the articles of association of a company.

Meetings of the board of directors shall be held only if more than half of the directors are present. Resolutions of the board of directors require the approval of more than half of all directors.

If a director is unable to attend a board meeting, he may appoint another director by a written power of attorney specifying the scope of the authorisation to attend the meeting on his behalf. If a resolution of the board of directors violates the laws, administrative regulations or the company's articles of association as a result of which the company sustains serious losses, the directors participating in the resolution are liable to compensate the company. However, if it can be proven that a director expressly objected to the resolution when the resolution was voted on, and that such objections were recorded in the minutes of the meeting, such director may be relieved of that liability.

Under the Company Law, the following persons may not serve as a director of a company:

(i) persons without civil capacity or with restricted civil capacity;

(ii) persons who have committed the offense 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.

Other circumstances under which a person is disqualified from acting as a director of a company are set out in the Mandatory Provisions (which have been incorporated in the Articles of Association, a summary of which is set out in this appendix).

The board of directors shall appoint a chairman, who is elected with approval of more than half of all the directors. The chairman of the board of directors is the legal representative of the company and exercises, amongst others, the following powers:

(i) to preside over shareholders' general meetings and convene and preside over meetings of the board of directors;

(ii) to check on the implementation of the resolutions of the board of directors; and

(iii) to sign the company's share certificates and bonds.

The Special Regulations provide that a company's directors, supervisors, managers and other officers bear fiduciary duties and the duty to act diligently. They are required to faithfully perform their duties, protect the interests of the company and not to use their positions for their own benefit. The Mandatory Provisions (which have been incorporated into the Articles of Association, a summary of which is set out in this appendix) contains further elaborations of such duties.

Supervisors

A company shall have a supervisory committee composed of not less than three members. Each term of office of a supervisor is three years and he or she may serve consecutive terms if re-elected.

The supervisory committee is made up of representatives of the shareholders and an appropriate proportion of representatives of the company's staff and workers. Directors, managers and financial officers may not act concurrently as supervisors.

The supervisory committee exercises the following powers:

(i) to review the company's financial position;

(ii) to supervise the directors and managers in their performance of their duties and to ascertain whether or not they have violated laws, regulations or the articles of association of the company;

(iii) when the acts of a director or manager are harmful to the company's interests, to require correction of those acts;

(iv) to propose the convening of extraordinary shareholders' general meetings; and

(v) other powers specified in the company's articles of association.

The circumstances under which a person is disqualified from being a director of a company described above apply mutatis mutandis to supervisors of a company.

As mentioned above, the Special Regulations provide that a company's supervisors, among other persons, shall bear fiduciary duties. They are required to faithfully perform their duties, protect the interests of the company and not to use their positions for their own benefit. A supervisor is also required to attend board meetings as a non-voting attendant.

Managers and officers

A company shall have a manager who shall be appointed or removed by the board of directors. The manager is accountable to the board of directors and may exercise the following powers:

(i) supervise the production, business and administration of the company and arrange for the implementation of resolutions of the board of directors;

(ii) arrange for the implementation of the company's annual business and investment plans;

(iii) formulate plans for the establishment of the company's internal management structure;

(iv) formulate the basic administration system of the company;

(v) formulate the company's internal rules;

(vi) recommend the appointment and dismissal of deputy managers and any financial controller and appoint or dismiss other administration officers (other than those required to be appointed or dismissed by the board of directors);

(vii) attend board meetings as a non-voting attendant; and

(viii) other powers conferred by the board of directors or the company's articles of association.

The Special Regulations and Mandatory Provisions provide that the other senior management of a company includes the financial controller, secretary of the board of directors and other executives as specified in the articles of association of the company.

The circumstances under which a person is disqualified from being a director of a company described above apply mutatis mutandis to managers and officers of the company.

The articles of association of a company shall have binding effect on the shareholders, directors, supervisors, managers and other senior management of the company. Such persons shall be entitled to exercise their rights, apply for arbitration and issue legal proceedings according to the articles of association of the company. The provisions of the Mandatory Provisions regarding the senior management of a company have been incorporated in the Articles of Association (a summary of which is set out in this appendix).

Duties of directors, supervisors, managers and officers

A director, supervisor, manager and an officer of a company are required under the Company Law to comply with the relevant laws, regulations and the company's articles of association, carry out their duties honestly and protect the interests of the company. A director, supervisor, manager and an officer of a company is also under a duty of confidentiality to the company and is prohibited from divulging the secret information of the company save as permitted by the relevant laws and regulations or by the shareholders.

A director, supervisor, manager and an officer who contravenes any law, regulation or the company's articles of association in the performance of his duties which results in any loss to the company shall be personally liable to the company.

The Special Regulations and the Mandatory Provisions provide that a director, supervisor, manager and an officer of a company owe fiduciary duties to the company and are required to perform their duties faithfully and to protect the interests of the company and not to make use of their positions in the company for their own benefit.

Finance and accounting

A company shall establish its financial and accounting systems according to laws, administrative regulations and the regulations of the responsible financial department of the State Council and at the end of each financial year prepare a financial report which shall be audited and verified as provided by law.

A company shall deposit its financial statements at the company for the inspection by the shareholders at least 20 days before the convening of the annual general meeting of shareholders. A company established by the public subscription method must publish its financial statements.

When distributing each year's after-tax profits, the company shall set aside 10% of its after-tax profits for the company's statutory common reserve fund (except where the fund has reached 50% of the company's registered capital) and 5% to 10% of its after-tax profit for the company's statutory public welfare fund.

When the company's statutory common reserve fund is not sufficient to make up for the company's losses of the previous year, current year profits shall be used to make good the losses before allocations are set aside for the statutory common reserve fund or the statutory common welfare fund.

The company's statutory common welfare fund is used for the collective welfare of the company's staff and workers.

The shareholders in general meeting may resolve to transfer any amount from the after-tax profit of the company to the discretionary common reserve after transferring the requisite amount to the statutory common reserve fund.

After the company has made good its losses and made allocations to its statutory common reserve fund and statutory common welfare fund, the remaining profits are distributed in proportion to the number of shares held by the shareholders.

The common reserve of a company comprises the statutory common reserve, discretionary common reserve and the capital common reserve.

The capital common reserve of a company is made up of the premium over the nominal value of the shares of the company on issue and other amounts required by the relevant governmental authority to be treated as the capital common reserve.

The common reserve of a company shall be applied for the following purposes:

(i) to make up the company's losses;

(ii) to expand the business operations of the company; and

(iii) to pay up the registered capital of the company by the issue of new shares to shareholders in proportion to their existing shareholdings in the company or by increasing the par value of the shares currently held by the shareholders provided that if the statutory common reserve is converted into registered capital, the balance of the statutory common reserve after such conversion shall not be less than 25% of the registered capital of the company.

Appointment and retirement of auditors

The Special Regulations require a company to employ an independent PRC qualified firm of accountants to audit the company's annual report and review and check other financial reports.

The auditors are to be appointed for a term commencing from the close of an annual general meeting and ending at the close of the next following annual general meeting.

If a company removes or ceases to continue to appoint the auditors, it is required by the Special Regulations to give prior notice to the auditors and the auditors are entitled to make representations before the shareholders in general meeting. The appointment, removal or non re-appointment of auditors shall be decided by the shareholders and shall be registered with the CSRC.

Distribution of profits

The Special Regulations provide that the dividends and other distributions to be paid to holders of overseas listed foreign invested shares shall be declared and calculated in Renminbi and paid in foreign currency. Under the Mandatory Provisions, the payment of foreign currency to shareholders shall be made through a receiving agent.

Amendments to articles of association

Any amendments to the company's articles of association must be made in accordance with the procedures set forth in the company's articles of association. Any amendment of provisions incorporated in the articles of association in accordance with the Mandatory Provisions will only be effective after approval by the companies approval department authorised by the State Council and CSRC. In relation to matters involving the company's registration, its registration with the companies registration authority must also be changed.

Termination and liquidation

A company may apply for the declaration of insolvency by reason of its inability to pay debts as they fall due. After the People's Court has made a declaration of the company's insolvency, the shareholders, the relevant authorities and the relevant professionals shall form a liquidation committee to conduct the liquidation of the company.

Under the Company Law, a company shall be dissolved in any of the following events:

(i) the term of its operations set down in the company's articles of association has expired or events of dissolution specified in the company's articles of association have occurred;

(ii) the shareholders in general meeting have resolved to dissolve the company; or

(iii) the company is dissolved by reason of its merger or demerger.

Where the company is dissolved in the circumstances described in (i) or (ii) above, a liquidation committee must be established within 15 days. Members of the liquidation committee shall be appointed by the shareholders in the general meeting.

If a liquidation committee is not established within the stipulated period, the company's creditors can apply to the People's Court for its establishment.

The liquidation committee shall notify the company's creditors within 10 days after its establishment, and issue at least 3 public notices in the newspapers within 60 days. A creditor shall lodge his claim with the liquidation committee within 30 days after receiving notification, or within 90 days of the first public notice if he did not receive any notification.

The liquidation committee shall exercise the following powers during the liquidation period:

(i) to handle the company's assets and to prepare a balance sheet and an inventory of the assets;

(ii) to notify creditors or issue public notices;

(iii) to deal with and settle any outstanding business of the company;

(iv) to pay any tax overdue;

(v) to settle the company's financial claims and liabilities;

(vi) to handle the surplus assets of the company after its debts have been paid off; and

(vii) to represent the company in civil lawsuits.

If the company's assets are sufficient to meet its liabilities, they shall be applied towards the payment of the liquidation expenses, wages owed to the employees and labor insurance expenses, tax overdue and debts of the company. Any surplus assets shall be distributed to the shareholders of the company in proportion to the number of shares held by them.

A company shall not engage in new business operations during the liquidation period.

If the liquidation committee becomes aware that the company does not have sufficient assets to meet its liabilities, it must immediately apply to the People's Court for a declaration for bankruptcy. Following such declaration, the liquidation committee shall hand over all affairs of the liquidation to the People's Court.

Upon completion of the liquidation, the liquidation committee shall submit a liquidation report to the shareholders' general meeting or the relevant supervisory department for verification. Thereafter, the report shall be submitted to the companies registration authority in order to cancel the company's registration, and a public notice of its termination shall be issued.

Members of the liquidation committee are required to discharge their duties honestly and in compliance with relevant laws. A member of the liquidation committee is liable to indemnify the company and its creditors in respect of any loss arising from his wilful or material default.

Overseas listing

The shares of a company shall only be listed overseas after obtaining approval from the securities regulatory authority of the State Council and the listing must be arranged in accordance with procedures specified by the State Council.

According to the Special Regulations, a company's plan to issue overseas listed foreign invested shares and domestic invested shares which has been approved by the CSRC may be implemented by the board of directors of a company by way of separate issues, within 15 months after approval is obtained from CSRC.

Loss of share certificates

A shareholder may apply, in accordance with the relevant provisions set out in the PRC Civil Procedure Law, to a People's Court in the event that share certificates in registered form are either stolen or lost, for a declaration that such certificates will no longer be valid. After such a declaration has been obtained, the shareholder may apply to the company for the issue of replacement certificates.

The Mandatory Provisions provide for a separate procedure regarding loss of H share certificates (which has been incorporated in the Articles of Association, a summary of which is set out in this appendix).

Suspension and termination of listing

The trading of shares of a company on a stock exchange may be suspended if so decided by the securities administration department of the State Council under one of the following circumstances:

(i) the registered capital or shareholding distribution no longer comply with the necessary requirements for a listed company;

(ii) the company failed to make public its financial position in accordance with the requirements or there is false information in the company's financial report;

(iii) the company has committed a major breach of the law; or

(iv) the company has incurred losses for each of the preceding three years.

Under the circumstances referred to in (ii) and (iii) above, an investigation has revealed that the consequences are serious, or under the circumstances referred to in (i) and (iv) above, the situation has not been rectified within the time stipulated, the securities administration department of the State Council may decide to terminate the listing of a company's shares.

The securities administration department of the State Council may also terminate the listing of a company's shares in the event that the company resolves to cease operation or is so instructed by its government supervisory body, or the company is declared bankrupt.

Merger and demerger

The merger or demerger of a company is to be decided by the shareholders in general meeting subject to the approval of departments authorised by the State Council or the approval of the provincial government.

Companies may merge through merger by absorption or through the establishment of a newly merged entity. If it merges by absorption, the company which is absorbed shall be dissolved. If it merges by forming a new corporation, both companies will be dissolved.

A merger agreement must be signed in the case of a merger of companies and the relevant companies shall draw up their respective balance sheets and inventory of property. The companies should within 10 days of the resolution of the merger inform their respective creditors and publish a notice to the creditors in newspapers at least 3 times, within 30 days of the resolution to merge. Those creditors who had not received written notice may within 90 days of the first published notice, or within 30 days after receiving written notice, request the company to satisfy any unpaid debt or provide equivalent guarantees in cases of guarantees. Companies unable to repay such debts or provide alternative guarantees will not be allowed to merge. Newly merged entities shall be responsible for the debts and obligations of the companies involved in the merger.

When a company demerges into two companies, their respective assets must be separated and separate financial accounts must be drawn up. When a company's shareholders approve the demerger of the company, the company should notify all its creditors within 10 days of such resolution being passed and advertise the same at least three times in newspapers within 30 days. A creditor may within 30 days after receiving written notice or, a creditor who has not received such notice may within 90 days from the first public advertisement, demand that the company repay any outstanding debts or to provide an appropriate guarantee.

Changes in registerable particulars of the companies caused by merger or demerger must be registered in accordance with applicable laws.

Sino-Foreign Investment Joint Stock Limited Company and Sino-Foreign Joint Venture Law

The Company has not applied and does not intend to apply for the status of a sinoforeign investment joint stock limited company; and the Company is not and does not expect to be subject to the Sino-Foreign Joint Venture Law.

(2) Securities Law and Supervision

Since 1992, the PRC has promulgated a number of regulations in relation to the issue of and trading in securities and disclosure of information.

In early 1993, the State Council established the Securities Commission and the CSRC. The Securities Commission was responsible for coordinating the drafting of securities regulations, formulating securities-related policies, planning the development of securities markets, directing, coordinating and supervising all securities-related institutions in the PRC and administering the CSRC. The CSRC was the regulatory arm of the Securities Commission and was responsible for the drafting of regulatory provisions governing securities markets, supervising securities companies, regulating public offers of securities by PRC companies in the PRC or overseas, regulating the trading of securities, compiling securities-related statistics and undertaking research and analysis. In early 1998, the State Council dissolved the Securities Commission, and the former functions of the Securities Commission were assumed by the CSRC.

On 22 April 1993, the State Council promulgated the Provisional Regulations Concerning the Issue and Trading of Shares. These regulations deal with the application and approval procedures for public offerings of equity securities, trading in equity securities, the acquisition of listed companies, deposit, settlement, and transfer of listed equity securities, the disclosure of information with respect to a listed company, enforcement and penalties and dispute settlement. These regulations specifically provide that separate provisions will be promulgated in relation to the issue of and trading in special Renminbi-denominated shares. However, (i) if a PRC joint stock limited company proposes to issue Renminbi-denominated ordinary shares as well as special Renminbi- denominated shares, it has to comply with these regulations in respect of its issue of Renminbi-denominated ordinary shares; (ii) if a PRC company proposes to placing shares directly or indirectly outside the PRC, it will require the approval of the Securities Commission (currently the CSRC); and (iii) provisions of these regulations in relation to acquisitions of listed companies and disclosure of information are expressed to apply to listed companies in general without being confined to listed companies on any particular stock exchange. Hence it is possible that such provisions may be applicable to joint stock limited companies with shares listed on a stock exchange outside the PRC including, for instance, joint stock limited companies with shares listed on the GEM, such as the Company.

On 12 June 1993, pursuant to the Provisional Regulations Concerning the Issue and Trading of Shares, the CSRC promulgated the Implementation Measures (Provisional) on Disclosure of Information. Pursuant to these measures, the CSRC is responsible for supervising the disclosure of information by companies which have offered shares to the public both in the PRC and overseas. These measures contain provisions regarding prospectuses and listing reports to be issued in connection with a public offering of shares in the PRC, publication of interim and final reports and announcement of material transactions or matters by companies which have offered shares to the public. Material transactions or matters are those the occurrence of which may have a material effect on the share price of a company. They include, without limitation, changes to a company's articles of association or registered capital, removal of auditors, mortgage or disposal of major operating assets or writing down the value of such assets where the amount being written down exceeds 30% of the total value of such assets, revocation by a court of any resolution passed by the shareholders or the supervisors of a company and the merger or demerger of a company. These measures also contain disclosure provisions in relation to acquisition of listed companies which supplement the requirements contained in the Provisional Regulations Concerning the Issue and Trading of Shares.

On 2 September 1993, the Securities Commission promulgated the Provisional Measures Prohibiting Fraudulent Conduct relating to Securities. The prohibitions imposed by these measures include the use of insider information in connection with the issue of or trading in securities (insider information being defined to include undisclosed material information known to any insider, which may affect the market price of securities); the use of funds or information or the abuse of power in creating a false or disorderly market or influencing the market price of securities or inducing investors to make investment decisions without knowledge of actual circumstances; and the making of any statement in connection with the issue of and trading in securities which is false or materially misleading and in respect of which there is any material omission. Penalties imposed for contravening any of the provisions of the measures include fines, confiscation of profits and suspension of trading. In serious cases, criminal liability may be imposed.

On 25 December 1995, the State Council promulgated the Regulations of the State Council Concerning the Domestic Listed Foreign Shares of Joint Stock Limited Companies. These regulations deal mainly with the issue, subscription and trading of, and declaration of dividends and other distributions on, domestic listed Foreign Shares and disclosures of information by joint stock limited companies having domestic listed Foreign Shares.

On 29 December 1998, the Standing Committee of the National People's Congress promulgated the Securities Law of the PRC. This is the first national securities law in the PRC and is the fundamental law comprehensively regulating activities such as the issuance and trading of securities in the PRC securities market. The Securities Law became effective on 1 July 1999. The Securities Law is applicable to the issuance and trading in the PRC of shares, company bonds and other securities designated by the State Council according to law. Where the Securities Law does not apply, the provisions of the Company Law and other applicable laws and administrative regulations regarding securities will apply.

On 29 March 1999, 國家經濟貿易委員會 (the State Economic and Trade Commission) and the CSRC promulgated the Opinion on the Further Promotion of the Regular Operation and In-Depth Reform of Companies Listed Overseas, which is aimed at regulating the internal operation and management of PRC companies listed overseas. The Company will be subject to the Opinion upon listing of the H Shares on the GEM. The Opinion regulates, amongst others, the appointments and functions of external directors and independent directors in the board of directors; and the appointment and functions of external supervisors and independent supervisors in the supervisory committee.

(3) The Arbitration Law

The Arbitration Law of the PRC (the "Arbitration Law") was promulgated by the Standing Committee of the NPC on 31 August 1994 and came into effect on 1 September 1995. It is applicable to, among other matters, trade disputes involving foreign parties where the parties have entered into a written agreement to refer the matter to arbitration before an arbitration committee constituted in accordance with the Arbitration Law. Under the Arbitration Law, an arbitration committee may, before the promulgation by the PRC Arbitration Association of arbitration regulations, formulate interim arbitration rules in accordance with the Arbitration Law and the PRC Civil Procedure Law. Where the parties have by agreement provided arbitration as a method for dispute resolution, the parties are not permitted to institute legal proceedings in a People's Court except when the arbitration agreement is not valid.

The GEM Listing Rules and the Mandatory Provisions require an arbitration clause to be included in the articles of association of a company listed in Hong Kong and in the case of the GEM Listing Rules, also in a contract between the company and each director and supervisor, to the effect that whenever any dispute or claim arises from any rights or obligations provided in the Articles of Association, the Company Law and other relevant laws and administrative regulations concerning the affairs of a company between (i) a holder of overseas listed Foreign Shares and the company; (ii) a holder of overseas listed Foreign Shares and a holder of Domestic Shares, unless otherwise specified in the Articles of Association, such parties shall submit that dispute or claim to arbitration before either the China International Economic and Trade Arbitration Commission ("CIETAC") or the Hong Kong International Arbitration Centre ("HKIAC") for arbitration. If the party seeking arbitration elects to arbitrate the dispute or claim at the HKIAC, then either party may apply to have such arbitration conducted in Shenzhen according to the securities arbitration rules of the HKIAC. CIETAC is an economic and trade affairs arbitration organ in the PRC. Pursuant to the China International Economic and Trade Arbitration Commission Arbitration Rules, effective on 10 May 1998, CIETAC's jurisdiction covers disputes relating to the Hong Kong Special Administrative Region. CIETAC is located in Beijing with branches in Shenzhen and Shanghai.

Under the Arbitration Law, an arbitral award is final and binding on the parties and if a party fails to comply with an award, the other party to the award may apply to the People's Court for enforcement. A People's Court may refuse to enforce an arbitral award made by an arbitration commission if there are certain procedural or membership irregularities or the award exceeds the scope of the arbitration agreement or is outside the jurisdiction of the arbitration commission.

A party seeking to enforce an arbitral award of a foreign affairs arbitration organ of the PRC against a party who or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for enforcement. Similarly, an arbitral award made by a foreign arbitration body may be recognised and enforced by the PRC courts in accordance with the principles of reciprocity or any international treaty concluded or acceded to by the PRC. The PRC acceded to the New York Convention adopted on 10 June 1958 pursuant to a resolution of the Standing Committee of the NPC passed on 2 December 1986. The New York Convention provides that all arbitral awards made by a state which is a party to the New York Convention shall be recognised and enforced by other parties to the New York Convention subject to their right to refuse enforcement under certain circumstances including where the enforcement of the arbitral award is against the public policy of the state to which the application for enforcement is made. It was declared by the Standing Committee of the NPC simultaneously with the accession of the PRC that (1) the PRC will only recognise and enforce foreign arbitral awards on the principle of reciprocity and (2) the PRC will only apply the New York Convention in disputes considered under PRC laws to be arising from contractual and non-contractual mercantile legal relations. Following the resumption of sovereignty over Hong Kong by the PRC on 1 July 1997, the New York Convention no longer applies to the enforcement of Hong Kong arbitration awards in other parts of the PRC. A Memorandum of Understanding on the arrangement for reciprocal enforcement of arbitral awards between Hong Kong and China has been signed in June 1999. The new arrangement is made in accordance with the spirit of the New York Convention. To meet present day's needs, it will allow awards made over 100 China arbitral authorities with relevant experience to be enforced in Hong Kong. Under the agreed arrangement, Hong Kong arbitration awards will also be enforceable in China. This new arrangement has been approved by the Hong Kong Legislative Council and will become effective in February 2000.

II. HONG KONG LEGAL AND REGULATORY PROVISIONS

(1) Hong Kong company law and its comparison with the PRC law applicable to a joint stock limited company incorporated under the Company Law

Hong Kong company law is primarily set out in the Companies Ordinance and supplemented by common law. There are material differences between Hong Kong company law and the PRC law applicable to a joint stock limited company incorporated under the Company Law, to which the Company is and will be subject, particularly in the area of investor protection. Certain material differences between the Company Law and Hong Kong company law are summarised below. This summary, however, is not intended to be an exhaustive comparison. It should also be noted that the summary relates only to joint stock limited companies incorporated under the Company Law.

Derivative action by minority shareholders

Hong Kong law allows minority shareholders to start a derivative action on behalf of the general body of shareholders in cases where, for example, one or more of the directors are in breach of duty and where their actions are shielded by the majority shareholders. The PRC Civil Procedure Law does not provide for such a procedure. Although the Company Law gives (a) shareholder(s) of a company the right to initiate proceedings in the People's Court to restrain any resolution adopted by shareholders in general meeting or at a meeting of the board of directors which is in violation of any law or infringes the lawful rights and interests of the shareholder(s), there is no form of proceedings which is the same as a derivative action under the Companies Ordinance. However, each of the Directors and Supervisors (as required by the GEM Listing Rules) has given a written undertaking to the Company (acting as agent for each shareholder) to observe and comply with his obligations to shareholders stipulated in the Articles of Association. This allows minority shareholders to commence direct actions against defaulting Directors or Supervisors.

Remedies of the Company

Under the Company Law, if a director, supervisor or manager in carrying out his duties infringes any law or administrative regulation or the articles of association of a company (the "Offending Person"), resulting in damage to the company, that director, supervisor or manager should be responsible to the company for such damages. In addition, in compliance with the GEM Listing Rules, remedies of the Company similar to those available under Hong Kong law (including rescission of the relevant contract and recovery of profits made by a Director, Supervisor or officer) have been set out in the Articles of Association.

Directors, officers and supervisors

The Company Law provides for the disqualification of directors, supervisors and managers in circumstances where they enter into business contracts with the Company, and for prohibitions of certain unauthorised benefits, but contains no provision restricting the authority of the directors to make major dispositions or prohibiting payment to them for loss of office without shareholders approval. The Company Law, unlike Hong Kong company law, does not contain restrictions on directors authority in making major dispositions, restrictions on companies providing certain benefits such as loans to directors and guarantees in respect of directors liability and prohibitions against compensation for loss of office without shareholders approval. Neither does the Company Law contain any requirements relating to the declaration of material interests in contracts with the Company as is required under Hong Kong company law, nor restrictions on interested directors being counted towards the quorum of, and voting at, a meeting of the board of directors at which a transaction in which a director is interested is being considered. However, the Mandatory Provisions contain certain restrictions on major dispositions and specify the circumstances under which a director may receive compensation for loss of office, all of which provisions have been incorporated in the Articles of Association, a summary of which is set out in this appendix.

Under Hong Kong company law, there is no concept of a supervisory committee for a company in addition to its board of directors, but a PRC joint stock limited company must have supervisors whose main duties include ensuring compliance with laws and regulations, and the articles of association of the company, by its directors and managers.

Each supervisor owes a duty, in the exercise of his powers, to act in good faith and honestly in what he or she considers to be the best interests of the company and to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

Minority protection

Under Hong Kong law, a shareholder who complains that the affairs of a company incorporated in Hong Kong are conducted in a manner unfairly prejudicial to his interests may present a petition to the court either to wind up the company or to make an appropriate order regulating the affairs of the company. In addition, at an application of a specified number of members, the Financial Secretary of Hong Kong may appoint investigators who are given extensive statutory powers to investigate the affairs of a company incorporated in Hong Kong. There is no specific provision in the Company Law to guard against oppression by the majority shareholders of minority shareholders but the Company, as required by the Mandatory Provisions and the GEM Listing Rules, has adopted in the Articles of Association minority protection provisions similar to (though not as comprehensive as) those available under Hong Kong law, to the effect that a controlling shareholder may not exercise its voting rights in a manner prejudicial to the interests of other shareholders to relieve a director or supervisor of his or her duty to act honestly in the best interests of the company or to approve the expropriation by a director or supervisor of the company's assets or the individual rights of other shareholders.

Receiving agent

Under both PRC and Hong Kong law, dividends once declared become debts payable to shareholders, but the limitation of action period is two years in the PRC as opposed to six years in Hong Kong. The articles of association provide for the appointment of an agent in Hong Kong which must be a trust corporation registered under the Trustee Ordinance in Hong Kong to receive all dividends payable to H Share holders and all other monies owing by a joint stock limited company in respect of such H Shares on behalf of such shareholders as required by the GEM Listing Rules.

Financial assistance for the acquisition of shares

The Company Law does not contain any provision prohibiting or restricting a joint stock limited company or its subsidiaries from providing financial assistance for the purpose of an acquisition of its own or its holding company's shares. The Mandatory Provisions contain certain restrictions on a company and its subsidiaries providing such financial assistance similar to those under Hong Kong company law.

Variation of class rights

The Company Law makes no specific provision relating to variation of class rights. However, the Company Law states that the State Council can promulgate regulations relating to other kinds of shares. The Mandatory Provisions contain elaborate provisions relating to the circumstances which are deemed to be variations of class rights and the approval procedures required to be followed in respect thereof. These provisions have been incorporated in the Articles of Association, which are summarised in this appendix. Under the Companies Ordinance, no rights attached to any class of shares can be varied except with the approval of a special resolution of the holders of the relevant class at a separate meeting or the consent in writing of the holders of three-fourths in nominal value of the issued shares of the class in question or by agreement of all the members of the Company or if there are provisions in the articles of association relating to the variation of those rights, then in accordance with those provisions. The Company (as required by the GEM Listing Rules and the Mandatory Provisions) has adopted in the Articles of Association provisions protecting class rights in a similar manner to those found in Hong Kong law. Holders of overseas listed foreign invested shares and domestic invested shares are defined in the Articles of Association as different classes. Normally if the Company intends to change the rights of shareholders in different classes, a special resolution has to be passed by the shareholders in general meeting and by a separate shareholders' meeting convened by the affected shareholders in the different classes. However, this procedure is waived where (i) the Company issues and allots, in any 12-month period, pursuant to a shareholders special resolution, not more than 20% of each of the issued overseas listed foreign invested shares and the issued domestic invested shares existing as at the date of the shareholders' special resolution; or (ii) the plan for the issue of domestic invested shares and listed foreign invested shares upon its establishment is implemented within 15 months following the date of approval by the CSRC. The Mandatory Provisions contain detailed provisions relating to circumstances which are deemed to constitute a variation of class rights.

Corporate reorganisations

Corporate reorganisations involving compromises with creditors and members in respect of Hong Kong incorporated companies are dealt with under section 166 of the Companies Ordinance and require court sanction. Corporate reorganisation involving Hong Kong incorporated companies may also be effected by the transfer of the whole or part of the business or property of the company in the course of being wound up voluntarily to another company pursuant to section 237 of the Companies Ordinance. However, in the latter case, the liquidator of the first company may, with the sanction of a special resolution, receive compensation from the transfer for distribution to the members of the transferor company. For PRC companies, such reorganisations are administratively considered and sanctioned under the Company Law.

Share capital

For a joint stock limited company formed under the Company Law, the registered share capital and the issued share capital are the same. For a Hong Kong company, the authorised share capital may be larger than the issued share capital. Hence, the directors of a Hong Kong company may, with the prior approval of the shareholders in general meeting if required, cause the company to issue new shares. In the case of a PRC company, any increase of the registered capital must be approved by the shareholders in general meeting and the relevant PRC government and regulatory authorities. After completion of an approved new issue, the company has to register the increase in share capital with the relevant regulatory authority for industry and commerce.

The minimum registered capital of a company which has applied for the listing of its shares on stock exchange is RMB50 million under the Company Law. Hong Kong law does not prescribe any minimum capital requirements for a Hong Kong company.

Under the Company Law, the shares subscribed for in the form of intangible assets (excluding land use rights) may not exceed 20% of a joint stock limited company's registered capital. There is no such restriction under Hong Kong law on a Hong Kong company.

Restriction on shareholding and transfer of shares

The Company Law makes no reference to the class of shares which may be subscribed for or traded by overseas investors but has provisions that shares of a company to be listed overseas must comply with the Special Regulations. The Special Regulations and the Mandatory Provisions provide, among other things, that H shares must be in registered form and include other matters some of which are referred to above. There is no restriction under Hong Kong law on a person's ability to deal in shares in a Hong Kong company on the basis of his residence or nationality.

Under the Company Law, shares in a joint stock limited company held by its promoters, directors, supervisors or managers may not be transferred within certain periods of time. There is no such restriction under Hong Kong law.

Notice of meetings

Under the Company Law, shareholders of a joint stock limited company must be given 30 days' notice of a general meeting or, in the case of bearer shares, such notice should be published 45 days before the meeting. Under the Special Regulations and the Mandatory Provisions, 45 days' written notice must be given to all shareholders, and shareholders wishing to attend the meeting must reply in writing to reach the company 20 days before the date of the meeting. For a Hong Kong limited company, the minimum period of notice of a general meeting where convened for the purpose of considering ordinary resolutions is 14 days and where convened for the purpose of considering special resolutions, is 21 days. The notice period for an annual general meeting is also 21 days.

Quorum

Under Hong Kong company law, any two shareholders personally present will constitute a quorum for a general meeting, unless the articles of association provide otherwise. The Company Law makes no specific provision as to when a quorum is regarded as being present but the Special Regulations and the Mandatory Provisions as well as the Articles of Association provide that a company's general meeting can be convened when replies to the notice of that meeting have been received from shareholders whose shares represent 50% of the voting rights in the company at least 20 days before the proposed date of the meeting, or if that 50% level is not achieved, that the company shall within 5 days notify shareholders in a public announcement and the annual general meeting may be held thereafter.

Voting

Under the Hong Kong company law, ordinary resolutions are passed by more than one-half of the votes cast by those shareholders voting in person or by proxy at a general meeting and special resolutions are passed by not less than three-quarters of such votes. Under the Company Law, the passing of any resolution requires the passing by more than half of the votes of the shareholders attending and voting except in cases of proposed amendment to the articles of association, merger, division or dissolution of a company, where the approval of a two-thirds majority is required.

Dividends

The Articles of Association empower the Company to withhold, and pay to the relevant tax authorities, any tax payable under PRC law on any dividends or other distributions payable to a shareholder. Under Hong Kong law, the limitation period for an action to recover a debt (including the recovery of dividends) is six years, whereas under PRC laws, the relevant limitation period is two years.

The Company shall not exercise its powers to forfeit any unclaimed dividend in respect of H Shares until after the expiry of the applicable limitation period.

Financial disclosure

A joint stock limited company is required under the Company Law to make available at its office for inspection by shareholders its annual balance sheet, profit and loss account, statement of changes in financial situation and other relevant annexes 20 days before the annual general meeting of shareholders. In addition, a company established by the public subscription method under the Company Law must publish its financial statements. The annual balance sheet has to be verified by registered accountants. The Companies Ordinance requires a company to send to every shareholder (whether he is entitled to waive notices of general meetings of the Company) a copy of its balance sheet, auditors' report and directors' report which are to be laid before the company in its annual general meeting not less than 21 days before such meeting.

Under the Articles of Association (as required by the GEM Listing Rules and the Mandatory Provisions), in addition to preparing accounts according to PRC accounting standards, the Company must have its accounts prepared and audited in accordance with international accounting standards or Hong Kong accounting standards. The Company is required to publish its interim and annual accounts within 3 months from the end of the first six months of a financial year and within 90 days from the end of a financial year, respectively. The Company is further required to release quarterly reports within 45 days from the end of the first and third quarters of each financial year.

The Special Regulations require that there should not be any inconsistency between the information disclosed within and outside the PRC and that, to the extent that there are differences in the information disclosed in accordance with the relevant PRC and overseas laws, regulations and requirements of the relevant stock exchanges, such differences should also be disclosed simultaneously.

Information on directors and shareholders

The Company Law gives shareholders the right to inspect the Company's Articles of Association, minutes of the shareholders' general meetings and financial and accounting reports. Under the Articles of Association, shareholders have the right to inspect and copy (at reasonable charges) certain information on shareholders and on directors similar to that available to shareholders of Hong Kong companies under Hong Kong law.

Arbitration of disputes

In Hong Kong, disputes between shareholders and a company or its directors, managers and other senior officers can be resolved through the courts. It is a requirement of the Mandatory Provisions and the GEM Listing Rule that the Articles of Association provide that disputes between a holder of H Shares and the Company and its directors, managers or other senior administrative officers or a holder of Domestic Shares arising from the Articles of Association, the Company Law or other relevant law or administrative regulation which concerns the affairs of the Company must, with certain exceptions (such as disputes over who is a shareholder), be submitted to arbitration at either the HKIAC or the CIETAC, at the claimant's choice. Such arbitration is final and conclusive.

Mandatory Deductions

Under the Company Law, after tax profits of a company are subject to deductions of contributions to the statutory common reserve fund and the statutory public welfare fund of a company before they can be distributed to shareholders. There are prescribed limits under the Company Law for such deductions. There are no corresponding provisions under the Companies Ordinance.

Fiduciary Duties

In Hong Kong, there is the common law concept of the fiduciary duty of directors. Under the Company Law and the Special Regulations, directors, supervisors, officers, and managers owe a fiduciary duty towards their company and are not permitted to engage in any activities which compete with or damage the interests of their company.

Closure of register of shareholders

The Companies Ordinance of Hong Kong requires that the register of shareholders of a company must not generally be closed for the registration of transfers of shares for more than 30 days (extendable to 60 days in certain circumstances) in a year, whereas the Company's Articles of Association provide, as required by the Company Law, that share transfers may not be registered within 30 days before the date of a shareholders' meeting or within five days before the record date set for the purpose of distribution of dividends.

(2) Other legal and regulatory provisions

Upon the listing of the Company on the GEM, the provisions of the Securities Ordinance, the Securities (Disclosure of Interests) Ordinance, the Securities (Insider Dealing) Ordinance of Hong Kong, the Takeovers Code and the Share Repurchases Code and such other relevant ordinances and regulations as may be applicable to companies listed on the GEM will apply to the Company.

(3) Securities Arbitration Rules

The Articles of Association provide that certain claims arising under the Articles of Association or the Company Law shall be arbitrated at either CIETAC or HKIAC in accordance with their respective rules.

The Securities Arbitration Rules of HKIAC contain provisions allowing an arbitral tribunal to conduct a hearing in Shenzhen for cases involving disputes concerning the affairs of companies listed by the Hong Kong Stock Exchange and incorporated in the PRC (other than Hong Kong, Macau and Taiwan) so that PRC parties and witnesses may attend. Where any party applies for a hearing to take place in Shenzhen, the tribunal shall, where satisfied that such application is based on bona fide grounds, order the hearing to take place in Shenzhen conditionally upon all parties including witnesses and the arbitrators being permitted to enter Shenzhen for the purpose of the hearing. Where any party (other than a PRC party) or any of its witnesses or any arbitrator is not permitted to enter Shenzhen, then the tribunal shall order that the hearing be conducted in any practicable manner, including the use of electronic media. For the purpose of the Securities Arbitration Rules, a PRC party means a party domiciled in the PRC other than the territories of Hong Kong, Macau and Taiwan.

(4) GEM Listing Rules

The GEM Listing Rules contain certain provisions specifically relating to the primary listing of equity securities of companies incorporated or otherwise established in the PRC. Set out below is a summary of the major provisions which apply to the Company.

Sponsor

The Company is required to retain, up to 31 December 2005 (or such shorter period as the Hong Kong Stock Exchange may, at its absolute discretion, permit) following its listing, the services of its sponsor or other financial adviser or professional firm which is acceptable to the Hong Kong Stock Exchange, to provide the Company with professional advice on continuous compliance with the GEM Listing Rules and its listing agreement, and to act at all times as the Company's principal channel of communication with the Hong Kong Stock Exchange, in addition to the two authorised representatives of the Company appointed pursuant to the GEM Listing Rules.

The Company must ensure that its sponsor has access at all times to its authorised representatives, Directors and other officers and is given such information and assistance as it may request in connection with the performance of its duties. The Company should also ensure that there are adequate and efficient means of communication between itself, its authorised representatives, Directors and other officers and the sponsor and should keep the sponsor fully informed of all communications and dealings between it and the Hong Kong Stock Exchange. The Company must not terminate the services of its sponsor until a replacement acceptable to the Hong Kong Stock Exchange is appointed. Where such sponsor's role is terminated by the Company, both the Company and the former sponsor should immediately notify the Hong Kong Stock Exchange of such termination, in each case stating the reason why such appointment was terminated, and the Company and the new sponsor should immediately notify the Hong Kong Stock Exchange of the new sponsor's appointment.

If the Hong Kong Stock Exchange is not satisfied that the sponsor is fulfilling its responsibilities adequately under the GEM Listing Rules, it may require the Company to terminate the sponsor's appointment and appoint a replacement as soon as possible. The Company and the new sponsor should immediately notify the Hong Kong Stock Exchange of the new sponsor's appointment.

The sponsor must be satisfied that the Company is suitable to be listed, that the Directors and the Supervisors appreciate the nature of their responsibilities and can be expected to honor their obligations under their respective undertakings, the

GEM Listing Rules, the listing agreement and applicable laws and regulations and that the Directors understand what is required of them under the GEM Listing Rules, the listing agreement and applicable laws and regulations.

The sponsor must keep the Company informed on a timely basis of changes in the GEM Listing Rules and any new or amended law, regulation or code in Hong Kong applicable to the Company. The sponsor must provide advice to the Company on the continuing requirements under the GEM Listing Rules, the listing agreement and applicable laws and regulations. It must act as the Company's principal channel of communication with the Hong Kong Stock Exchange if the authorised representatives of the Company are expected to be frequently outside Hong Kong.

Accountants reports

An accountants' report will not normally be regarded as acceptable by the Hong Kong Stock Exchange unless the relevant accounts have been audited to a standard comparable to that required in Hong Kong which means that it must conform with either Hong Kong or international accounting standards.

Process agent

The Company must appoint and maintain throughout the period its securities are listed on the Hong Kong Stock Exchange the appointment of a person authorised to accept service of process and notices on its behalf in Hong Kong and must notify the Hong Kong Stock Exchange of his or her appointment and any termination of his or her appointment and his or her contact particulars.

Public shareholdings

If at any time there are existing issued securities of the Company other than H Shares which are listed on the Hong Kong Stock Exchange, the GEM Listing Rules require that (i) all H Shares must be held by the public except as otherwise permitted by the Hong Kong Stock Exchange in its discretion; (ii) the H Shares held by the public must constitute not less than 10% of the Company's total existing issued share capital; and (iii) the aggregate amount of H Shares and other securities held by the public must constitute not less than the minimum prescribed percentage of the Company's total existing issued share capital as set out in the GEM Listing Rules (25% of the Company's securities to be in public hands if market capitalisation does not exceed HK$4,000 million (determined at time of listing) and the higher value of 20% of the Company's securities or the percentage that would result in the market value of the securities to be in public hands equal to HK$1,000 million to be in public hands if the market capitalisation is over HK$4,000 million (determined at time of listing)).

If the Company does not have existing issued securities other than H Shares, the H Shares held by the public must constitute not less than 25% of the Company's total existing issued share capital unless the expected market value of the H shares at the time of listing is over HK$4,000 million in which case, the Hong Kong Stock Exchange will normally accept a prescribed percentage of H Shares (as a portion of total existing issued share capital) to be held by the public of 20% as the number of securities concerned will normally be sufficient to ensure that there is an open market. If the market capitalisation of the total existing issued share capital is over HK$4,000 million, the percentage of securities to be in public hands equals to the higher of 20% of the Company's securities or the percentage that would result in the market value of the securities to be in public hands equal to HK$1,000 million.

Independent non-executive directors and supervisors

The independent non-executive Directors are required to demonstrate an acceptable standard of competence and adequate commercial or professional expertise to ensure that the interests of the general body of shareholders will be adequately represented. At least one of the independent non-executive Directors must be ordinarily resident in Hong Kong. The Supervisors must have the character, experience and integrity and be able to demonstrate a standard of competence commensurate with their position as supervisors.

Restrictions on purchase and subscription

The Company may purchase its own Shares on the GEM in accordance with the GEM Listing Rules and the Takeovers Code. Shareholders' approvals must first be obtained prior to carrying out a share repurchase, by way of the special resolutions of shareholders in general meetings and of the holders of Domestic Shares and the holders of H Shares at separate class meetings, in accordance with the procedures prescribed by the Articles of Association. When seeking shareholders' approval to make purchases of its securities on the GEM or when reporting such purchases, the Company should provide an explanatory statement to its shareholders on the proposed or actual purchase of any or all of its equity securities, whether or not listed or traded on the GEM. There should also be a statement as to the consequences of any purchases which will arise under either or both of the Hong Kong Code on Takeovers and Mergers and any similar applicable law of which the Directors are aware, if any. Any specific approval or general mandate given to the Directors to repurchase H Shares must not exceed 10% of the total amount of existing issued H Shares of the Company.

With a view to increasing the level of protection afforded to investors, the Hong Kong Stock Exchange requires the incorporation, in the articles of association of a PRC company whose primary listing is on the Hong Kong Stock Exchange, of the Mandatory Provisions and provisions including those relating to the change, removal and resignation of auditors, classification of shareholders and the conduct of the supervisory committee of the Company. Such provisions have been incorporated into the Articles of Association, a summary of which is set out in this appendix.

Redeemable shares

The Company shall not issue any redeemable shares unless the Hong Kong Stock Exchange is satisfied that the relative rights of the holders of the H Shares are adequately protected. The Company shall inform the Hong Kong Stock Exchange as soon as possible after any purchase, sale, drawing or redemption by the Company, or any of its subsidiaries, of its securities.

Pre-emptive rights

Except in the circumstances mentioned below, the Directors must obtain the approval by a special resolution of Shareholders in general meeting, and the approvals by special resolutions of holders of Domestic Shares and holders of H Shares (each being otherwise entitled to vote at general meetings) at separate class meetings conducted in accordance with the Articles of Association prior to:

(i) authorising, allotting, issuing or granting;

(a) shares;

(b) securities convertible into shares; or

(c) options, warrants or similar rights to subscribe for any shares or such convertible securities; or

(ii) any major subsidiary of the Company making any such authorisation, allotment, issue or grant so as materially to dilute the percentage equity interest of the Company and its shareholders in such subsidiary.

Notwithstanding in the circumstances mentioned below, the Directors shall obtain the approval by special resolution of the Shareholders in general meeting prior to allotting any voting shares if such allotment would effectively alter the control of the Company.

No such approval shall be required in the case of authorising, allotting or issuing shares if, but only to the extent that, the existing shareholders of the Company have by special resolution in general meeting given approval, either unconditionally or subject to such terms and conditions as may be specified in the resolution, for the Company to authorise, allot or issue either separately or concurrently once in every 12 months (commencing on the date on which the Shareholders pass such resolutions), not more than 20% of each of the existing Domestic Shares and H Shares as at the date of the passing of the relevant special resolution or such shares are part of the Company's plan at the time of its establishment to issue Domestic Shares and H Shares and which plan is implemented within 15 months from the date of approval by CSRC or such other competent State Council Securities regulatory authority.

Changes to articles of association

The Company shall not at any time permit or cause any amendment to be made to the Articles of Association which would cause them to cease to apply with the GEM Listing Rules and in particular, the Mandatory Provisions.

The Company shall inform the Hong Kong Stock Exchange of any decision made in regard to any proposed alternation of the Company's Articles of Association and any proposed by the Company to a PRC competent authority to waive or otherwise.

Documents for inspection

The Company must make available at a place in Hong Kong for inspection by the public and shareholders free of charge, and for copying by shareholders at reasonable charges, the following:

(a) a complete duplicate register of shareholders;

(b) a report showing the state of the issued share capital of the Company;

(c) the Company's latest audited financial statements and the Directors', auditors' and Supervisors' reports thereon;

(d) special resolutions of the Company;

(e) reports showing the number and nominal value of securities repurchased by the Company since the end of the last financial year, the aggregate amount paid for such securities and the maximum and minimum prices paid in respect of each class of securities repurchased (with a breakdown between Domestic Shares and H Shares);

(f) a copy of the latest annual return filed with the PRC State Administration for Industry and Commerce or other competent PRC authority; and

(g) for shareholders only, copies of the minutes of meetings of shareholders.

Appointment of receiving agents

The Company must appoint one or more receiving agents in Hong Kong and pay to such agents dividends declared and other monies owing by the Company in respect of H Shares listed on the Hong Kong Stock Exchange to be held, pending payment, in trust for holders of the H Shares.

Statements to be made on acquisition of shares

The Company must ensure that all its listing documents and share certificates include the statements stipulated below and must instruct and cause its share registrar not to register the subscription, purchase or transfer of any of its H Shares in the name of any particular holder unless and until such holder delivers to such share registrar a signed form in respect of such shares bearing statements to the following effect:

(a) The acquirer of Shares agrees with the Company and each shareholder of the Company, and the Company agrees with each shareholder, to observe and comply with the Company Law, the Special Regulations and the Articles of Association.

(b) The acquirer of Shares agrees with the Company, each shareholder, Director, Supervisor, manager and officer of the Company and the Company acting for itself and for each Director, Supervisor, manager and officer agrees with each shareholder to refer all differences and claims arising from the Articles of Association or any rights or obligations conferred or imposed by the Company Law or other relevant laws and administrative regulations concerning the affairs of the Company to arbitration in accordance with the Articles of Association. Any reference to arbitration shall be deemed to authorise the arbitration tribunal to conduct its hearing in open session and to publish its award. Such arbitration shall be final and conclusive.

(c) The acquirer of Shares agrees with the Company and each shareholder of the Company that H Shares in the Company are freely transferable by the holder thereof.

(d) The acquirer of Shares authorises the Company to enter into a contract on his behalf with each Director and officer whereby such Directors and officers undertake to observe and comply with their obligations to shareholders stipulated in the Articles of Association.

Compliance with the Company Law, the Special Regulations and the Articles of Association

The Company must observe and comply with the Company Law, the Special Regulations and the Articles of Association.

Contract between the Company and every Director and officer

The Company must enter into a contract in writing with every Director and officer containing at least the following provisions:

(a) an undertaking by the Director or officer to the Company to observe and comply with the Company Law, the Special Regulations, the Articles of Association, the Hong Kong Code on Takeovers and Mergers and the Code on Share Repurchases and an agreement that the Company shall have the remedies provided in the Articles of Association and that neither the contract nor his office is capable of assignment;

(b) an undertaking by the Director or officer to the Company acting as agent for each shareholder to observe and comply with his obligations to shareholders stipulated in the Articles of Association; and

(c) an arbitration clause which provides that whenever any disputes or claims arise from the listing agreement, the Articles of Association or any rights or obligations conferred or imposed by the Company Law or other relevant laws and administrative regulations concerning the affairs of the Company between (1) the Company and its Directors or officers and (2) a holder of overseas listed foreign invested shares and a Director or officer of the Company, such disputes or claims shall be resolved through arbitration at either CIETAC in accordance with its arbitration rules or HKIAC in accordance with its Securities Arbitration Rules, at the election of the party seeking arbitration. Where a dispute or claim described above is referred to arbitration, the entire dispute or claim shall be resolved through that arbitration; all persons who have a cause of action based on the same facts giving rise to the dispute or claim or whose participation is necessary for the resolution of such dispute or claim, if they are shareholders, Directors, Supervisors, managers or other officers of the Company or the Company, shall submit to arbitration.

Disputes over who is a shareholder and over the share register do not have to be resolved through arbitration.

If the party seeking arbitration elects to arbitrate the dispute or claim at HKIAC, then either party may apply to have such arbitration conducted in Shenzhen according to the Securities Arbitration Rules of HKIAC. Once the party seeking arbitration submits a dispute or claim to arbitration, the other party must submit to the arbitral body selected by the party seeking the arbitration.

PRC laws shall govern the arbitration of disputes or claims referred to above, unless otherwise provided by law or administrative regulations. The award of the arbitral body is final and shall be binding on the parties thereto.

The agreement to arbitrate is made by the Director or officer with the Company on its own behalf and on behalf of each shareholder. Any reference to arbitration is deemed to authorise the arbitral tribunal to conduct hearings in open session and to publish its award.

Contract between the Company and every Supervisor

The Company must enter into a contract in writing with every Supervisor containing at least the following provisions:

(a) an undertaking by the Supervisor to the Company to observe and comply with the Company Law, the Special Regulations and the Articles of Association and an agreement that the Company will have the remedies provided in the Articles of Association and that neither the contract nor his office is capable of assignment;

(b) an undertaking by the Supervisor to the Company acting as agent for each shareholder to observe and comply with his obligations to shareholders stipulated in the Articles of Association; and

(c) the arbitration clause in terms set out in the preceding paragraph in "Contract between the Company and every Director and officer" above subject to necessary modifications.

The Company is required to adopt rules governing dealings by its Supervisors in securities of the Company in terms no less favourable than those of the Model Code for Securities Transactions by Directors of Listed Companies (set out in appendix 10 of the GEM Listing Rules) issued by the Hong Kong Stock Exchange which applies to directors of companies listed on the Hong Kong Stock Exchange.

Subsequent listing

The Company must apply for the listing of any further securities which are of the same class as securities already listed, prior to their issue, and must not issue such securities unless it has applied for the listing of these securities. The Company must not apply for the listing of any of its foreign invested shares on a PRC stock exchange unless the Hong Kong Stock Exchange is satisfied that the relative rights of the holders of overseas listed foreign shares are adequately protected.

English translation

All documents furnished by the Company, including accounts, which are in a language other than English or Chinese, must be accomplished by a certified English or Chinese translation.

General

If changes in the PRC law or market practices materially alter the validity or accuracy of any of the bases upon which the above requirements have been prepared, then the Hong Kong Stock Exchange may impose additional requirements or make the listing of the equity securities of a PRC issuer, including the Company, subject to such special conditions as the Hong Kong Stock Exchange considers appropriate. Whether or not any such changes in the PRC law or market practices occur, the Hong Kong Stock Exchange retains its general power under the GEM Listing Rules to impose additional requirements and make special conditions in respect of the listing of the shares of the Company.

III. ARTICLES OF ASSOCIATION

Set out below is a summary of the principal provisions of the Articles of Association which have incorporated the Mandatory Provisions as supplemented by the Opinion Regarding the Supplemental Amendments to the Articles of Association of Companies to be listed in Hong Kong jointly promulgated by CSRC and SCRES. The Articles of Association were adopted by a special resolution of the shareholders of the Company dated 18 October 2003 and approved by shareholders in an extraordinary general meeting. Copies of the full Chinese and English texts of the Articles of Association are available for inspection as mentioned in the paragraph headed "Documents Delivered to the Registrars of Companies and Available for Inspection" in appendix VII to this prospectus.

(1) Directors

(a) Power to allot and issue shares

There are no provisions in the Articles of Association empowering the Directors to allot and issue shares. In order to increase the share capital of the Company, the board of Directors shall prepare a proposal for an allotment of shares in the Company, and submit the same to shareholders in general meeting for their approval by way of a special resolution. The board of Directors shall then submit the proposal for the share allotment to the securities regulatory authorities of the State Council for approval, and, subject to such approval being obtained, make separate arrangements to implement the share allotment.

(b) Power to dispose of the Company's or of any of its subsidiaries assets

The Directors shall not, without the prior approval of shareholders in general meeting, dispose or agree to dispose of any fixed assets of the Company if the aggregate of:

(i) the expected value of the fixed assets proposed to be disposed of; and

(ii) the total consideration received by the Company for all disposals of fixed assets which took place within the period of four months immediately preceding the proposed disposal,

exceeds 33% of the value of the Company's fixed assets as shown in the last balance sheet placed before the shareholders in general meeting. For the purposes of this provision, a disposal of fixed assets includes an act involving the transfer of an interest in fixed assets but does not include the provision of security in the form of fixed assets under a guarantee. The validity of a transaction entered into by the Company for the disposal of fixed assets by the Company shall not be affected by a breach of this provision.

(c) Compensation or payments for loss of office

The Company shall enter into a contract in writing with each Director and Supervisor in respect of remuneration for his services, with the prior sanction of the shareholders in general meeting. The aforesaid remuneration shall include: *inter alia*, monies payable to the Director or Supervisor as compensation for the loss of office or upon retirement from office. A contract of remuneration entered into between the Company and its Director or Supervisor shall make provisions for that Director or Supervisor to receive compensation for loss of office or upon retirement in the event of a takeover of the Company, subject to obtaining the informed approval of shareholders at a general meeting. "Takeover of the Company" refers to any one of the following circumstances:

(i) an offer made by any person to all shareholders of the Company; or

(ii) an offer made by any person with a view to the offeror becoming a controlling shareholder (as defined in the Articles of Association) of the Company.

If the relevant Director or Supervisor does not comply with the above provision, any monies received by him shall belong to those persons who have sold their shares by reason of their acceptance of the offer made, and the expenses incurred in distributing the monies pro rata amongst those persons shall be borne by that Director or Supervisor and shall not be deducted out of the monies to be distributed.

(d) Loans to Directors

The Company shall not, directly or indirectly, make a loan or provide any guarantee for a loan to its Director, Supervisor, General Manager or other senior officer, or to a Director, Supervisor, General Manager or other senior officer of its holding company, or to a person connected with the aforementioned officers in the manner described in section (f) below. The prohibitions contained in this section shall not apply in the following circumstances:

(a) the provision of a loan or a guarantee for a loan by the Company to a subsidiary of the Company;

(b) the provision by the Company to a Director, Supervisor, General Manager or other senior officer pursuant to an employment contract approved by the shareholders' general meeting of a loan or a guarantee for a loan or other funds to meet expenditure incurred by him in the interest of the Company or for the purpose of enabling him to perform his duties for the Company; and

(c) where the ordinary course of business of the Company includes money lending or the provision of guarantees, the Company may make a loan to or provide a guarantee for a loan to a Director, Supervisor, General Manager or other senior officer or persons connected with them (as described in section (f) below), provided that the terms of the loan or guarantee for a loan are on ordinary commercial terms.

A loan made by the Company in breach of the prohibition described above shall be repaid immediately by the recipient of the loan, regardless of the terms of the loan. A guarantee provided by the Company in breach of the prohibition described above shall not be enforceable against the Company, except in the following circumstances:

(i) the lender was not aware of the relevant circumstances at the time the loan was advanced to the connected person of a Director, Supervisor, General Manager or other senior officer of the Company or its holding company; and

(ii) the security provided by the Company has been lawfully sold by the lender to a bona fide purchaser.

For the purpose of the foregoing provisions, a guarantee includes giving an undertaking or providing security in the form of assets belonging to the guarantor to guarantee performance of the obligations of the obligor.

(e) Giving of financial assistance to purchase the Company's or any of its subsidiaries shares

The Company and its subsidiaries shall not at any time and in any manner give any form of financial assistance to a person purchasing or who intends to purchase the shares of the Company. For the purpose of this provision, a purchaser of the Company's shares includes a person who directly or indirectly undertakes any form of obligations as a result of a purchase of the Company's shares. The Company and its subsidiaries shall not at any time and in any manner provide any form of financial assistance for the purpose of reducing or discharging such obligations.

For the purpose of the Articles of Association,

(i) "financial assistance" includes (but is not limited to) financial assistance provided by way of:

(1) gift;

(2) guarantee (including cases where the guarantor assumes any obligation(s) or provides security in the form of its assets in order to guarantee the performance of obligations by the obligor), indemnity (other than an indemnity given in respect of the Company's own default), release or waiver;

(3) a loan or a contract under which the obligations of the Company have to be fulfilled before the obligations of the other side, or a change of the parties to that loan or contract, or the assignment of any rights under the loan or contract; or

(4) financial assistance given in any other form under circumstances whereby the Company is unable to pay its debts or has no net assets, or whereby its net assets may be reduced by a material extent; and

(ii) any reference to an assumption of obligation(s) includes situations where the obligor enters into a contract or makes any arrangement (whether or not such contract or arrangement is enforceable, and whether or not the obligations under such a contract or arrangement are to be borne by that one party alone or together with other party or parties) and situations where a party's financial position is changed, without regard to the means by which that change is brought about.

The following acts shall not be deemed prohibited by the Articles of Association:

(i) where the financial assistance is provided by the Company in good faith and in the interests of the Company, and the main purpose of that assistance is not to facilitate the acquisition of shares in the Company or that financial assistance is an incidental part of some broader purpose of the Company;

(ii) where the Company is lawfully distributing its assets by way of dividend;

(iii) the distribution of a dividend by way of an allotment of bonus shares;

(iv) a reduction of the Company's registered capital, a repurchase of the Company's shares or a reorganisation of the structure of the Company's share capital etc. in accordance with the Articles of Association;

(v) where the Company provides a loan which is within its scope of operations and which is in the ordinary course of its business (provided that the Company's net assets are not reduced as a result of such a loan or where the Company's net assets are reduced, to the extent that those assets are reduced, the financial assistance is provided out of distributable profits of the Company); and

(vi) contributions of money by the Company to employees' share schemes (provided that the Company's net assets are not reduced as a result of such contributions or where the Company's net assets are reduced, to the extent that those assets are reduced, the financial assistance is provided out of distributable profits of the Company).

(f) Disclosure of interests in contracts with the Company or any of its subsidiaries

Where a Director, Supervisor, General Manager or other senior officer of the Company has, directly or indirectly, a material interest in a contract, transaction or arrangement entered into or proposed to be entered into by the Company (other than his contract of employment), he shall declare the nature and extent of his interest to the board of Directors at the earliest opportunity, whether or not the matters in question are otherwise subject to the approval of the board of Directors. Unless the Director, Supervisor, General Manager or other senior officer with an interest makes a disclosure to the board of Directors in the manner just described in this paragraph and the matter is approved by the board of Directors at a meeting at which he was not counted in the quorum and did not vote, the Company may rescind that contract transaction or arrangement except as against a bona fide party acting in good faith and without notice of the breach of duty by that Director, Supervisor, General Manager or senior officer. For the purposes of this provision, a Director, Supervisor, General Manager or other senior officer is deemed to have an interest in a contract, transaction or arrangement in which a person connected to him (in the manner described below in this section 1(f)) has an interest.

If, prior to the date on which the Company first considered the question of entering into the relevant contract, transaction or arrangement, the Director, President, Supervisor, General Manager or other senior officer gives the board of Directors a notice in writing stating that by reason of the matters stated in the notice, he has an interest in a contract, transaction or arrangement proposed to be entered into by the Company, then that Director, Supervisor, General Manager or senior officer shall be deemed to have made a disclosure for the purpose of and in accordance with this section to the extent of the matters disclosed in that notice.

A person is connected with a Director, Supervisor, General Manager or other senior officer ("connected person") if he/she is:

(i) the spouse or minor child of that Director, Supervisor, General Manager or other senior officer;

(ii) a person acting as trustee for that Director, Supervisor, General Manager or other senior officer or as a trustee for any person referred to in (i) above;

(iii) a person who is a partner of that Director, Supervisor, General Manager or other senior officer or a partner of any person referred to in (i) and (ii) above;

(iv) a company in which that Director, Supervisor, General Manager or other senior officer, alone or together with any persons referred to in (i), (ii) and (iii) above, or together with other Director(s), Supervisor(s), manager(s) or senior officer(s) have de facto control; or

(v) a director, supervisor, General Manager or other senior officer of a company referred to in (iv) above.

(g) Remuneration

The Company shall enter into a contract in writing with each Director and Supervisor in respect of remuneration for his services, with the prior sanction of the shareholders general meeting. Such remuneration shall include:

(i) remuneration for his services as Director, Supervisor, General Manager or other senior officer of the Company;

(ii) remuneration for his services as Director, Supervisor, General Manager or other senior officer of a subsidiary of the Company;

(iii) remuneration in respect of other services provided in connection with the management of the affairs of the Company or its subsidiaries; and

(iv) monies payable to the Director or Supervisor as compensation for loss of his office or upon his retirement from office.

Except pursuant to a contract as described above, a Director or Supervisor shall not institute any proceedings against the Company for any benefit due to him in respect of the above matters.

(h) Appointment, removal and retirement

All Directors shall be elected by the shareholders' general meeting and shall serve a term of three years from the date of their respective elections. Upon the expiry of his term of office, a Director may be re-elected to serve consecutive terms. Notice of an intention to nominate a person for election as a Director and a notice in writing by that person of his acceptance of such nomination shall be given to the Company at least seven days before the date on which the general meeting is convened. The board of Directors shall consist of eleven Directors, comprising, three executive directors and five non-executive directors and three independent non-executive directors. The chairman and vice-chairmen shall be appointed and removed by a majority of the Directors. The chairman and vice-chairmen shall serve a term of three years from the respective dates of their elections and may be re-elected to serve consecutive terms upon the expiry of the terms of their offices.

Subject to compliance with the relevant laws and administrative regulations, a shareholders' general meeting may by way of a special resolution remove any Director before the expiry of the term of his office (but without prejudice to any claim for compensation pursuant to any contract). A director is not required to hold shares in the Company. There is no stipulation that a Director must retire at a certain age.

(i) Borrowing powers

The board of Directors has the function and powers to formulate proposals for an increase or reduction of the Company's registered capital and the issue of debt securities. In addition, subject to compliance with the requirements of the relevant laws, regulations, the Articles of Association and any applicable rules, the board of Directors may exercise the Company's powers to raise capital and to borrow, to make decisions regarding the mortgaging, letting, sub-contracting or transfer of the Company's major assets, and to delegate the aforementioned powers to the General Manager within certain limits.

(j) Qualification shares

There is no requirement for Directors to hold qualification shares.

(2) Alterations to constitutional documents

The Company may amend any provision contained in the Articles of Association in accordance with the provisions of the relevant laws, administrative regulations and the Articles of Association.

Any amendment to the Articles of Association which involves amending the Mandatory Provisions shall become effective only after the approval of the companies supervisory authorities of the State Council and the approval of the CSRC are obtained; any amendment involving a change in the particulars of the Company as they appear on the register of the companies registration authorities shall be registered with the said authorities in accordance with the law.

(3) Variation of rights of existing shares or classes of shares

If the Company proposes to vary or abrogate the rights of a class of shareholders, the variation or abrogation must be approved by a special resolution of the shareholders' in general meeting and by the affected class of shareholders at a separate meeting convened and conducted in accordance with the Articles of Association before it may proceed.

The following events shall be deemed to be a variation or abrogation of the rights of a class of shareholders:

(i) an increase or decrease in the number of shares in that class, or an increase or decrease in the number of shares of a class which have voting rights, distribution rights or other rights which are equal or superior to the shares of that class;

(ii) an exchange of all or part of the shares of that class for the shares of a different class or the exchange of all or part of the shares of a different class for the shares of that class or the grant of a right or rights to such conversion;

(iii) a cancellation or reduction of the right to accrued dividends or the right to cumulative dividends attached to that class of shares;

(iv) a reduction or cancellation of the preferential rights of that class of shares to dividends or a distribution of surplus assets in the event of the winding up or liquidation of the Company;

(v) an increase, cancellation or reduction of any conversion right, option, voting right, transfer right, pre-emptive right or right to acquire securities of the Company attached to that class of shares;

(vi) a cancellation or reduction of any right attached to that class of shares to receive payment from the Company in specified currencies;

(vii) a creation of a new class of shares which have voting rights, distribution rights or other rights equal or superior to that class of shares;

(viii) a creation or increase of restrictions on the right of transfer or ownership attached to that class of shares;

(ix) an issue of rights to subscribe for, or convert into, shares of that class or other class(es);

(x) an increase in the right or privileges of another class or other classes of shares;

(xi) a restructuring of the Company which will result in (a) class(es) of shareholders bearing (a) disproportionate amount(s) of obligations to other class(es) in the course of such restructuring; and

(xii) a variation or abrogation of the provisions in the Articles of Association relating to special procedures for voting by holders of different classes of shares.

(4) Ordinary and special resolutions – a majority required

Resolutions of shareholders passed at general meetings shall be divided into ordinary resolutions and special resolutions. An ordinary resolution shall be passed by more than one half of the votes represented by the shareholders (including proxies), having the right to vote and present at the shareholders general meeting, being exercised in favour of the resolution. A special resolution shall be passed by more than two thirds of the votes represented by the shareholders (including proxies), having the right to vote and present at the shareholders general meeting, being exercised in favour of the resolution.

(5) Voting rights (generally, on a poll and right to demand a poll)

An ordinary shareholder of the Company has the right to attend and vote, or to appoint a proxy or proxies to attend and vote on his behalf, at shareholders' general meetings. Shareholders (including proxies) shall exercise such voting rights at shareholders' general meeting as they may have in accordance with the number of shares they hold which carry the right to vote with each share carrying one vote. At any shareholders' meeting, voting shall be by a show of hands unless a poll (before or after a vote by a show of hands) is demanded by the following persons:

(a) the chairman of the meeting;

(b) at least two shareholders, present in person or by proxy, who have the right to vote; or

(c) one or more shareholders or his/their proxy who, alone or together, represent 10% or more of the shareholding represented at the meeting which carry the right to vote at that meeting.

Unless a poll is demanded, a declaration by the chairman based on the result of the show of hands as to whether a resolution has been passed and an entry to that effect in the minutes of the meeting shall be conclusive evidence of the result of that vote without further proof of the number of votes recorded or the percentage of votes in favour of and against such resolution at the meeting. The demand for a poll may be withdrawn by the person(s) who demanded it. A poll demanded on a vote regarding the election of the chairman of the meeting, or on a question of adjournment of the meeting, shall be taken immediately. A poll demanded on any other matters shall be taken at such time as the chairman of the meeting decides, and the meeting may proceed to other matters. The results of a poll shall be deemed to be a resolution of the meeting at which the poll was demanded on a poll taken at a meeting, a shareholder (including his proxy) entitled to two or more votes need not cast all his votes in the same way. In the case of an equality of votes, whether on a show of hands or on a poll, the chairman of the meeting shall be entitled to an additional vote.

(6) Requirements for general meetings

Shareholders' general meetings are divided into annual general meetings and extraordinary general meetings. Shareholders' general meetings shall be convened by the board of Directors. Annual general meetings shall be held once every year within six months after the end of each financial year.

(7) Accounts and audit

(a) Financial and accounting system

The Company shall formulate its financial accounting system in accordance with the relevant laws, administrative regulations and the principles relating to PRC accounting standards formulated by the financial supervisory authorities of the State Council. The Company shall prepare a financial report at the end of every financial year and shall have it audited in accordance with law. The board of Directors shall place before the shareholders at every annual general meeting such financial reports as required by the relevant laws, administrative regulations or prescribed documents required by regional governments and supervisory authorities to be prepared by the Company. The financial reports of the Company shall be made available at the Company 20 days prior to the annual general meeting of the Company, for inspection by shareholders. Every shareholder of the Company shall have the right to obtain a copy of the financial reports referred to above. A copy of the above financial reports shall, at least 21 days before the date of the annual general meeting, be sent by prepaid post by the Company to every holder of overseas listed foreign shares at his/her address as entered in the register of members.

The financial statements of the Company shall, in addition to complying with the PRC accounting standards, rules and regulations, be prepared in accordance with either international accounting standards or overseas accounting standards of the place at which foreign shares of the Company are listed. If there are material differences between the financial statements prepared in accordance with the aforesaid accounting standards, then the notes to those financial statements shall state and explain such differences. For the purposes of distributing the Company's profits after tax in a financial year, the Company's profits after tax shall be deemed to be the lesser of the amounts stated in the different sets of financial statements. Any interim results or financial information announced or disclosed by the Company shall be prepared in accordance with PRC accounting standards, rules and regulations as well as in accordance with either international accounting standards or overseas accounting standards of the place where the foreign shares of the Company are listed. The Company shall prepare an annual report for each financial year which sets out the information required by the GEM Listing Rules. The information shall be announced not more than 90 days after the date upon which the relevant period ended.

The Company shall prepare financial reports in respect of the first 3 and 9 months periods of each financial year of the Company containing at least the information required by the GEM Listing Rules and publish the same not later than 45 days after the end of such period.

The Company shall also prepare an interim report in respect of the first 6 months period in each financial year of the Company containing at least the information required by the GEM Listing Rules and publish the same not later than 45 days after the end of such period.

(b) Appointment and removal of auditors

The appointment, dismissal or termination of employment of an auditor shall be determined at shareholders' general meetings and reported to the securities regulatory authorities of the State Council. The first auditor of the Company may be appointed at the Company's inaugural meeting and the auditor so appointed shall hold office until the conclusion of the first annual general meeting. The term of appointment of an audit firm appointed by the Company shall commence from the conclusion of the annual general meeting at which the appointment took place until the conclusion of the next annual general meeting of the Company. The board of Directors may appoint an audit firm to fill any casual vacancy in the office of auditors, provided that if another audit firm is acting for the Company during any such vacancy, that audit firm may continue to act. Shareholders in general meeting may by ordinary resolution remove an auditor before his term of office expires, irrespective of any provisions contained in the contract entered into between the Company and the auditor. Any right of the auditor to claim compensation against the Company for the termination of this office shall not be affected by such termination. Remuneration of the auditor and the manner by which it is determined shall be decided by shareholders in general meeting. Where the auditor is appointed by the board of Directors, his remuneration shall be determined by the board of Directors. In the event of the removal, dismissal or termination of employment of an auditor, the auditor who is to be removed or dismissed or whose employment is to be terminated shall be given notice in advance. Such auditor shall have the right to present his views at the shareholders general meeting in accordance with the procedures set out in the Articles of Association.

(c) Rights of auditors

The auditor(s) appointed by the Company shall have the right to:

(i) inspect at any time the books, records and certificates of the Company, and to require the Directors, manager or other senior officers to provide any necessary information and explanations;

(ii) require the Company to take all reasonable steps to obtain from its subsidiaries such information and explanations as are necessary for the auditor(s) to perform his duties; and

(iii) attend shareholders' general meetings, obtain all notices of, and other information relating to, such meetings which shareholders are entitled to receive, and to present its views at any shareholders' general meetings on matters that are of his concern as auditor of the Company.

For the purpose of the Articles of Association, any reference to "a firm of accountants" has the same meaning as a reference to "auditors".

(8) Notice of meetings and business to be conducted thereat

The shareholders' general meeting is the organ of power of the Company and its functions and powers shall be exercised in accordance with the law. When the Company convenes a shareholder's general meeting, written notice shall be given not less than 45 days before the date of the meeting to all shareholders registered in the register of shareholders. Such notice shall:

(i) be given in writing;

(ii) specify the place, the date and the time of the meeting;

(iii) state the matters to be considered at the meeting;

(iv) provide such information and explanation as necessary for the shareholders to make an informed decision on the matters proposed to be considered. Without limitation the generality of the foregoing principle, such information and explanation shall include, where the Company proposes to merge with another, to repurchase its shares, to reorganise its share capital, or to restructure in any other way, the details of the terms of, and the contract (if any) for, the proposed transaction, and the reason for and the effect of such proposal must be properly explained;

(v) disclose the nature and extent of the material interests, if any, of any Director, President, Supervisor, General Manager or other senior officer in a matter to be considered at the general meeting, and the effect of such matter, if any, on the Director, Supervisor, General Manager or other senior officer in his capacity as shareholder in so far as it is different from the effect on other shareholders of the same class;

(vi) contain the text of any special resolution proposed to be passed at the general meeting;

(vii) contain, in conspicuous wording, a statement that a shareholder entitled to attend and vote is entitled to appoint one or more proxies to attend and vote instead of him and that a proxy: so appointed need not, be a shareholder; and

(viii) specify the time and place for lodging the proxy form(s) for the general meeting.

Notices of shareholders' general meetings shall be served on all shareholders (whether or not they are entitled to vote) by personal delivery or pre-paid post at their addresses registered in the register of shareholders. In respect of holders of Domestic Shares, notices of shareholders general meetings may also be given by way of a public announcement. The aforesaid public announcement shall be published, within 45 to 50 days prior to the convening of the general meeting, in one or more newspapers specified by the securities regulatory authorities authorised by the State Council. Once the public announcement is made, all holders of Domestic Shares shall be deemed to have received notice of the relevant shareholders general meeting. An accidental omission to give notice of a general meeting to any person entitled to receive notice or a failure by such person(s) to receive such notice shall not invalidate that general meeting or any resolution passed at that meeting.

The Company shall give a notice so that those foreign listed shareholders whose registered address is outside Hong Kong have sufficient time to exercise their rights or act in accordance with the terms of the notice.

The shareholders' general meeting shall have the following functions and powers:

(i) to determine the operational policies and investment plans of the Company;

(ii) to appoint and replace directors and to decide matters concerning directors' remuneration;

(iii) to appoint and replace a shareholders representative(s) to sit on the supervisory committee and to decide on matters concerning Supervisors remuneration;

(iv) to consider and approve reports of the board of Directors;

(v) to consider and approve reports of the supervisory committee;

(vi) to consider and approve the annual financial budgets and final accounts of the Company;

(vii) to consider and approve proposals for the distribution of the Company's profits and plans from making up any losses of the Company;

(viii) to consider and decide on proposals to increase or reduce the registered capital of the Company;

(ix) to consider and decide matters concerning the merger, demerger, dissolution and liquidation of the Company;

(x) to consider and decide on the issue of debt securities by the Company;

(xi) to consider and decide the appointment, dismissal or renewal of appointment of a firm of accountants;

(xii) to make amendments to the Articles of Association;

(xiii) to consider any resolution(s) proposed by shareholders representing 5% or more of the shares carrying voting rights, and to decide such proposals; and

(xiv) to consider and decide any other matters required by law, administrative regulations or the Articles of Association to be dealt with in a shareholders' general meeting.

The following matters shall be resolved by way of ordinary resolution of the shareholders' general meeting:

(i) reports of the board of Directors and the board of Supervisors;

(ii) profit distribution proposals and proposals for making up losses formulated by the Board;

(iii) appointment and removal of members of the board of Directors and the board of Supervisors and their remuneration and methods of payment;

(iv) the Company's financial budgets, audited accounts, balance sheet, profit and loss account and other financial statements; and

(v) subject to the laws, regulations and provisions of the Articles, any other matters to be adopted by a special resolution.

The Articles of Association provide that the following matters may be approved by way of a special resolution of the shareholders' general meeting:

(i) an increase or reduction of the Company's capital and the issue of any class of shares, warrants or other similar securities;

(ii) an issue of debt securities of the Company;

(iii) the demerger, merger, dissolution and liquidation of the Company;

(iv) any amendment to the Articles of Association; and

(v) any other matters which the shareholders' general meeting has resolved (by way of an ordinary resolution) as having a potentially material effect on the Company, which should be approved by way of a special resolution.

(9) Transfer of shares

Unless otherwise prescribed by law and/or administrative regulations, shares of the Company are freely transferable without any liens. All fully paid up overseas listed foreign shares listed in Hong Kong shall be freely transferable in accordance with the Articles of Association, subject to the right of the board of Directors to refuse recognition of any transfer document, without providing any reason for such refusal, unless and until the following conditions are satisfied:

(i) payment of a fee of HK$2.5, or such larger amount as may from time to time be approved by the Hong Kong Stock Exchange, to the Company for the registration of any transfer document(s) or other document(s) relating to or affecting the ownership of the shares in question or the change of ownership of those shares;

(ii) the transfer document relates only to overseas listed foreign shares listed in Hong Kong;

(iii) payment in full of any stamp duty due on the transfer document;

(iv) production of the relevant share certificates and any other evidence reasonably required by the board of Directors to prove the transferor's right to make the transfer;

(v) if the shares are to be transferred to joint holders, the number of joint holders does not exceed four; and

(vi) the relevant shares of the Company are free from all liens.

Any alteration or rectification of the share register shall be carried out in accordance with the laws of the place where the register is maintained.

Changes in the shareholders' register due to the transfer of shares should not be made within 30 days prior to the shareholders' general meeting or less than 5 days before the record date for the Company's distribution of dividends.

(10) Power of the Company to purchase its own shares

Subject to the approval of the relevant PRC regulatory authorities and to the provisions of the Articles of Association, the Company may repurchase its issued shares in the following circumstances:

(i) to cancel its shares for the purpose of reducing its share capital;

(ii) to merge with another company which holds the shares of the Company; or

(iii) under any other circumstances permitted by law and administrative regulations.

Upon the approval of the relevant PRC regulatory authorities, the Company may repurchase its own shares by one of the following methods:

(i) by way of a general offer to all shareholders in proportion to their respective shareholdings;

(ii) through open trading on a stock exchange; or

(iii) by entering into an independent agreement for the repurchase of the Company's shares outside a stock exchange ("off-market agreement").

Where the Company repurchases its own shares by an off-market agreement, it must first obtain the prior approval of the shareholders in general meeting in accordance with the Articles of Association. The Company may rescind, vary or waive its rights under any such contract entered into if the prior approval of the shareholders in general meeting is obtained. A contract to repurchase shares includes, but is not limited to, an agreement to assume an obligation to repurchase or an agreement to acquire rights to repurchase shares of the

Company. The Company shall not assign a contract to repurchase its shares nor any of its rights under such a contract. Unless the Company is in liquidation, it shall repurchase its issued shares in accordance with the following provisions:

(i) where the Company repurchases its shares at par value, payment shall be made out of the available balance of its distributable profits and/or out of the proceeds from any issue of new shares made for the purpose of repurchasing these shares;

(ii) where the Company repurchases its shares at a premium, payment up to the par value of those shares may be made out of the available balance of the distributable profits of the Company and/or out of the proceeds from any issue of new shares made for the purpose of repurchasing these shares. Payment of the portion in excess of the par value of those shares shall be made as follows:

(1) if the shares being repurchased were issued at their par value, payment shall be made out of the available balance of the distributable profits of the Company;

(2) if the shares being repurchased were issued at a premium, payment shall be made out of the available balance of the distributable profits of the Company and/or out of the proceeds from any issue of new shares made for the purpose of repurchasing those shares, provided that the amount paid out of the said proceeds does not exceed the aggregate amount of the premiums received by the Company on the issue of the shares being repurchased nor the current amount of the Company's capital reserve fund account (including the aggregate of premiums received on the new shares issued at the time of the repurchase);

(iii) any payment made by the Company for the following purposes shall be paid out of the Company's distributable profits:

(1) to acquire the right to repurchase its own shares;

(2) to vary a contract to repurchase its own shares; or

(3) to secure the release of any of its obligations under a contract to repurchase its own shares.

Shares repurchased by the Company shall be cancelled within the time limit prescribed by law and the Company's registered capital shall be reduced by the aggregate par value of those shares. Following the deduction of the aggregate par value of cancelled shares from the registered capital of the Company in accordance with the relevant regulations, the amount of distributable profits used for payment of the par value of such shares shall be charged to the capital reserve fund account of the Company.

(11) Power of any subsidiary of the Company to own shares in its parent

There are no provisions in the Articles of Association relating to ownership of shares in the Company by a subsidiary.

(12) Dividends and other methods of distribution

The Company may distribute dividends in the form of:

(i) cash; and/or

(ii) shares.

Cash dividends and other distributions of the Domestic Shares shall be paid in RMB. Cash dividends and other distributions of H Shares shall be declared in RMB and paid in Hong Kong dollars in accordance with the PRC rules and regulations governing the control of foreign exchanges. The Company shall appoint (a) receiving agent(s) on behalf of holders of overseas listed foreign shares. The receiving agents shall collect dividends and other monies payable to holders of overseas listed foreign shares on their behalf in respect of the overseas listed foreign shares held by them. The receiving agent(s) appointed by the Company shall meet the requirements of the laws of the place where the overseas listed foreign shares are listed or other regulations of the relevant securities exchange. A receiving agent appointed by the Company on behalf of the holders of overseas listed foreign shares listed in Hong Kong shall be a trust corporation registered under the Trustee Ordinance of Hong Kong.

(13) Proxies

A shareholder may attend and vote at or appoint a proxy to attend and vote on his behalf at a shareholders' general meeting. If a shareholder is a legal person, its legal representative or any person authorised by its board of Directors or other governing body to act as its representative, may attend the shareholders' general meeting. Any shareholder entitled to attend and vote at a shareholders general meeting shall be entitled to appoint one or more persons (whether or not a shareholder) as his proxy or proxies to attend and vote instead of him. The proxy of a shareholder may exercise the following rights in accordance with the authorisation of that shareholder:

(i) that shareholder's right to speak at the meeting;

(ii) the right to demand, whether on his own or with others, a poll; and

(iii) the right to vote on a show of hands or on a poll, but a proxy of a shareholder who has appointed more than one proxy may only vote on a poll.

A shareholder shall appoint a proxy in the form of a written instrument, signed by the appointing shareholder(s) or the agent of the appointing shareholder(s) duly authorised in writing. If the appointing shareholder is a legal person, the legal person's seal or the signature(s) of its director(s) or representative(s) duly authorised in writing is required. The instrument appointing a proxy shall be deposited at the domicile of the Company, or at such other place as prescribed in the notice convening the meeting, either 24 hours before the meeting in question or 24 hours before the time specified for conducting the poll. If the instrument of appointment is signed by a person (other than the appointing shareholder) who is authorised by the appointing shareholder, the power of attorney or other document empowering that person to sign the instrument on behalf of the appointing shareholder must be notarised. The notarised document(s) shall then be deposited, together with the instrument appointing the proxy, at the domicile of the Company or such other place as prescribed in the notice convening the meeting.

The format of any form issued to shareholders by the board of Directors for the purpose of appointing a proxy shall enable a shareholder, according to his free choice, to instruct his proxy to vote in favour of or against each resolution proposed at the meeting.

Such a form shall contain a statement that in the absence of instructions from the appointing shareholder(s), the proxy may vote as he thinks fit. If the shareholder of overseas listed foreign shares in the Company is a recognised clearing house as defined in the Securities and Futures (Clearing Houses) Ordinance (Chapter 420 of the Laws of Hong Kong), it may authorise any appropriate person(s) as it thinks fit to act as its representative(s) at any shareholders general meeting or any class meeting. If more than one person is so authorised, the instrument of authorisation must clearly state the class(es) and number of shares in respect of which each such person is so authorised. The aforementioned authorised person is entitled to exercise rights on behalf of the recognised clearing house (or its proxy(ies)), as if such person is an individual shareholder of the Company. The vote of a proxy at a general meeting which is in, accordance with the terms of the instrument of his appointment shall be valid notwithstanding the appointing shareholder's death, loss of capacity, revocation of his appointment or the authority under which the instrument of his appointment was executed, or a transfer of the relevant shares, provided that the Company did not receive notice in writing of such event before the commencement of the relevant meeting.

(14) Calls on shares and forfeiture of shares

The Articles of Association do not contain any provisions relating to calls on shares and forfeiture of shares.

(15) Inspection of register of members

The Company shall maintain a register of shareholders as a record of the following matters:

(i) the name (title), address (residential) and occupation/nature of occupation of each shareholder;

(ii) the class(es) and number of shares of each class held by each shareholder;

(iii) the amount(s) paid up or payable on the shares held by each shareholder;

(iv) the serial numbers of the shares held by each shareholder;

(v) the date on which each person registers to become a shareholder; and

(vi) the date on which a person ceases to be a shareholder.

The Company shall keep a complete register of shareholders which shall comprise the following parts:

(i) register(s) maintained at the Company's domicile which shall be the register of all shareholders other than those registered in accordance with sub-paragraphs (ii) and (iii) below;

(ii) register(s) of holders of overseas listed foreign shares maintained at the place(s) where the stock exchange(s) on which such shares are listed is/are located; and

(iii) register(s) of shareholders maintained at such other place(s) as the board of Directors may deem necessary for the purpose of listing the Company's shares.

Ordinary shareholders of the Company shall enjoy, *inter alia*, the right to receive relevant information in accordance with the Articles of Association including:

(i) to obtain a copy of the Articles of Association upon payment of the cost thereof;

(ii) to inspect and obtain a copy of, upon payment of a reasonable fee:

(1) all parts of the register of shareholders;

(2) the personal particulars of each of the Directors, Supervisors, General Manager and other senior officers, including:

(a) his present and former name(s) and alias(es);

(b) his principal address (residential);

(c) his nationality;

(d) his main occupation and all his other occupations and positions; and

(e) his identification document and its number;

(iii) the status of the Company's share capital;

(iv) a report showing the aggregate par value, the number and the maximum and minimum prices paid by the Company in respect of each class of the shares repurchased by the Company since the previous financial year, and all expenses paid by the Company for this purpose; and

(v) minutes of shareholders' general meetings.

(16) Quorum for meetings and separate class meetings

Shareholders who intend to attend a shareholders' general meeting shall deposit at the Company written replies confirming their intention to attend at least 20 days prior to the date of the meeting. The Company shall, according to the written replies received 20 days prior to the general meeting, calculate the number of shares carrying rights to vote represented by the shareholders proposing to attend the meeting. If the number of shares carrying rights to vote represented by shareholders proposing to attend the meeting is more than half of the total number of shares in the Company which carry rights to vote, the Company may proceed to hold the shareholders general meeting; if that number is not reached, the Company shall within 5 days notify the shareholders again of the matters proposed to be discussed at the meeting, the date and venue of the meeting by way of public announcement. After such public announcement is made, the Company may proceed to hold the shareholders general meeting. The above procedure applies, *mutatis mutandis*, to shareholders of each class of shares in respect of separate class meetings.

(17) Rights of the minorities in relation to fraud or oppression thereof

Apart from the obligations imposed by law, administrative regulations or the listing rules of the stock exchanges on which shares of the Company are listed, a controlling shareholder when exercising his rights as a shareholder shall not, by virtue of the exercise of his voting rights, cause a decision to be made such as to prejudice the interests of the general body of shareholders or a group of shareholders in connection with the following matters:

(i) to release a Director or Supervisor of his duty to act honestly in the best interests of the Company;

(ii) to approve an exappropriation in any form by a Director or Supervisor (for his own benefit or for the benefit of another person) of the Company's assets including, without limitation, opportunities beneficial to the Company; or

(iii) to approve an exappropriation by a Director or Supervisor (for his own benefit or for the benefit of another person) of the personal rights of other shareholders, including without limitation, rights to distributions and voting rights, but not including a restructuring of the Company submitted to and approved by, shareholders in general meeting in accordance with the Articles of Association.

For these purposes, a controlling shareholder means a person who satisfies any one of the following conditions:

(i) he, when acting alone or together with others, has the power to elect more than half of the directors;

(ii) he, when acting alone or together with others, has the power to exercise 30%, or more of the voting rights in the Company or to control the exercise of 30% or more of the voting rights in the Company;

(iii) he, when acting alone or together with others, holds 30% or more of the issued shares of the Company; or

(iv) he, when acting alone or together with others, has de facto control of the Company.

(18) Procedures on liquidation

The Company shall be dissolved and liquidated in accordance with law under any one of the following circumstances:

(i) where the shareholders general meeting resolves to dissolve the Company;

(ii) where dissolution is necessary by reason of the merger or demerger of the Company;

(iii) where the Company is declared insolvent in accordance with law because it is unable to pay its debts as they fall due; and

(iv) where, in accordance with law, the Company is ordered to close down by reason of its contravention of law or administrative regulations.

Where the board of Directors decides to liquidate the Company (for reasons other than the insolvency of the Company), the board of Directors shall, in the notice convening a shareholders' general meeting for this purpose, state that, after having made full investigation into the affairs of the Company, it is of the opinion that the Company will be able to pay its debts in full within 12 months from the date of commencement of the Company's liquidation. Upon the passing of a resolution by the shareholders in general meeting to liquidate the

Company, the functions and powers of the board of Directors shall cease immediately. If the Company is dissolved and liquidated pursuant to an event as set out in paragraphs (i), (iii) or (iv) above of this section 18, a liquidation committee of the Company shall be established in accordance with the Articles of Association. The membership of the liquidation committee and the manner by which it is established varies according to the circumstances which lead to the dissolution and liquidation.

The liquidation committee shall notify creditors within 10 days of its establishment and shall make at least 3 public announcements in newspapers within 60 days of its establishment. The liquidation committee shall carry out registration of creditors rights. After the liquidation committee has administered the assets of the Company and prepared a balance sheet and an inventory of the Company's assets, it shall draw up a proposal for the liquidation and submit the same to the shareholders' general meeting or the relevant supervisory authorities for approval.

The assets of the Company shall be distributed in the following order:

(1) liquidation fees and expenses;

(2) wages and labour insurance premiums of employees;

(3) outstanding taxes due; and

(4) debts of the Company.

Any surplus assets remaining after the above payments have been made in full shall be distributed to the shareholders according to the class(es) and proportion of shares they hold. Upon completion of the liquidation of the Company, the liquidation committee shall prepare a liquidation report and accounts of its income and expenditure and financial reports for the period of the liquidation. Once these accounts and reports are verified by a registered accountant of the PRC, they shall be submitted to the shareholders general meeting or the relevant supervisory authorities for approval. The liquidation committee shall, within 30 days of the date of approval by the shareholders' general meeting or the relevant supervisory authorities, submit the accounts and reports mentioned above to the companies registration authorities, apply for cancellation of the Company's registration and announce the cessation of the Company.

In the event of a dissolution and liquidation of the Company due to its insolvency, the liquidation committee shall be established by the People's Court in accordance with the law and the Articles of Association. If the Company is being liquidated as a result of its dissolution and, subsequent to the administration of the Company's assets and preparation of the balance sheet and inventory of assets, the liquidation committee discovers that the Company's assets are insufficient to repay its debts in full it shall immediately apply to the People's Court for a declaration of insolvency. Once the People's Court has declared the Company to be insolvent, the liquidation committee shall hand all matters relating to the liquidation over to the People's Court.

(19) Other provisions

(a) General provisions and limited liability

The Company is a joint stock limited company of perpetual duration and was established by way of private subscription. It is an independent enterprise legal person, governed and protected by laws, regulations and other relevant government provisions of the PRC. The capital of the Company is divided into shares of equal par value. The liability of a shareholder to the Company is limited by the shares held by him. The Company shall be liable for its debts up to the extent of all its assets. Upon the approval of the companies supervisory authorities authorised by the State Council, the Company may, in accordance with its operation and management needs, operate as a holding company in accordance with paragraph 2 of Article 12 of the PRC Company Law. The Company may invest in other limited liability companies and joint stock limited companies and accept liability in respect of such companies up to the amount of its investment in such companies. The Company shall not become a partner with unlimited liability of any other economic organisations.

(b) The Articles of Association

The Articles of Association constitute a legally binding document governing the constitution and activities of the Company, the rights and obligations between the Company and its shareholders and the shareholders inter se. The Articles of Association are binding upon the Company and its shareholders, Directors, Supervisors, General Manager and other senior officers. Such persons may bring claims on matters relating to affairs of the Company in accordance with the Articles of Association. Shareholders may bring actions against the Company in accordance with the Articles of Association; the Company may bring actions against shareholders in accordance with the Articles of Association; shareholders may bring actions against other shareholders in accordance with the Articles of Association, and shareholders may bring actions against the Directors, Supervisors, the President, and other senior officers of the Company in accordance with the Articles of Association. For the purpose of this paragraph, actions include proceedings commenced in court and arbitration proceedings commenced in arbitration tribunals.

(c) Shares and registered capital

The Company shall at all times have ordinary shares. The Company may, in accordance with its needs and upon obtaining approval by the companies supervisory authorities authorised by the State Council, create other types of shares. Shares issued by the Company shall have a par value. Each share shall have a par value of RMB0.10. The Company may issue shares to either or both domestic investors and foreign investors upon obtaining approval from the securities regulatory authorities of the State Council. For the purpose of the preceding paragraph, "foreign investors" means investors from outside the PRC and the territories of Hong Kong, Macao and Taiwan who subscribe for shares issued by the Company; "domestic investors" means investors who subscribe for shares issued by the Company from within the PRC other than from the aforesaid territories.

The shares issued by the Company to domestic investors which are subscribed for in RMB are called "Domestic Shares". The shares issued by the Company to foreign investors which are subscribed for in foreign currencies are called "foreign shares". Domestic Shares which are listed within the PRC are called "domestic listed shares". Foreign shares which are listed outside the PRC are called "overseas listed foreign shares". Pursuant to the approval of the companies supervisory authorities authorised by the State Council, the total number of ordinary shares which may be issued by the Company following its incorporation is 50,000,000 Domestic Shares of RMB1.00 each, of which Professor Xiao holds 18,000,000 Domestic Shares, Xian Jiefang Group holds 10,000,000 Domestic Shares, XITIC holds 7,400,000 Domestic Shares, BJ Holdings holds 6,000,000 Domestic Shares, Shaanxi Silk holds 5,000,000 Domestic Shares, Xian Zhengheng Investment holds 1,500,000 Domestic Shares, Mr. Wu holds 1,000,000 Domestic Shares, Mr. Chen holds 600,000 Domestic Shares and Shaanxi Mant holds 500,000 Domestic Shares, respectively accounting to 36%, 20%, 14.8%, 12%, 10%, 3%, 2%, 1.2% and 1% of the total share capital. Subject to the approval of the securities regulatory authorities of the State Council, the Company can further issue a minimum of 161,764,706 overseas listed foreign shares and up to a maximum of 186,029,412 overseas listed foreign shares.

Assuming the Over-allocation Option is not exercised, the Company's share capital consists of 647,058,824 Shares, including 485,294,118 Domestic Shares, representing approximately 75.0% of the registered capital of the Company and 161,764,706 overseas listed foreign shares, representing approximately 25.0% of the registered capital of the Company.

Assuming the Over-allocation Option is fully exercised, the Company's share capital shall consist of 669,117,648 Shares, including 483,088,236 Domestic Shares, representing approximately 72% of the registered capital of the Company and 186,029,412 overseas listed foreign shares, representing approximately 28% of the registered capital of the Company.

The board of Directors may make separate arrangements to implement the Company's plan to issue overseas listed foreign shares and Domestic Shares, subject to the prior approval of such plan by the securities regulatory authorities of the State Council. The Company's plan for separate issues of overseas listed foreign shares and Domestic Shares referred to in the Articles of Association may be implemented separately within 15 months of the date of approval by the CSRC. The overseas listed foreign shares and Domestic Shares, referred to in the Company's aforementioned share issue plan, and shall be fully subscribed in one payment. Where there are special circumstances which render it impossible for such shares to be fully subscribed in one payment, separate issues of the shares may be made subject to the approval. Upon completion of the issue of shares as described above, the registered capital of the Company will be RMB64,705,882.40 (or RMB66,911,764.80 assuming the 24,264,706 Over-allocation shares are issued). The Company may in accordance with the provisions of the Articles of Association increase its capital according to its business and development requirements.

The following methods may be used for increasing the capital of the Company:

(1) by offering new shares to general investors;

(2) by placing new shares with existing shareholders;

(3) by a bonus issue of shares to existing shareholders; or

(4) by any other methods permitted under PRC laws and administrative regulations.

In increasing the capital of the Company through a new issue of shares, the Company shall, after obtaining the necessary approvals in accordance with the Articles of Association, implement such increase in accordance with the procedures prescribed by the relevant PRC laws and administrative regulations.

(d) The Board of Directors

The board of Directors is accountable to the shareholders' general meeting and shall have the following functions and powers:

(i) to convene shareholders' general meetings and to report on its work at shareholders' general meetings;

(ii) to implement resolutions passed at shareholders' general meetings;

(iii) to decide the Company's operational plans and investment proposals;

(iv) to determine the Company's annual financial budgets and final accounts;

(v) to formulate proposals for distributing the profits of the Company and proposals to make up any losses of the Company;

(vi) to formulate proposals for an increase or reduction of the Company's registered capital and for the issue of debt securities of the Company;

(vii) to prepare plans for the demerger, merger or dissolution of the Company;

(viii) to dispose of the Company's assets within certain limits;

(ix) to decide matters concerning the internal management structure of the Company (including its establishment);

(x) to appoint or dismiss the manager(s) of the Company and, upon the nomination of the General Manager, to appoint and dismiss Deputy General Manager(s) and financial controller(s) of the Company and to decide matters concerning the remuneration of such officers;

(xi) to determine the basic management system of the Company;

(xii) to formulate proposals for amendments to the Articles of Association;

(xiii) subject to compliance with the requirements of the relevant laws, regulations, the Articles of Association and any relevant rules, to exercise the Company's power to raise capital and to borrow, and to decide on the mortgaging, letting, subcontracting or transfer of the Company's major assets and to delegate such powers to the General Manager for his exercise within certain limits;

(xiv) apart from those matters required to be determined by the shareholders' general meeting in accordance with the Company Law and the Articles of Association, to determine other material matters and executive affairs of the Company as well as to execute other important agreements;

(xv) any other functions and powers conferred by shareholders' general meetings and the Articles of Association.

Resolutions passed by the board of Directors in respect of items (vi), (vii), and (xii) above shall be passed by two thirds or more of the board of Directors voting in favour thereof. In respect of other matters, resolutions shall be passed by more than one half of the board of Directors voting in favour thereof. A meeting of the board of

Directors shall only be held if more than one half of the Directors are present. Each Director shall have one vote. In the case of an equality of votes, the chairman shall have an additional vote. Board meetings shall be held at least twice every year and shall be convened by the chairman in accordance with the procedures set out in the Articles of Association. In the event of an emergency, extraordinary board meetings may be convened upon a request by one-third or more Directors or the General Manager in accordance with the procedures set out in the Articles of Association.

(e) Company secretary

The Company shall appoint a company secretary who shall be a senior officer of the Company. The Directors shall appoint a natural person who has the requisite professional knowledge and experience. The main responsibilities of a company secretary are:

(i) to ensure that the constitutional documentation and records of the Company are complete;

(ii) to ensure that the Company prepares and submits all reports and documents required to the relevant authorities in accordance with the law; and

(iii) to ensure that the Company's register of shareholders is properly maintained and that persons entitled to records and documents of the Company are promptly furnished with the relevant records and documents.

(f) Board of Supervisors

The Company shall have the board of Supervisors which is responsible for the supervision of the board of Directors, the Directors and other senior officers of the Company to prevent them from abusing their positions and powers and infringing the interests of the shareholders, the Company and the employees. The board of Supervisors shall consist of one representative of the shareholders, two representatives of the employees and two independent supervisors, one of whom shall be appointed the chairman of the board of Supervisors. The representative of employees shall be elected and removed by the employees of the Company democratically and the representatives of the shareholders shall be elected and removed by the shareholders' in general meeting. Supervisors shall be appointed for a term of three years from the date(s) of their elections and may be re-elected to serve consecutive terms. The chairman of the board of Supervisors shall be appointed and removed by two-thirds or more of the Supervisors. The board of Supervisors shall be accountable to the shareholders' general meeting and shall exercise the following functions and powers in accordance with law:

(i) to examine the Company's financial affairs;

(ii) to carry out supervision to ensure that the Directors, and other senior officers do not act in contravention of any laws, administrative regulations and for the Articles of Association in the performance of their duties;

(iii) if the conduct of a Director, or other senior officer is detrimental to the interests of the Company, to require him to rectify such conduct;

(iv) to review the Company's financial reports, business reports and profit distribution plans which the board of Directors proposes to be submitted to the shareholders' general meeting, and in appropriate cases, to appoint on behalf of the Company registered accountants or practicing auditors to assist in the review;

(v) to propose the convening of extraordinary general meetings of shareholders;

(vi) to represent the Company in negotiations with Directors or to institute proceedings against Directors; and

(vii) other functions and powers provided by the Articles of Association. Supervisors shall attend board meetings.

(g) Obligations of Directors, Supervisors, General Managers and Senior officers of the Company

Each Director, Supervisor, General managers and other senior officer has the duty, in the exercise of his powers and the discharge of his obligations, to exercise such care, diligence and skill that a reasonable and prudent person would exercise in similar circumstances. In addition to the obligations imposed by laws, administrative regulations or the rules of the stock exchanges on which shares of the Company are listed, each Director, Supervisor, General managers and other senior officer, when exercising the functions and powers conferred upon him by the Company, owes the following obligations to every shareholder:

(i) not to cause the Company to operate outside the scope of operations stipulated in its business licence;

(ii) to act in good faith in the best interests of the Company;

(iii) not to expropriate in any manner the Company's assets, including (but not limited to) opportunities beneficial to the Company; and

(iv) not to expropriate personal rights of shareholders, including (but not limited to) distribution rights and voting rights, but not including a restructuring of the Company submitted to and approved by the shareholders' general meeting in accordance with the Articles of Association.

Each Director, Supervisor, General manager and other senior officer has, in the performance of his duties, the duty to observe the principles of good faith and the duty not to place himself in a position where his duties and his interests may conflict. This includes (but is not limited to) the duty:

(i) to act honestly in the best interests of the Company;

(ii) to exercise his powers within the scope of his authority and not act in excess of his powers;

(iii) to personally exercise the discretion vested in him and not to allow himself to act under the direction of another person and, except where permitted by law or administrative regulations, or with the informed consent of shareholders in general meeting, not to delegate the exercise of such discretion to another person;

(iv) to treat shareholders of the same class equally and to treat shareholders of different classes fairly;

(v) not to enter into any contract, transaction or arrangement with the Company, except in accordance with the Articles of Association or with the informed consent of shareholders in general meeting;

(vi) not to use the Company's assets for his own benefit in any manner without the informed consent of shareholders in general meeting;

(vii) not to abuse his position by accepting bribes or other unlawful income, and not to exappropriation in any manner the Company's assets including (without limitation) opportunities beneficial to the Company;

(viii) not to accept any commission in connection with any transaction in which the Company is involved without the informed consent of shareholders in general meeting;

(ix) to comply with the Articles of Association, to perform honestly his duties, to protect the interests of the Company and to refrain from using his position and powers as an officer of the Company to make personal gains;

(x) not to compete with the Company in any manner without the informed consent of shareholders in general meeting;

(xi) not to misappropriate the Company's funds or to advance the Company's funds to any other person, not to open any bank account in his own name or any other person's name to deposit any of the Company's assets; not to use the Company's assets to provide guarantee(s) for the debt(s) of any shareholder of the Company or any other individuals; and

(xii) without the informed consent of shareholders in general meetings; not to disclose any confidential information of the Company acquired by him while in office; not to use such information other than in the interests of the Company; save that he may disclose such information to a court or other governmental authorities in the following circumstances:

(a) where such disclosure is required by law;

(b) where such disclosure is required in the interests of the public; or

(c) where such disclosure is required in the personal interests of the Director, Supervisor, General Manager or other senior officer. A Director, Supervisor, General Manager or other senior officer shall not direct persons connected with them (as described in section 1(f) above) to do what the Director, Supervisor, or other senior officer himself is prohibited from doing.

(h) Shareholders' obligations

A shareholder of the Company is a person who lawfully holds shares of the Company and whose name is entered in the register of shareholders. A shareholder shall enjoy the rights and shall bear the obligations attached to the class(es) and the proportion of shares held by him; shareholders holding the same class of shares shall be entitled to the same rights and shall bear the same obligations. In addition to their right to obtain relevant information in accordance with the Articles of Association as mentioned in section 15 above, an ordinary shareholder of the Company shall enjoy the following rights:

(i) to receive dividends and other distributions in proportion to the number of shares held by him;

(ii) to attend and vote or appoint proxies to attend and vote on his behalf at shareholders' general meetings;

(iii) to supervise the business operations of the Company, to make suggestions or to raise queries;

(iv) to transfer his shares in accordance with the applicable laws, administrative regulations and the Articles of Association;

(v) in the event of the termination or liquidation of the Company, to, participate in the distribution of surplus assets of the Company according to the proportion of shares held by him at that time; and

(vi) other rights conferred by relevant laws and administrative regulations, and the Articles of Association.

A holder of ordinary shares in the Company shall have the following obligations:

(i) to abide by the Articles of Association;

(ii) to pay subscription monies in accordance with the shares subscribed by him and to the method of subscription; and

(iii) other obligations imposed by relevant laws, administrative regulations and the Articles of Association.

Save in respect of terms agreed by the subscriber at the time of subscription, a shareholder shall not be liable to subscribe for any further share capital.

(i) Resolution of disputes

In the event of a dispute or claim involving any rights or obligations provided in the Articles of Association, the PRC Company Law and other relevant laws and administrative regulations, concerning the affairs of the Company, between the following parties:

(i) a holder of overseas listed foreign shares and the Company;

(ii) a holder of overseas listed foreign shares and the Directors, Supervisors, General managers, or other senior officers of the Company; and

(iii) a holder of overseas listed foreign shares and a holder of Domestic Shares, the parties concerned shall submit that dispute or claim to arbitration before either (1) the China International Economic and Trade Arbitration Commission in accordance with its rules or (2) the Hong Kong International Arbitration Centre in accordance with its securities arbitration rules.

In the event of a dispute or claim referred to above, the claim or dispute must be referred to arbitration in its entirety. All persons (if they are the Company, or shareholders, Directors, Supervisors, General managers, or other senior officers of the Company) who have a cause of action based on the same facts giving rise to the dispute or claim or whose participation is necessary for the resolution of that dispute or claim shall submit themselves for arbitration. Once an applicant refers a dispute or claim to arbitration, the other party or parties must submit to the arbitral body elected by the applicant. If the party applying for arbitration chooses to refer the matter to the Hong Kong International Arbitration Centre, then any party concerned shall be entitled to request, in accordance with the requirements of the securities arbitration rules of the Hong Kong International Arbitration Centre, for that arbitration to be conducted in Shenzhen. If arbitration is sought to resolve a dispute or claim as described above in the first paragraph of this section, the applicable law shall be the laws of the PRC, unless otherwise provided by law and administration regulations. A decision reached as a result of such arbitration shall be final and conclusive and shall be binding on all parties to the dispute or claim. Disputes over the identities of shareholders or the register of shareholders need not be resolved by a referral to arbitration.

IV. PRC LEGAL MATTERS

Jingtian & Gongcheng, the Company's legal adviser on PRC law has sent to the Company a legal opinion dated 24 October 2003 confirming that it has reviewed the summaries of PRC company and securities regulations and the summaries of certain material differences between Hong Kong company law and the Company Law in so far as they relate to PRC law as contained in this appendix and that, in its opinion, such summaries are correct summaries of relevant PRC laws and regulations. This legal opinion is available for inspection as referred to in the section headed "Documents delivered to the Registrar of Companies and available for inspection" in appendix VII.

I. FURTHER INFORMATION ABOUT THE COMPANY

1. Incorporation and reorganisation

The predecessor of the Company, Xi'an Haitian Communications, was incorporated as a limited liability company on 13 October 1999 with a registered capital of RMB1,000,000. On 8 September 2000, the registered capital of Xi'an Haitian Communications was increased to RMB50,000,000. With the approval of the relevant PRC authorities, Xi'an Haitian Communications was transformed into the Company on 11 October 2000 with Professor Xiao, Xi'an Jiefang Group, XITIC, BJ Holdings, Shaanxi Silk, Xi'an Zhengheng Investment, Mr. Wu, Mr. Chen and Shaanxi Mant as Promoters. The Company's registered capital at that time was RMB50,000,000 divided into 50,000,000 Domestic Shares of RMB1.00 each. The Domestic Shares were paid up and held by the Promoters as follows:

Name of Shareholder	Number of Domestic Shares of RMB1.00 each	Approximate percentage in the 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
Total:	50,000,000	100.0

The Company has established a place of business in Hong Kong at 34/F., West Tower, Shun Tak Centre, 200 Connaught Road Central, Hong Kong and has been registered as an oversea company in Hong Kong under Part XI of the Companies Ordinance on 12 February 2003. Mr. Tsang, Yu Tit of Flat H, 14/F., Block 14, Yuet Wu Villa, Tuen Mun, New Territories, Hong Kong has been appointed as the agent of the Company for the acceptance of service of process in Hong Kong.

The Company, being a company incorporated in the PRC, has to be abide by the laws and regulations of the PRC. The relevant laws and regulations of the PRC and the principal provisions of the Articles are summarised in appendix V to this prospectus.

The establishment of the Company was completed after conducting and obtaining, inter alia, the following procedures and approval documents:

(1) An application for establishment (關於變更設立西安海天天綫科技股份有限公司的立項申請報告) was made by Xi'an Haitian Communications on 17 May 2000 for the conversion from a limited liability company to a joint stock company in the Company's name;

(2) An approval (關於同意籌建西安海天天綫科技股份有限公司的函) (陝改函(2000)[40]號) dated 25 May 2000 was granted by the Shaanxi Economic Restructuring Commission (陝西省經濟體制改革委員會) to Xi'an Haitian Communications for its conversion to a joint stock company;

(3) An application regarding the establishment of the Company (關於變更西安海天天綫科技股份有限公司的申請) together with the necessary documents were submitted by Xi'an Haitian Communications to the Shaanxi Economic Restructuring Commission (陝西省經濟體制改革委員會) on 18 September 2000;

(4) An approval regarding the establishment of the Company (關於設立西安海天天綫科技股份有限公司的批覆) (陝政函[2000] 222號) was granted by the People's Government of the Shaanxi Province (陝西省人民政府) on 29 September 2000;

(5) A meeting of the Promoters was held on 8 October 2000 at which, inter alia, the amendments to the then articles of association of the Company (which were subsequently superseded by the Articles) were approved and the first board of Directors and supervisory committee were elected;

(6) A promoters' agreement dated 17 September 2000 was entered into between Professor Xiao, Xi'an Jiefang Group, XITIC, BJ Holdings, Shaanxi Silk, Xi'an Zhengheng Investment, Mr. Wu, Mr. Chen and Shaanxi Mant whereby the Promoters agreed to establish the Company;

(7) The Company was granted the business licence on 11 October 2000 by the Xi'an Administration for Industry and Commerce;

The following resolutions were passed by the Shareholders and approval was obtained for the purpose of the Placing:

(1) An extraordinary meeting of the Company was held on 17 June 2002, at which, inter alia, the following resolutions were passed by the Shareholders:

(i) the nominal value of the Shares in the Company be reduced from RMB1.00 to RMB0.10 and that application be made to the CSRC for approval of such sub-division;

(ii) (a) the H Shares be offered to overseas investors and the Over-allocation Option be granted to the Placing Underwriters (or their authorised representative(s)) to request the Company to allot and issue, and to request the Vendors to sell, up to an aggregate of 15% of the H Shares initially being offered for subscription and purchase pursuant to this prospectus;

(b) application be made by the Company to the relevant authorities in the PRC for the issue of not less than 161,764,706 and not more than 186,029,412 H Shares (including the Sale H Shares and the Placing Shares that may fall to be issued or, as the case may be, sold upon the exercise of the Over-allocation Option);

(c) the number of H Shares to be issued and the method of issue of H Shares shall be determined by the actual number of H Shares issued on completion of the Placing and Underwriting Agreement (including the arrangement in respect of the Over-allocation Option) subject to the approval from the relevant authorities in the PRC and the Stock Exchange; and

(d) the Board (or the representative(s) appointed by the Board) be authorised to deal with all matters in relation to the listing of the Company; and

(iii) that the new articles of association proposed and submitted by the Directors for consideration in shareholders' meeting of the Company be adopted, and that authority be granted to the Board (or its representative(s)) to make any necessary amendment to the articles of association;

(2) An extraordinary meeting of the Company was held on 11 October 2002 at which, inter alia, the following resolutions were passed by the Shareholders:

(i) Gu Linqiang, Liu Jiyang and Shi Ping be appointed as Supervisors and together with Hu Hui and Sun Guilian, who were Supervisors appointed by the employees of the Company, to form the board of Supervisors which shall take effect when the Articles become effective; and

(ii) amendments made to articles 124 and 125 of the Articles to reflect the change in the members of the board of Supervisors be approved and adopted;

(3) The annual general meeting of the Company was held on 5 April 2003 at which, inter alia, the following resolutions were passed by the Shareholders:

(i) amendments made to the Articles be approved and adopted; and

(ii) the proposal in relation to the use of proceeds from the Placing be approved;

(4) The approval document (證監國合字(2003)13號) was issued on 22 April 2003 by the CSRC, granting the approval to the Company on the issue of H Shares and the application for the listing of H Shares on GEM and the subdivision of the Company's shares of RMB1.00 each into 10 shares of RMB0.10 each; and

(5) An extraordinary meeting of the Company was held on 18 October 2003 at which, inter alia, the following resolutions were passed by the Shareholders:

(i) the Articles of Association be adopted;

(ii) conditional upon (i) the GEM Listing Committee granting the listing of, and permission to deal in, the Placing Shares on GEM; (ii) the CSRC approving the issue of H Shares, including the H Shares which may fall to be issued and sold, as the case may be, pursuant to the exercise of the Over-allocation Option (including the Sale H Shares); and (iii) the obligations of the Placing Underwriters under the Placing and Underwriting Agreement becoming unconditional (including, where applicable, any conditions waived by the Placing Underwriters) and that the Placing and Underwriting Agreement not being terminated in accordance with its terms, the Placing be approved and the Directors be authorized to allot and issue the Placing Shares pursuant thereto and that the Over-allocation Option be granted to CPY and/or CPY International pursuant to which if the Placing Price is HK$0.70 or more, CPY and/or CPY International may request the Company to allot and issue, and the Vendors to sell, up to an aggregate of 186,029,412 H Shares and that the Directors or a committee of the Directors be authorized to issue such number of H Shares (including Sale H Shares) when the Over-allocation Option is exercised;

(iii) upon the completion of the Placing, the registered capital of the Company be increased from RMB50,000,000 to not less than RMB64,705,882.40 and that if the Over-allocation Option is exercised in full, the registered capital of the Company be increased to not more than RMB66,911,764.80;

(iv) Professor Xiao, Xiao Bing, Guo Weisheng, Luo Maosheng, Mi Yunping, Wang Quanfu, Liu Yongqiang, Li Wenqi, Zhao Tianyou, Gong Shuxi and Deng Yuanming be appointed as members of the Board among whom Zhao Tianyou, Gong Shuxi and Deng Yuanming are independent non-executive Directors and that the terms of the service contracts of each of the Directors and their respective remuneration be approved;

(v) Gu Linqiang be appointed as the Supervisor appointed by shareholders; Liu Jiyang and Shi Ping be appointed as independent supervisors; and together with Hu Hui and Sun Guilian, who were Supervisors appointed by the employees of the Company, to form the board of Supervisors which shall take effect when the Articles become effective and that the terms of the service contracts of each of the Supervisors and their respective remuneration be approved; and

(vi) the terms of the service contract of Mr. Tsang Yu Tit, the Company's company secretary and qualified accountant, and his remuneration be approved.

2. Changes in share capital and shareholding structure

Set out below are changes in the share capital and shareholding structure of the Company since its establishment:

Date	13 October 1999 *(Note 3)*	7 January 2000 *(Note 3)*	1 August 2000 *(Note 3)*	8 September 2000 *(Note 3)*	11 October 2000 *(Note 3)*	22 April 2003				
Particulars:	Establishment of Xi' an Haitian Communications *(RMB)*	Transfer of equity interests *(RMB)*	Transfer of equity interests *(RMB)*	Increase of registered capital *(RMB)*	Conversion of Xi'an Haitian Communications to the Company *(RMB)* *(Note 1)*	Each Domestic Share of RMB1.00 be subdivided into 10 Domestic Shares of RMB0.10 each *(RMB)* *(Note 2)*	Completion of the Placing (assuming the Over-allocation Option is not exercised) *(RMB)* *(Note 2)*	Approximate percentage of shareholding immediately after completion of the Placing (assuming the Over-allocation Option is not exercised) *(%)*	Completion of the Placing (assuming the Over-allocation Option is exercised in full) *(RMB)* *(Note 2)*	Approximate percentage of shareholding immediately after completion of the Placing (assuming the Over-allocation Option is exercised in full) *(%)*
Shareholding Structure:										
Xiao Yao Wen Li		600,000								
Xiao Bing	600,000									
Professor Xiao	400,000	400,000	360,000	18,000,000	18,000,000	180,000,000	180,000,000	27.8	180,000,000	26.8
Xi'an Jiefang Group			200,000	10,000,000	10,000,000	100,000,000	100,000,000	15.5	100,000,000	14.8
XITIC			148,000	7,400,000	7,400,000	74,000,000	70,151,471	10.8	69,574,192	10.4
BJ Holdings			120,000	6,000,000	6,000,000	60,000,000	54,077,941	8.4	53,189,632	8.1
Shaanxi Silk			100,000	5,000,000	5,000,000	50,000,000	45,064,706	7.0	44,324,412	6.7
Xi'an Zhengheng Investment			30,000	1,500,000	1,500,000	15,000,000	15,000,000	2.3	15,000,000	2.1
Mr. Wu			20,000	1,000,000	1,000,000	10,000,000	10,000,000	1.5	10,000,000	1.9
Mr. Chen			12,000	600,000	600,000	6,000,000	6,000,000	0.9	6,000,000	0.8
Shaanxi Mant			10,000	500,000	500,000	5,000,000	5,000,000	0.8	5,000,000	0.7
H Shares							161,764,706	25	186,029,412	27.7
Total:	1,000,000	1,000,000	1,000,000	50,000,000	50,000,000	500,000,000	647,058,824	100	669,117,648	100

1. RMB1.00 per share
2. RMB0.10 per share
3. The date of completion of the registration at the Xi'an Administration of Industry and Commerce

Save as disclosed above, there has been no change in the share capital of the Company since its establishment.

II. SUBSIDIARIES

As at the Latest Practicable Date, the Company did not have any subsidiaries (as defined under the Companies Ordinance).

III. FURTHER INFORMATION ABOUT THE DIRECTORS, SUPERVISORS STAFF AND MANAGEMENT, AND SUBSTANTIAL SHAREHOLDERS

1. Particulars of service agreements

Each of the Directors and Supervisors has entered into a director's or supervisor's service contract ("Service Contract") with the Company on 18 October 2003 or 19 October 2003. Particulars of these Service Contracts, except as otherwise indicated, are in all material respects identical and are set out below (save for the amount of salary and allowance as mentioned below):

(i) Each Service Contract is for an initial term of three years commencing on the respective date of signing of the service contract and thereafter, subject to the approval of the shareholders' meeting of the Company. Each Service Contract may be renewed each time for a term of three years;

(ii) The annual salary and allowance of each of the Directors and Supervisors under the Service Contract and labour contracts ("Labour Contracts"), which are labour contracts required to be entered into under the PRC laws, with the Company are as follows:

	Annual salary and allowance under the Service Contract *(RMB)*	**Annual salary and allowance under Labour Contract** *(RMB)*
Executive Directors		
肖良勇 (Professor Xiao)	–	676,080
肖兵 (Xiao Bing)	–	415,440
郭渭盛 (Guo Weisheng)	–	369,240
Non-executive Directors		
羅茂生 (Luo Maosheng)	6,000	–
米雲平 (Mi Yuoping)	6,000	–
王全福 (Wang Quanfu)	6,000	–
劉永強 (Liu Yongqiang)	6,000	–
李文琦 (Li Wenqi)	6,000	–
Independent non-executive Directors		
周天游 (Zhou Tianyou)	36,000	–
龔書喜 (Gong Shuxi)	36,000	–
鄧元明 (Deng Yuanming)	36,000	–
Supervisors		
胡暉 (Hu Hui)	–	76,440
孫桂蓮 (Sun Guilian)	–	42,480
劉激揚 (Liu Jiyang)	36,000	–
師萍 (Shi Ping)	36,000	–
谷林強 (Gu Linqiang)	6,000	–

(iii) subject to resolutions passed at shareholders' meeting of the Company, the remuneration of each of the Directors and Supervisors may be changed; and

(iv) each of the Directors and Supervisors is entitled to out-of-pocket expenses reasonably incurred during his/her term of office.

The aggregate annual remunerations payable to the Directors (including the non-executive Directors and the independent non-executive Directors) and Supervisors under the Service Contracts are RMB138,000 (approximately HK$130,200) and RMB78,000 (approximately HK$73,585) respectively for an initial term of three years.

The aggregate remunerations paid to the Directors (including the non-executive Directors and independent non-executive Directors) and Supervisors for the year ended 31 December 2002 are RMB1,542,835 (approximately HK$1,456,000) and RMB141,126 (approximately HK$133,000) respectively. The aggregate remunerations paid to the Directors (including the non-executive Directors and independent non-executive Directors) and Supervisors for the five months ended 31 May 2003 are RMB837,900 (approximately HK$790,500) and RMB71,603 (HK$67,550) respectively. It is expected that the aggregate remunerations payable to the Directors (including the non-executive Directors and independent non-executive Directors) and Supervisors under the Service Contracts and the Labour Contracts for the year ending 31 December 2003 will be RMB1,598,760 (approximately HK$1,508,000) (before deducting social insurance contributions, income tax and other deductions) and RMB196,920 (approximately HK$185,773) (before deducting social insurance contributions, income tax and other deductions) respectively.

2. Disclosure of Directors' and Supervisors' interests in the registered capital of the Company

Immediately following the completion of the Placing and assuming that the Over-allocation Option is not exercised at all, the interest or short position of the Directors, Supervisors or chief executives of the Company in the shares, debentures or underlying shares of the Company and its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or will be required, pursuant to Rules 5.40 and 5.58 of the GEM Listing Rules relating to securities transactions by the Directors, to be notified to the Company and the Stock Exchange:

Directors/Supervisors	Nature of interests	Number of Domestic Shares of RMB0.10 each	Approximate shareholding percentage immediately after the Placing (assuming the Over-allocation Option is not exercised) *(%)*
Professor Xiao	Personal	180,000,000	27.8

3. Shareholders

So far as the Directors or chief executives of the Company are aware, immediately following the completion of the Placing and assuming that the Over-allocation Option is not exercised at all, the following persons will have an interest or short position in the shares, debentures or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or will be directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company:

Name of the Shareholder	Number of Domestic Shares of RMB0.10 each held	Nature of interests	Approximate percentage of shareholding (immediately after the completion of the Placing but before the exercise of the Over-allocation Option) (%)
Professor Xiao *(Note 1)*	180,000,000	Personal	27.8
Xi'an Jiefang Group *(Note 1)*	100,000,000	Beneficial	15.5
XITIC *(Note 1)*	70,151,471	Beneficial	10.8
Xi'an Finance Bureau *(Note 1)*	70,151,471 *(Note 2)*	Corporate	10.8
Shaanxi Baosheng International Investment Company Limited *(Note 1)*	70,151,471 *(Note 2)*	Corporate	10.8
BJ Holdings *(Note 1)*	54,077,941	Beneficial	8.4
Beijing Holdings Limited *(Note 1)*	54,077,941 *(Note 3)*	Corporate	8.4
Shaanxi Silk *(Note 1)*	45,064,706	Beneficial	7.0
Shaanxi Finance Bureau *(Note 1)*	45,064,706 *(Note 4)*	Corporate	7.0

Notes:

1. For details of these shareholders, please refer to the paragraph headed "Corporate structure" in the "Business" section of this prospectus.

2. Each of Xi'an Finance Bureau and Shaanxi Baosheng International Investment Company Limited is deemed to be interested in the 70,151,471 Domestic Shares of RMB0.10 each held by the XITIC as each of Xi'an Finance Bureau and Shaanxi Baosheng International Investment Company Limited is interested in 39.6% and 34.3% respectively of the registered capital of XITIC.

3. Beijing Holdings Limited is deemed to be interested in the 54,077,941 Domestic Shares of RMB0.10 each held by BJ Holdings as the entired registered capital of BJ Holdings is invested by Beijing Holdings Limited.

4. Shaanxi Finance Bureau is deemed to be interested in the 45,064,706 Domestic Shares of RMB0.10 each held by Shaanxi Silk as the entired registered capital of Shannxi Silk is invested/held by Shaanxi Finance Bureau.

4. Related party transactions

The related party transactions entered into by the Company during the Track Record Period are set out in note 28 of the paragraph headed "Related party disclosures" in the Accountants' Report set out in appendix I herein.

5. Disclaimers

Save as disclosed herein,

(i) none of the Directors, chief executives or Supervisors of the Company has any interest or short positions in the Shares, debentures or underlying Shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which, once the H Shares are listed, will be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered into the register referred to therein, or will be required, pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules relating to securities transactions by the Directors, to be notified to the Company and the Stock Exchange (also applicable in such cases where former Directors are serving as Supervisors);

(ii) so far as is known to any Director, chief executive or Supervisor of the Company, there is no person who will, immediately following the completion of the Placing, be directly or indirectly interested in any shares, debentures or underlying shares of the Company who would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company;

(iii) save for such contracts expiring or terminable by the employer within one year without payment of compensation (other than statutory compensation), there are no existing or proposed service contracts between the Company and any of its Director or Supervisor;

(iv) none of the Directors, Supervisors or any of the experts referred to in the paragraph headed "Consents of Experts" in this appendix is interested in the promotion of the Company or in any assets which have been within the two years immediately preceding the date of this prospectus acquired or disposed of by or leased to the Company, or are proposed to be so acquired, disposed of or leased;

(v) none of the Directors, Supervisors or any of the experts referred to in the paragraph headed "Consents of Experts" in this appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of the Company; and

(vi) none of the experts referred to in the paragraph headed "Consents of Experts" in this appendix has any shareholding in the Company or the right (whether legally enforceable or not) to subscribe for or to nominate other persons to subscribe for any securities in the Company.

IV. FURTHER INFORMATION ABOUT THE BUSINESS

1. Summary of material contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the Company within the two years preceding the date of this prospectus which are or may be material:

(1) a cooperation development agreement dated 15 October 2002 ("Datang Agreement") entered into between the Company and Datang Mobile in relation to the cooperative development of intelligent antenna arrays in TD-SCDMA mobile communication system. Under the Datang Agreement, Datang Mobile will be responsible for, among other things, the research and provision of technology and support in relation to the intelligent antenna and its experiment and testing. The Company will be responsible for, among other things, the design, manufacture and tuning of the intelligent antenna and sample products, and the investment, testing and research of anechoic chambers. The cost incurred in relation to remuneration, travel expenses and research and development instrument shall be borne by the party incurring them. The costs arise from the respective responsibilities 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 borne by the parties after negotiation.

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 may 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;

(2) two agreements dated 19 August 2003 and 30 September 2003 respectively entered into between the Company and Shanghai Pudong Development Bank in relation to the assignment of certain trade receivables as security for a facility granted by Shanghai Pudong Development Bank to the Company. The Company shall notify the customers ("Customers"), from whom trade receivables have become the subject of the agreements, 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. Under the agreements, the Company is required to pay a handling fee of RMB37,500, which represents 0.125% of the trade receivables. An interest rate of 5.04% per annum is payable on the amount utilized by the Company from the day such amount is granted to the Company to the due day of trade receivables. The interest accrued on the facility utilized by the Company is payable quarterly;

(3) a supplemental agreement dated 20 August 2003 entered into between the Company and Shanghai Pudong Development Bank which supplements the agreements in (2) above. According to this supplemental agreement, in the event that the Customers deposit the trade receivables due from them into other bank accounts of the Company instead of the Designated Account, 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 such trade receivables received by the Company in other accounts of the Company shall be used to repay the facility utilised by the Company first before they are used for other purposes;

(4) the Placing and Underwriting Agreement dated 24 October 2003 entered into between, the Company, the executive Directors, the Promoters, the Sponsor, the Lead Manager and the Placing Underwriters;

(5) the deed of indemnity dated 24 October 2003 given by the Promoters in favour of the Company containing the indemnities in respect of taxation referred to in paragraph V(1) of this appendix;

(6) the deed of indemnity dated 17 October 2003 given by Professor Xiao in favour of the Company concerning the existing mortgages against the land use right of the Company at No. 36 Gao Xin Liu Road, Xi'an National Hi-tech Industrial Development Zone and the buildings thereon to the extent of RMB100,000 and the establishment of housing fund for the employees of the Company to the extent of RMB450,000; and

(7) the sponsor agreement dated 24 October 2003 entered into between the Company and the Sponsor pursuant to which the Sponsor has agreed to act as the continuing sponsor of the Company, as required under Chapter 6 of the GEM Listing Rules, for the period from the Listing Date to 31 December 2005.

2. Intellectual property right

(1) Patent rights in PRC

As at the Latest Practicable Date, the Company had submitted applications, or obtained the patent certificates for the following patents:

Item	Patent	Application No.	Date of Application	Patent No.	Patent Certificate No.
1.	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)	01246953.X	23 August 2001	ZL 01 2 46953.X	533454
2.	超寬頻帶室內全向吊頂天線 (Super-broad-band Ceiling-mount Antenna)	01246952.1	23 August 2001	ZL 01 2 46952.1	503006
3.	寬頻帶微帶貼片天線 (Broad-band Micro-strip Patch Antenna)	01247007.4	5 September 2001	ZL 01 2 47007.4	535944
4.	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)	01128778.0	5 September 2001	–	–
5.	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)	01247008.2	5 September 2001	ZL 01 2 47008.2	510835

Item	Patent	Application No.	Date of Application	Patent No.	Patent Certificate No.
6.	H型偶極子輻射器 (H-type Dipole Radiator)	02224471.9	25 January 2002	ZL 02 2 24471.9	518717
7.	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)	02224545.6	10 February 2002	ZL 02 2 24545.6	532567
8.	一種前饋拋物面天線的微帶饋源 (A Little Feeder Source for Front-fed Parabolic Antenna)	02224556.1	21 February 2002	ZL 02 2 24556.1	545466
9.	單極化波束賦形基站天線 (Single-Polar Beam Forming Base Station Antenna)	02262022.2	2 August 2002	ZL 02 2 62022.2	562968
10.	雙極化波束賦形基站天線 (Dual-Polar Beam Forming Base Station Antenna)	02262021.4	2 August 2002	ZL 02 2 62021.4	561868
11.	連續可調移相器 (Continuously Adjustable Phase Shifter)	02139334.6	7 August 2002	–	–
12.	天線陣可調移相器 (Adjustable Phase Shifter for Antenna Array)	02261870.8	7 August 2002	ZL 02 2 61870.8	562859
13.	寬頻帶垂直安裝全向天線 (Broad-band Omnidirectional Antenna for Vertical Installation)	02262045.1	12 August 2002	ZL 02 2 62045.1	563292
14.	寬帶雙向天線及雙向天線陣 (Broad-band Dual-directional Antenna and Antenna Array)	02262044.3	12 August 2002	ZL 02 2 62044.3	563179
15.	一種圓極化手機天線 (Circular Polarized Handset Antenna)	03262474.3	16 July 2003	–	–

(2) Trademarks (and service marks)

(A) PRC

As at the Latest Practicable Date, the following trademarks have been registered under the name of the Company in the PRC:

Item	Mark	Trademark Registration No.	Registered Owner	Effective Period	Class *(Note)*
1.		1666222	Xi'an Haitian Communications	From 14 November 2001 to 13 November 2011	9
2.		1703623	Xi'an Haitian Communications	From 21 January 2002 to 20 January 2012	38

Notes:

1. Goods included in class 9 include scientific, nautical, surveying, electric, photographic, cinematographic, optical, weighing, measuring, signalling, checking (supervision), life-saving and teaching apparatus and instruments; apparatus for recording, transmission or reproduction of sound or images; magnetic data carriers, recording discs; automatic vending machines and mechanisms for coin-operated apparatus; cash registers, calculating machines, data processing equipment and computers; fire-extinguishing apparatus.

2. Services included in class 38 include telecommunication.

(B) Hong Kong

As at the Latest Practicable Date, the Company had registered the following trademark(s) with the Hong Kong Trade Marks Registry:

Item	Mark	Class *(Notes)*	Registration Date
1.	Antenna 海天天线	9	22 October 2002
2.	Antenna 海天天线	38	22 October 2002

Notes:

1. Goods covered under the Class 9 registration: antennas; electric cables; electronic signals transmitters; electro-dynamic apparatus for the remote control of signals; masts for wireless aerials; navigational instruments; optical communication equipment; image data and audio communication devices, wireless messaging apparatus, communication apparatus and instruments; program control phone exchange facility; phototelegraphy apparatus; nautical instruments and apparatus; parts and fittings for all the aforesaid goods; all included in Class 9.

2. Services covered under the Class 38 registration: optical communications; computer aided transmission of messages, voice, sounds and images; data transmission through the medium of cable, satellite, and terrestrial wireline and

wireless distribution systems; lease or rental of message sending apparatus; lease or rental of telecommunication equipment; communications by cellular telephones; communications by computer terminals; electronic mail; information about telecommunication; all included in Class 38.

As at the Latest Practicable Date, the Company had applied for the registration of the following trademarks) with the Hong Kong Trade Marks Registry:

Item	**Mark**	**Class** *(Notes)*	**Application Date**
1.		9	18 February 2003
2.		38	18 February 2003

Notes:

1. Goods covered under the Class 9 application: antennas; electric cables; electronic signals transmitters; electro-dynamic apparatus for the remote control of signals; masts for wireless aerials; navigational instruments; optical communication equipment; image data and audio communication devices, wireless messaging systems, communication apparatus and instruments; program control phone exchange facility; phototelegraphy apparatus; nautical instruments and apparatus; parts and fittings for all the aforesaid goods; all included in Class 9.

2. Services covered under the Class 38 application: optical communications; computer aided transmission of messages, voice, sounds and images; data transmission through the medium of cable, satellite, and terrestrial wireline and wireless distribution systems; lease or rental of message sending apparatus; lease or rental of telecommunication equipment; communications by cellular telephones; communications by computer terminals; electronic mail; information about telecommunication; all included in Class 38.

(3) Copyright

As at the Latest Practicable Date, the Company obtained the following copyright from 中華人民共和國國家版權局 (National Copyright Administration of the PRC):

Copyright	**Registration No.**	**Commencement Date**
基站天綫分析軟件 V1.0	2002SR5035	8 December 2001

(4) Domain Names

As at the Latest Practicable Date, the Company registered the following domain names with the following registrar:

Domain Name	**Registrant**	**Registration Date**	**Registrar**
xaht.com	The Company	16 August 1999	The Internet Corporation for Assigned Names and Numbers
htantenna.com	The Company	2 July 2001	The Internet Corporation for Assigned Names and Numbers

The contents in the above website do not form part of this prospectus.

V. OTHER INFORMATION

1. Estate duty, tax and other indemnities

Under the deed of indemnity referred to in item (5) of the subparagraph headed "Summary of material contracts" under the paragraph headed "Further information about the business" of this appendix, each of the Promoters has given indemnities in favour of the Company on a joint and several basis in relation to taxation and any other liabilities which might fall upon the Company in respect of any income, profits or gains earned, accrued or received on or before the Listing Date.

The deed of indemnity does not cover any claim and the Indemnifiers shall be under no liability under the deed in respect of any taxation:

(a) to the extent that adequate provision has been made for such taxation in the audited accounts of the Company up to 31 May 2003;

(b) to the extent such taxation or liability falling on the Company in respect of any act or commission of the Company on or after the Listing Date; and

(c) for which the Company is primarily liable as a result of transactions entered into in the ordinary course of business after the Listing Date.

The Directors have been advised that no material liability for estate duty is likely to fall on the Company under the PRC law.

2. Litigation

As at the Latest Practicable Date, the Company had not engaged in any litigation or arbitration of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened by or against the Company.

3. Global Co-ordinator, Sponsor and the Lead Manager

CPY has submitted an application on behalf of the Company to the GEM Listing Committee for the listing of, and permission to deal in, the H Shares to be allotted and issued and sold (as the case may be) under the Placing and upon the exercise of the Over-allocation Option. All necessary arrangements have been made for the H Shares to be accepted as eligible securities by CCASS.

CPY is the global co-ordinator and the sponsor and CPY International is the sole bookrunner and lead manager in relation to the Placing.

Pursuant to the GEM Listing Rules, CPY has agreed to provide consultancy service to the Company to guide and assist the Company to conform to the GEM Listing Rules, and the Company has agreed to pay an annual fee in connection to such service.

4. Preliminary expenses

The preliminary expenses of the Company are estimated to be approximately RMB0.44 million (approximately HK$0.42 million) and are payable by the Company.

5. Promoters

The Promoters are Professor Xiao, Xi'an Jiefang Group, XITIC, BJ Holdings, Shaanxi Silk, Xi'an Zhengheng Investment, Mr. Wu, Mr. Chen and Shaanxi Mant. For further details of the Promoters, please refer to the paragraph headed "Corporate structure" in the section headed "Business" in this prospectus. Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus, no cash, securities or other benefits have been paid, allotted or given or are proposed to be paid, allotted or given to the Promoters in connection with the Placing or the transactions mentioned in this prospectus.

6. No material adverse change and interruption of business

Save as disclosed in this prospectus and to the best of knowledge of the Directors, there has been no material adverse change in the financial position, state of affairs or future prospects of the Company since 31 May 2003 (being the date of the most recently published audited financial statements of the Company).

Save as disclosed herein, there has not been any interruption in the business of the Company which has had or may have a material adverse effect on the financial position of the Company in the 24 months preceding the date of this prospectus.

7. Binding effect

This prospectus shall have the effect, if an application is made in pursuance of it, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

8. Taxation liability of holders of H Shares

Dealings in H Shares are subject to Hong Kong stamp duty.

9. Qualifications of experts

Name	Qualification
Core Pacific-Yamaichi Capital Limited	Deemed licensed corporation for types 1, 4, 6 and 9 regulated activities under the SFO
Vigers Hong Kong Ltd.	Professional surveyors and independent valuers
Jingtian & Gongcheng	Qualified PRC lawyers
Deloitte Touche Tohmatsu	Certified public accountants

10. Consents of experts

Each of CPY, Vigers Hong Kong Ltd., Jingtian & Gongcheng and Deloitte Touche Tohmatsu has given and has not withdrawn its written consent to the issue of this prospectus with the inclusion of its report and/or letter and/or opinion and/or valuation certificate and/or the references to their names included herein in the form and context in which it is respectively included.

11. Miscellaneous

Save as disclosed in this prospectus:

(i) within the two years immediately preceding the date of this prospectus, no share or loan capital (if any) of the Company has been issued or agreed to be issued fully or partly either for cash or for a consideration other than cash;

(ii) no share or loan capital (if any) of the Company is under option or is agreed conditionally or unconditionally to be put under option;

(iii) within the two years preceding the date of this prospectus, no commissions, discounts, brokerages or other special terms (if any) have been granted in connection with the issue or sale of any share or loan capital of the Company;

(iv) no founder, management or deferred shares in the Company have been issued;

(v) within the 2 years preceding the date of this prospectus, no commissions (except the commissions to sub-underwriters) have been paid or payable for subscription or agreeing to subscribe or purchase, procure subscription or purchase or agreeing to procure subscription or purchase of any share in the Company; and

(vi) none of the experts whose names appear in the paragraph headed "Consents of experts" in this appendix is interested in any shares in the Company, nor has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in the Company.

PARTICULARS OF THE VENDORS

The particulars of each of the Vendors are as follows:

1. XITIC is a limited liability company established in the PRC on 28 December 1999 with its address at No. 23 Nan Da Street, Xi'an, the PRC. The registered capital of XITIC is RMB300,000,000. Mr. Liu Yongqiang, who is a non-executive Director, is also the chairman of the board of directors of XITIC. The number of Sale H Shares initially offered for sale by XITIC is 3,848,529 (representing approximately 2.62% of the H Shares initially being offered under the Placing). If the Over-allocation Option is fully exercised, an additional 577,279 Domestic Shares will be converted into H Shares and offer for sale under the Placing by XITIC.

2. BJ Holdings is a state-owned enterprise established in the PRC on 20 April 1999 with its address at Floor 12A, Beijing New World Centre Northern Office Tower, 3B Song Wai Street, Song Wen District, Beijing, the PRC. The registered capital of BJ Holdings is RMB300,000,000. Mr. Mi Yunping, who is a non-executive Director, is also the deputy general manager of BJ Holdings. The number of Sale H Shares initially offered for sale by BJ Holdings is 5,922,059 (representing approximately 4.03% of the H Shares initially being offered under the Placing). If the Over-allocation Option is fully exercised, an additional 888,309 Domestic Shares will be converted into H Shares and offer for sale under the Placing by BJ Holdings.

3. Shaanxi Silk is a state-owned enterprise established in the PRC on 17 October 1987 with its address at No. 2 Zhu Qiao Road, Xi'an, the PRC. The registered capital of Shaanxi Silk is RMB54,576,000. Mr. Li Wenqi, who is a non-executive Director, is also the manager of Planning and Finance Department and the chief accountant of Shaanxi Silk. The number of Sale H Shares initially offered for sale by Shaanxi Silk is 4,935,294 (representing approximately 3.36% of the H Shares initially being offered under the Placing). If the Over-allocation Option is fully exercised, an additional 740,294 Domestic Shares will be converted into H Shares and offer for sale under the Placing by Shaanxi Silk.

Save as disclosed in this prospectus, none of the Directors is interested in the Placing.

Documents delivered to the Registrar of Companies

The documents attached to a copy of this prospectus and registered by the Registrar of Companies in Hong Kong were the written consents referred to in the paragraph headed "Consent of experts" in appendix VI to this prospectus, copies of material contracts referred to in the paragraph headed "Summary of material contracts" in appendix VI to this prospectus and a statement of the particulars of the Vendors.

Documents available for inspection

Copies of the following documents will be available for inspection at the offices of Kwok & Yih, 37th Floor, Gloucester Tower, The Landmark, Central, Hong Kong during normal business hours from 9:00 a.m. to 5:00 p.m. from the date of this prospectus up to and including 7 November 2003.

(a) the Articles of Association;

(b) the accountants' report prepared by Deloitte Touche Tohmatsu, the text of which is set out in appendix I to this prospectus;

(c) the audited financial statements of the Company for each of the two years ended 31 December 2002 and the five months ended 31 May 2003;

(d) the letter, summary of values and valuation certificate relating to the property interests of the Company prepared by Vigers Hong Kong Ltd., the text of which is set out in appendix II to this prospectus;

(e) the PRC legal opinions dated 24 October 2003 issued by Jingtian & Gongcheng, the Company's PRC legal advisers;

(f) copies of material contracts referred to in the paragraph headed "Summary of material contracts" in appendix VI to this prospectus;

(g) the written consents referred to in the paragraph headed "Consents of experts" in appendix VI to this prospectus;

(h) the service contracts referred to in the paragraph headed "Particulars of service agreements" in appendix VI to this prospectus;

(i) a statement of the particulars of the Vendors; and

(j) the Company Law, the Mandatory Provisions and the Special Regulations.