Prospective investors of the Offer Shares should consider carefully all of the information set forth in this prospectus and, in particular, the following risks in connection with investment in the Company. The business, financial condition or results of operations of the Group could be materially affected by any of these risks.

RISKS ASSOCIATED WITH THE GROUP'S BUSINESS

Reliance on senior management and key technical personnel

The Group's success is highly dependent on the services of its senior management and key technical personnel. The continuing success of the Group is also dependent on its ability to keep pace with the rapid technological developments in the telecommunication industry and a key factor in this respect is the Group's ability to continue attracting, recruiting and retaining experienced, qualified and talented telecommunication professionals. As the telecommunication industry continues to expand in the PRC, the Directors expect that competition for these personnel will become more intense in the future. The loss of the services of one or more of the Group's senior management or key technical personnel could have a material adverse effect on the business of the Group. With respect to the executive Directors, the Company has entered into employment contracts with Mr. Guo in the position of chief executive officer and Mr. Jiang in the positions of vice president and chief finance officer on 25 August 2003. The Group has also entered into employment contracts with each of the senior management and key technical personnel.

There can be no assurance that the Group's senior management and key technical personnel will remain with the Group or that, in the future, any former employees will not organise a competing business or provide services as a competitor to the Group. The Group's operations could be adversely affected should it encounter any serious difficulty in recruiting or retaining suitable telecommunication or technology professionals.

Reliance on the PRC market

During the Track Record Period, all turnover of the Group was derived from the PRC market. The Directors anticipate that the PRC will continue to be a significant market for the Group's wireless telecommunication products and solutions in the near future. The Group is therefore susceptible to changes in the political, economical, technological and social conditions of the PRC and policy changes applicable to the telecommunication industry in the PRC. There is no assurance that any of such changes will not adversely affect the future performance and profitability of the Group.

Relationship with certain major customers

For each of the three years ended 31 December 2003 and the five months ended 31 May 2004, sales to the Group's five largest customers (including telecommunication operators such as the China Unicom Group), all being Independent Third Parties, accounted for approximately 94%, 90%, 90% and 71% of the Group's total turnover for each of the relevant period, respectively; whilst sales to the Group's largest customer for the same periods accounted for approximately 62%, 51%, 60% and 25% of the Group's total turnover for each of the relevant period, respectively. The China Unicom Group was the largest customer of the Group for each of the three years ended 31 December 2003 and the third largest customer for the five months ended 31 May 2004. The Group has not entered into any long-term contract or cooperation agreement with any of these five largest customers, and there is no guarantee that the Group will be able to secure new business with them. In the event that the Group cannot secure new contracts with the existing customers and is not able to obtain any new customers, the Group's business and financial position would be adversely affected. The Directors expect that in the future the Group's wireless terminals will be sold mainly to telecommunication operators and telecommunication equipment distributors who resell such products to the telecommunication operators, and future sales of wireless terminals will continue to be affected by the promotion policy of telecommunication operators in the PRC. As the number of major telecommunication operators such as the China Unicom Group in the PRC is limited, the number of potential customers of similar size is also limited. Moreover, due to their substantial size and business coverage, telecommunication operators are typically in a stronger bargaining position as compared to the Group. If the product quality and promotion policy of telecommunication operators change or these products become obsolete and the Group is unable to further diversify the kinds of products that it offers, there may be material and adverse impact on the turnover, operating results and financial conditions of the Group.

Reliance on the cooperation with the Smartphone Manufacturing Partner for manufacturing of smartphones

As the Group is not one of the 19 CDMA handset manufacturers or 29 GSM handset manufacturers designated by MII, the Group entered into agreements with the Smartphone Manufacturing Partner in relation to the production and sales of its CDMA smartphones for a term of 2 years and that of its GSM/GPRS and CDMA-GSM dual-mode smartphones for a term valid until 30 September 2005. Details of such cooperation are set out in the paragraph headed "Collaboration with the Smartphone Manufacturing Partner for the manufacturing of smartphones" in the section headed "Business" in this prospectus. As the Smartphone Manufacturing Partner is currently the Group's only business partner in respect of manufacturing of smartphones, if the Group is not able to extend the terms of collaboration with the Smartphone Manufacturing Partner and the Group is unable to engage another suitable replacement partner, the Group may not be able to continue its production and sales of smartphones. Accordingly, the Group's business opportunities and profitability may be adversely affected.

Reliance on certain major suppliers

For each of the three years ended 31 December 2003 and the five months ended 31 May 2004, the five largest suppliers of the Group accounted for approximately 19%, 42%, 63% and 72% respectively of the Group's total purchases for each of the relevant period; whilst the largest supplier of the Group for the same periods accounted for approximately 5%, 15%, 33% and 25% respectively of the Group's total purchases for each of the relevant period. The Directors confirm that the increase in purchases from the five largest suppliers during the Track Record Period was mainly due to the increase in sales of wireless terminals, the raw materials of which, such as CDMA modules and LCDs, accounted for a higher percentage to the relevant sales than the components used for wireless system solutions (i.e. electronic components, batteries, computer servers etc).

All the five largest suppliers of the Group during the Track Record Period are Independent Third Parties. The Group has not entered into any long-term supply contract with any of the major suppliers. If, for whatever reasons, all or any of the Group's major suppliers cease to supply materials and components, and the Group is unable to source similar materials from other suppliers, the Group's business and financial performance may be adversely affected.

Long settlement cycle

Under the Group's current business model for wireless system solution, the Group recognises revenue and receives payment by installment, while credit terms of three to six months starting from the respective billing date of each installment may be granted to customers. In particular, about 5% to 10% of the contract amount as retention money will be paid by the customer until the end of the warranty period, which is normally 12 months after the recognition of the last installment as revenue.

As a result, the Group's debtors' turnover days (defined as average of opening and closing balances of trade receivables/turnover x number of days in the relevant period) are relatively long during the Track Record Period. For each of the three years ended 31 December 2003 and the five months ended 31 May 2004, the Group's debtors' turnover days were 42 days, 82 days, 163 days and 187 days, respectively. The Directors attribute such long debtors' turnover days mainly to the extended credit terms given to the Group's major customer, the China Unicom Group, as well as the overall delay in settlement from the Group's other customers, comprising members of other telecommunication operators and large-scale State-owned enterprises during the Track Record Period. If the Group's settlement cycle is prolonged for whatever reason, or if the Group fails to collect the receivables on a timely basis, the Group's working capital position would be adversely affected, and the Group's business and operating results may be adversely affected.

Recoverability of trade receivables

As at 31 May 2004, the Group's trade receivables (before provision for doubtful debts) were approximately RMB104.3 million (approximately HK$98.4 million), of which approximately RMB5.8 million (approximately HK$5.5 million) was overdue for more than one year. Approximately 54.9% of the trade receivables (before provision for doubtful debts) as at 31 May 2004 was due from the China Unicom Group. As at 31 May 2004, the Group's provision for doubtful debts was approximately RMB4.8 million (approximately HK$4.5 million), which was made in accordance with the Group's provision policy. There is no guarantee that the Group will be able to fully recover all of the trade receivables. In such case, the Group's cash flow, operating results and financial position may be adversely affected.

Risks related to the Group's smartphone products

The Group's CDMA1X and GSM/GPRS smartphones were launched in December 2003 and September 2004 respectively, and its CDMA-GSM dual-mode smartphones are expected to be launched by the end of 2004. Sales from smartphones has become a major source of the Group's turnover since 2003. In 2003 and the five months ended 31 May 2004, turnover from smartphones accounted for approximately 11.9% and 54.9% of the Group's turnover, respectively, and the Directors expect that smartphones would be the key growth area for the Group in the short to medium term. The Group's smartphones are subject to the rapid changes in technologies, product quality, promotion policy of telecommunication operators, consumer preference and product obsolescence. There is no guarantee that the Group can maintain such turnover from future sales of smartphones. In that case, the Group's operation results and financial conditions may be adversely affected.

Capital requirement

The Group experienced net cash outflow from operating activities in the years ended 31 December 2001 and 2003 of RMB2.9 million (approximately HK$2.7 million) and RMB13.7 million (approximately HK$12.9 million), respectively. The net cash outflows from operating activities were mainly due to the relative long settlement cycle of the Group's major customers as well as the increase in prepayment to the Group's suppliers for raw materials for fixed wireless terminals and smartphones. To cope with net operating cash outflow and to support business expansion, in the past, the Group financed the capital requirement by raising equity capital and obtaining bank borrowing. In the year ended 31 December 2001, the Group obtained additional bank borrowing of approximately RMB9.3 million (approximately HK$8.8 million) and additional borrowing from the Directors and companies related to them of approximately RMB4.6 million (approximately HK$4.3 million). In the year ended 31 December 2003, the Group raised equity capital of approximately RMB31.7 million (approximately HK$29.9 million) and obtained additional bank borrowing of approximately RMB25.6 million (approximately HK$24.2 million).

Following the completion of the Share Offer, the Directors expect to fund the capital and operating requirements through internally generated cash flows, net proceeds from the New Issue, cash on hands, and, if necessary, additional bank borrowings. However, there is no assurance that the Group will be able to generate sufficient cash flows from its operating activities or will be able to obtain sufficient bank borrowings to finance its capital and operating requirements, in which case the Group's operation and profitability may be adversely affected.

Sustainability of gross profit margin

For each of the three years ended 31 December 2003 and the five months ended 31 May 2004, the Group's overall gross profit margin was approximately 60%, 60%, 43% and 38%, respectively; gross profit margin for wireless system solutions was 60%, 61%, 59% and 70%, respectively; while gross profit margin for wireless terminals was approximately 45%, 41%, 35% and 31%, respectively. In view of the fierce competition among wireless system solution and equipment providers in the PRC, which results in constant pricing pressure upon the Group and its competitors, there is no guarantee that the Group can maintain gross profit margin as achieved during the Track Record Period. In that case, the Group's operation results and financial conditions may be adversely affected.

Term of Yulong Shenzhen's business licence

Yulong Shenzhen is currently the principal operating subsidiary of the Group. Under the prevailing PRC laws, a WFOE such as Yulong Shenzhen must possess a valid business licence before it can engage in any form of business activities in the PRC.

A WFOE is normally required to file an application with the relevant approval authority at least 180 days prior to the expiration of its business licence to renew or extend its current business licence. Within 30 days after the granting of such approval, the WFOE will be able to obtain a new business licence from the administration for industry and commerce.

Yulong Shenzhen is currently operating under a business licence with a term of 15 years effective from 29 April 1993 to 29 April 2008. At the expiration of the current business licence, if Yulong Shenzhen cannot renew its licence, the Group will no longer be able to continue its operation through Yulong Shenzhen and will have to incur additional expenses to find alternative ways to continue its current business. In this case and if no alternative method of operation can be found, the Group's operation may be adversely affected accordingly.

Renewal of Network Access Licences

The Group provides various wireless system solutions and wireless terminal products for wireless telecommunication applications in the PRC. The PRC implements a Network Access Licence system for access to public telecommunication networks by certain prescribed types of telecommunication 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 Group" in this prospectus. The Network Access Licences granted are generally valid for a term of three years. The Group and the Smartphone Manufacturing Partner are required to apply for the renewal of the respective Network Access Licences as and when they expire. Hence, the re-assessments of renewal are subject to the prevailing legal and regulatory requirements imposed by the issuing authorities or telecommunication operators when the licence or certificate (if any) is due for renewal. It should be noted that the requirements under these permits or licences may change from time to time, which may give rise to compliance issues. In addition, it may be costly for the Group to comply with all changes to the requirements in relation to the renewal of the relevant licences and permits. If the Group or the Smartphone Manufacturing Partner fails to renew its Network Access Licences or the relevant authority revokes or refuses to renew the Network Access Licences, the products of the Group which are subject to the Network Access Licence cannot be sold and hence the Group's profitability may be adversely affected.

Risks related to newly launched products or solutions

Some of the Group's products or solutions set out in the paragraphs headed "Products and solutions" in the section headed "Business" in this prospectus were initially launched during the Track Record Period. The acceptance by market and popularity of any new products or new version of existing line of products may not grow as the Company expects. In the event that the Group's products or solutions are not accepted by the market or are not as popular as expected in the future, the Group's business and profitability may be adversely affected.

R&D risks

The Group's future prospects will largely depend on the continuous development and enhancement of existing wireless communication hardware and software. There can be no assurance that the Group will develop products or solutions successfully or that a solution or product will be approved by the relevant authorities and/or the telecommunication operators and well received by the market. In the event that the Group does not successfully develop, manufacture or market new products, the Group's business and profitability may be adversely affected.

The Directors expect that to maintain its growth in the future and to stay ahead of its competitors, the Group has to develop new products and solutions to meet the increasing demand of the telecommunication operators, individuals and corporate subscribers. The Directors believe that it is not possible for the Group to forecast what kind of new products and solutions will be demanded in the future. Moreover, the ability of the Group to generate revenue from these products will depend on a number of factors including the features of the products, the changes in technology and the acceptance of these products by customers. There is no assurance that the Group's new solutions or products will adequately meet the technology development requirements of the market and ultimately achieve customers' acceptance.

Risks related to the use of trade name "*Coolpad*"

The Group has since December 2002 started using the trade name "*Coolpad*" on its wireless terminal product. On 29 July 2003, the Group applied for the registration of the trademark "Coolpad酷派" in the PRC. As at the Latest Practicable Date, registration of the trademark "Coolpad酷派" is still pending. The Directors believe that the PRC trademark registration will be completed in around 18 months after its initial application. The Group had also registered the domain names "*coolpad.cc*" on 3 July 2002, "*coolpad.com.cn*" on 28 September 2002 and "*coolpad.cn*" on 17 March 2003. Among these three domain names, the Group has been using the "*coolpad.cn*" and "*coolpad.com.cn*" domains since August 2003 and August 2004, respectively, but has not started using the domain "*coolpad.cc*" as at the Latest Practicable Date. The Directors noticed that "Coolpad" is also used by another electronic product company in its products and the name "Coolpad" may also be properly registered outside the PRC.

There is no assurance that the other companies that currently use "Coolpad" for their products or services will not file any infringement claims against the Group in this regard. If such claims are made against the Group, the Group might become involved in costly and time-consuming litigations and might even be prohibited from using the trademark "Coolpad酷派" or the trade name or any domain name carrying the word "Coolpad" and therefore may suffer losses and damage to its corporate image and reputation.

Intellectual property rights

During the Track Record Period, the Group had submitted in the PRC eleven patent applications in respect of its products/technologies. As at the Latest Practicable Date, nine of which were being processed and two of which were granted patent registration certificates by the State Intellectual Property Office of PRC. No assurance can be given as to when, if at all, those pending applications for patent may be approved or that the scope of the patent granted will provide sufficient protection against competition from similar products/technologies. Even if granted, the patents may be subject to claims that the patents are not in conformity with PRC laws and could be susceptible to revocation or disputes raised by third parties. In addition, competitors may be able to design around the Group's patents. The extent to which the Group may be able to enforce its patent rights is also uncertain.

Given the nature of the telecommunication industry which is featured by rapidly changing technologies, processes and methods, the Group has not filed patent applications for every aspect of its research processes and methods, such as applying the existing PHS technologies into repeaters, design of operating system for smartphones, applying CDMA1X and GSM/GPRS related technologies into smartphones. 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 Group, 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 Group's ability to protect its intellectual property rights or would constrain the Group's proposed activities.

The processes and methods used by the Group itself may infringe the patents or violate other intellectual property rights of third parties primarily because of the nature of the telecommunication industry which is featured by rapidly changing technologies, processes and methods. Besides, the Group may be exposed to risks of third party claims arising from the previous business activities of the Group's technical experts in their research and/or production and may become involved in litigation relating to such claims. If any strategic alliance or technology partner of the Group is subject to any dispute or litigation relating to such claims, the business operations and/or prospects of the Group may also be adversely affected. There is no assurance that the Group 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 Group.

Dividends

The aggregate amount of the dividends declared by the subsidiaries of the Company in respect of the Track Record Period is approximately RMB20 million (approximately HK$18.9 million). Payments of such dividends were financed by internal resources of the Group. There is no assurance that the Group may declare and pay dividend at this level to the Shareholders after the listing of its Shares on the Main Board and the abovementioned dividend should not be used as a reference or basis to determine the level of dividends that may be declared in the future.

Limited insurance coverage

The Group has not purchased any product liability insurance or any third party liability insurance. There may be circumstances in which the Group would not be covered or compensated by insurance in respect of losses, damages, claims and liabilities arising from or in connection with product liability or third party liability. These events may adversely affect the profitability of the Group.

The Group's services and products may be critical to the operations of its customers' businesses. If the Group's services and products contain defects or errors which adversely affect any of the Group's customers' business operations or in the performance of such services and products, the Group may incur additional costs in rectifying such defects or defending any legal proceedings and claims brought by its customers against the Group. Consequently, this may affect the Group's relationship with such customers and may result in negative publicity of the Group which ultimately may adversely affect the reputation of the Group. Any defects or errors in the Group's products and services could result in delayed or loss of revenue, adverse customer reaction towards the Group, negative publicity, additional expenditure in rectifying the defects and settling claims against the Group.

Preferential tax treatments

According to the《中華人民共和國外商投資企業和外國企業所得稅法》(Income Tax Law of the PRC for Foreign Investment Enterprises and Foreign Enterprises) and as approved by relevant tax authorities, Yulong Shenzhen, as a WFOE registered in Shenzhen of the PRC, is exempted from local corporate income tax and its applicable State corporate income tax rate is 15%. Moreover, according to《政策性減免稅批覆書》(Reply to policy tax exemption and relief) issued by 深圳市地方稅局福田增收分局 (Shenzhen Futian Local Tax Bureau), Yulong Shenzhen was exempted from the State corporate income tax of the PRC for the two years starting from the first profitable year of operation and a 50% relief from the State corporate income tax of the PRC for the following three years. The first profitable year of operation of Yulong Shenzhen is 1996 and therefore Yulong Shenzhen was exempted from the State corporate income tax for the two years ended 31 December 1997 and was subject to the State corporate income tax rate of 7.5% for the three years ended 31 December 2000. On 20 July 1999, Yulong Shenzhen was accredited as the 深圳市高新技術企業 (Shenzhen Hi-tech Enterprise) by the 深圳市科學技術局 (Shenzhen Science and Technology Council). According to《關於深圳宇龍計算機通信科技有限公司企業所得稅減免問題的覆函》(Reply on exemption and relief of corporate income tax of Yulong Shenzhen) issued by 深圳市地方稅務局涉外檢查分局 (Shenzhen Tax Bureau External Affair Department), Yulong Shenzhen was entitled to 50% tax relief from the State corporate income tax of the PRC for another three years starting from 2001. Therefore, the applicable corporate income tax rate for Yulong Shenzhen was 7.5% for the three years ended 31 December 2003. The applicable income tax rate for Yulong Shenzhen is 15% starting from 1 January 2004.

On the other hand, as a general value-added tax (“VAT”) payer, Yulong Shenzhen is subject to VAT of 17% in the PRC. However, according to the《關於鼓勵軟件產業和集成電路產業發展和有關稅收政策問題的通知》(Notice on tax policy to encourage the development of software enterprises and integrated electronic enterprises) (the "Notice"), general VAT payers are entitled to refund for VAT they had paid for more than 3% of the sales in relation to software products. Therefore, the Group’s sales in relation to software products were in effect only subject to 3% of VAT under the Notice by applying for VAT refund from tax bureau based on invoices issued for the sales of software. Yulong Shenzhen will continue to be entitled to such refunds so long as it meets the requirement of generating revenue by way of development and sales of software.

Notwithstanding the above preferential tax treatments enjoyed by the Group, it is possible that any future changes in the taxation policies in the PRC or in the rates or methods of taxation in the PRC may have an adverse impact on the Group’s profitability and financial position.

RISKS ASSOCIATED WITH THE INDUSTRY

Rapid technology change

The wireless communication industry is characterised by rapidly changing technologies, evolving industry standards and continuing improvements. Accordingly, the Group’s future success will largely depend on its continuing ability to adapt to customers’ needs and technological developments in a timely manner. Should the Group be unable to develop and introduce new hardware and/or software products in a timely manner in anticipation of or in response to changing technologies, market conditions and customers’ requirements, or if new products do not achieve market acceptance, the Group’s business and financial positions may be adversely affected. In addition, the enhancement of existing products and the development of new products are necessary to involve in significant technological risk. There can be no assurance that it will be successful in using new technologies and adapting its products to emerging industry needs and standards, or that the Group will not experience difficulties that could delay or prevent the successful development or marketing of these products, or that any such new products enhancement will adequately meet the requirements of the market and achieve market acceptance.

Competition

The telecommunication market is changing rapidly and competition is keen with numerous network solution providers and equipment developers. The Directors are aware of the fact that its competitors may deliver products and services that are similar to those of the Group at a lower price. The Directors also foresee that quotations for projects may be further driven down due to competition. As the Group researches and develops wireless communication equipment, system and terminal solutions by its own technical team, the Group may be able to achieve a relatively higher gross profit margin. So far, the Group has not yet overcome any serious price cutting competition in biding for projects, but there is no assurance that the Group is able to secure future projects at the existing profit margin and sustain its market shares.

Health risks associated with wireless telecommunication equipment

Certain reports have suggested that radio emissions from wireless telecommunication equipment, in particular mobile phones, might have an adverse effect on the health of mobile phone users. Although most authoritative studies have not conclusively established a direct link between mobile phone use and adverse health, the actual or perceived health risks arising from mobile phone use may affect future growth in the number of mobile subscribers thereby adversely affecting mobile operators' demand for the Group's equipment and services. In such event, the Group's profitability may be adversely affected.

RISKS ASSOCIATED WITH THE PRC

Economic, social and legal considerations

The PRC has a long history of planned economy. The PRC economy is still to a large extent a planned economy, albeit that the PRC government has undergone economic reforms to transform the PRC economy into a market economy with socialist characteristics. These reforms have resulted in a more significant role being played by market forces in the overall economic performance. Nevertheless, many of the regulations are subject to further refinements and revisions aimed at optimising the economic system. Although the PRC is currently a member of the WTO, there is no assurance that any change in the economic conditions as a result of the economic reforms, or macro-economic control measures adopted by the PRC government will have a positive effect on the economic development of the PRC.

Since 1979, the PRC has promulgated various laws and regulations relating to economic issues in general as well as issues involving foreign investment. In 1982, 全國人民代表大會 (the "National People's Congress") of the PRC resolved to amend the constitution to allow foreign investment and to protect the "legal interests" of foreign investors in the PRC. Since then there has been a tendency in legislation towards giving increasing protection to foreign investors. Although significant progress has been made in the legal system of the PRC, the enforcement of existing laws and regulations may be uncertain or inconsistent, and the interpretation of these laws and regulations may change from time to time. Any such change could have an adverse impact on the Group's business and thereby adversely affect the Group's business operations.

Currency conversion and foreign exchange control

RMB is not freely convertible to other currencies, except under certain circumstances. Pursuant to 《外滙管理條例》 (the "Foreign Exchange Control Regulations") and 《結滙、售滙及付滙管理規定》(the "Regulations on the Foreign Exchange Settlement, Sale and Payments"), subject to the provision to the banks which are authorised to engage in foreign exchange business of all the required documents under the relevant PRC laws, foreign investment enterprises are permitted to remit their profits or dividends in foreign currencies overseas or repatriate such profits or dividends after converting the same from RMB to foreign currencies through banks which are authorised to engage in foreign exchange business. Foreign investment enterprises are permitted to convert RMB to foreign currencies for items in current account (including, for example, dividend payments to foreign investors). Control over conversion of RMB to foreign currencies for items in capital account (including, for example, direct investment, loan and investment in securities) is more stringent.

The Group's business operations are wholly undertaken in the PRC, which are subject to the above regulations. There is no assurance that the Group will obtain sufficient foreign exchange for payment of dividends or other settlements in foreign exchange.

Institutional structure of the wireless communication sector in the PRC

At present, there are two major mobile operators in the PRC. The China Unicom Group, being one of the major operators, has been one of the five largest customers of the Group during the Track Record Period. During each of the three years ended 31 December 2003 and the five months ended 31 May 2004, sales by the Group to the China Unicom Group were approximately RMB52.4 million (approximately HK$49.4 million), RMB51.6 million (approximately HK$48.7 million), RMB96.2 million (approximately HK$90.8 million) and RMB10.1 million (approximately HK$9.5 million) respectively, representing approximately 62%, 51%, 60% and 12% of the total turnover for each of the relevant period, respectively. If the State changes the institutional structure of the telecommunication industry or wireless communication sector or allows direct foreign investment in such industry or sector, competition may intensify and such telecommunication operators may adopt a more stringent procurement policy. If the amount spent on the construction or improvement of system coverage reduces and/or the requirements on the quality of other equipment become more demanding such that the Group's manufacturing costs increase disproportionately, the performance of the Group may be adversely affected.

RISKS RELATING TO THE SHARES

Protection of interests of minority shareholders under the laws of the Cayman Islands

The Company's corporate affairs are governed by its memorandum of association, articles of association and the Companies Law. The laws of the Cayman Islands relating to protection of interests of minority shareholders and to the fiduciary responsibilities of directors may differ from the laws of Hong Kong and the corresponding remedies available to such shareholders may differ accordingly. A summary of the laws of the Cayman Islands relating to protection of minority shareholders is set forth in Appendix V to this prospectus.

Liquidity and possible price volatility of the Shares

An active trading market for the Shares may not develop and the trading price for the Shares may fluctuate significantly. Prior to the listing of the Shares on the Main Board, there has been no open market for any of the Shares. The Offer Price may not be indicative of the price at which the Shares will trade on the Main Board following completion of the Share Offer and the Capitalisation Issue. In addition, there is no assurance that an active trading market for the Shares will develop, or, if it does develop, that it will be sustained following completion of the Share Offer and the Capitalisation Issue, or that the market price of the Shares will not decline below the Offer Price.

The trading price of the Shares could also be subject to significant volatility in response to, among other factors:—

— the investors' perception of the Group and its future business plans;

— variations in the Group's operating results;

— technological innovations;

— changes in the Group's pricing policy as a result of the presence of competitors;

— changes in the Group's senior management personnel; and

— general economic and other factors in the PRC.

RELIABILITY OF STATISTICS

Both the statistics and the industry information contained in the section headed "Industry overview" in this prospectus are gathered from various unofficial sources, unless otherwise indicated as official sources. For statistics derived from official sources, although reasonable actions have been taken by the Directors to ensure the statistics are extracted accurately from such sources, the Company, the Directors and all other parties involved in the Share Offer have not carried out any independent review of the statistics or the methodology in the gathering, compilation or presentation of such statistics. Accordingly, the Company, the Directors and all other parties involved in the Share Offer make no representation as to the accuracy of such official statistics, and are not able to give any assurance that the official statistics are intrinsically consistent. As the Company, the Directors and all other parties involved in the Share Offer cannot ascertain the data collecting method and the accuracy involved, the official statistics contained in that section may be inaccurate, or may not be comparable with the statistics obtained in other economies. Accordingly, there is no assurance that such official facts and official statistics have been stated or prepared to the same standard or level of accuracy as those in other publications.