OVERVIEW

We are one of the few one-stop providers of wireless communication antennas and base station RF subsystems in China. By strategically locating our principal operations in China, we aim to capitalize on its fast growing mobile communication and equipment manufacturing industry that supplies the rapidly growing worldwide demand for mobile communication infrastructure equipment. Our business consists of the design, manufacture, marketing and sale of antennas, base station RF subsystems and solutions that are the required components of mobile communication coverage systems, including wireless access systems (WiFi and PHS), 2G (GSM and CDMA), 3G (TD-SCDMA, CDMA 2000, W-CDMA and WiMax), satellite communication and microwave transmission networks. Our product portfolio is categorized into three principal groups: antenna systems, base station RF subsystems and coverage extension solutions. We sell our products directly to network operators in China and overseas for deployment into the networks they are constructing and operating. We also sell our products to wireless network solution providers who incorporate our products into their wireless coverage solutions, such as their proprietary base stations, which they then sell to network operators worldwide.

Our sophisticated technical skills and design experience in developing antennas and base station RF subsystems enable us to be qualified as an equipment supplier to some of the world's leading wireless network solution providers, such as ZTE, Nokia Siemens Networks and Alcatel-Lucent. We also focus our marketing strategy on expanding our market share in China and certain international markets, particularly the rapidly growing emerging market countries that represent some of the greatest growth opportunities in the construction of wireless communication infrastructure, as wireless networks offer a highly cost-effective way to provide communication infrastructure in these vast regions.

The following table presents our selected consolidated financial information as of and for the years ended December 31, 2006, 2007, 2008 and the eight months ended August 31, 2008 and 2009.

	For the Year Ended December 31,			For the Eight Months Ended August 31,	
	2006	2007	2008	2008	2009
				(unaudited)	
	(RMB in thousands, except per Share information)				
Selected Consolidated Statements of Comprehensive Income					
Revenue	360,956	626,806	671,182	426,438	632,367
Cost of sales	(275,888)	(472,674)	(487,884)	(312,593)	(451,873)
Gross profit	85,068	154,132	183,298	113,845	180,494
Other income	3,741	2,943	7,103	3,647	3,610
Research and development costs	(15,171)	(24,945)	(34,550)	(21,654)	(21,305)
Distribution and selling expenses	(19,223)	(27,875)	(35,170)	(17,606)	(32,055)
Administrative expenses	(20,762)	(41,819)	(47,401)	(31,766)	(31,181)
Finance costs	(153)	(2,899)	(3,803)	(2,932)	(2,664)
Profit before taxation	33,500	59,537	69,477	43,534	96,899
Income tax expense	(2,019)	(2,764)	(7,552)	(6,186)	(12,694)
Profit and the total comprehensive income for the year/period and attributable to owners of our Company	31,481	56,773	61,925	37,348	84,205
Earnings per Share					
— basic[(1)]	7.91 cents	15.21 cents	15.41 cents	8.83 cents	21.38 cents
— diluted[(2)]	5.98 cents	10.78 cents	11.76 cents	7.09 cents	15.99 cents

Notes:

(1) Basic earnings per Share of 7.91 cents, 15.21 cents, 15.41 cents, 8.83 cents and 21.38 cents for the years ended December 31, 2006, 2007, 2008 and the eight months ended August 31, 2008 and 2009, respectively, are calculated by reference to the earnings of RMB29.5 million, RMB56.8 million, RMB57.6 million, RMB33.0 and RMB79.8 million in each of the respective periods and weighted average number of Shares of 372,500,000, 373,232,000, 373,543,000, 373,543,000 and 373,543,000 in each of the respective periods.

(2) Diluted earnings per Share of 5.98 cents, 10.78 cents, 11.76 cents, 7.09 cents and 15.99 cents for the year ended December 31, 2006, 2007, 2008 and the eight months ended August 31, 2008 and 2009, respectively, are calculated by reference to the earnings of RMB31.5 million, RMB56.8 million, RMB61.9 million, RMB37.3 million and RMB84.2 million in each of the respective periods and weighted average number of Shares of 526,543,000, 526,543,000, 526,543,000, 526,543,000 and 526,543,000 each of the respective periods.

BASIS OF PRESENTATION

Our Company is a limited liability company established in the Cayman Islands on December 16, 2002. Our Company is an investment holding company. The principal activities of our subsidiaries are the manufacture and sale of antenna systems and radio frequency devices. Our financial Information is presented in Renminbi, which is also our functional currency. Our consolidated statement of comprehensive income and the consolidated statement of cash flow for the three years ended December 31, 2008 and eight months ended August 31, 2009 present the results of operations and cash flows. Our consolidated statement of financial position as of December 31, 2006, 2007 and 2008 and August 31, 2009 present our assets and liabilities as of those dates.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our business, financial position and results of operations are significantly affected by a number of factors, many of which may not be within our control. A discussion of the principal factors affecting our results of operations is set out below.

Our business and results of operations are affected by economic cycles, including the recent global financial and economic crisis.

Since the second half of 2008, the global financial system has experienced significant difficulties and disruptions, leading to reduced liquidity, greater volatility, widened credit spreads and a lack of price transparency in the global credit and financial markets. The difficulties in global credit and financial markets have also resulted in a widening global economic crisis. There are indications that the current financial and economic downturn may persist or worsen. The slowdown experienced in the economies of the United States, the European Union and certain Asian countries adversely affected the capital expenditures of the network providers in different countries. The resulting decrease and slowdown in demand for mobile communication infrastructure equipment has put significant downward pressure on prices of antenna system and base station RF subsystem products, which are our major source of sales revenues. There can be no assurance as to when the market for our products will recover and that we will not suffer a significant further downturn.

While various governments have announced efforts to increase liquidity in the financial markets and stimulus packages to slow or reverse the economic downturn, there can be no assurance that these measures will be successful. If the global economy continues to grow at a slower rate than expected, or experiences a recession, growth in demand for the mobile communication infrastructure products will also continue to slow down or decrease. As a result, our business, financial condition and results of operations would continue to be adversely affected. Our business model is very sensitive to the spending cycle of the communication network providers, and without a recovery in consumer usage, downward pressure on prices and demand for our products will persist.

Development of telecommunications services industries in China and overseas

Demand for our products depends primarily on the amount of capital spending by network operators in China and overseas. We sell nearly all of our products to network operators either directly or through wireless network solution providers, such as ZTE, Nokia Siemens Networks and Alcatel-Lucent, who incorporate our products into the wireless network solutions they sell to network operators. Our future success depends upon the growth in demand for wireless communication services. However, wireless communications services may not grow at a rate fast enough to create demand for our products.

Further, capital spending by network operators in China, our largest market, can be influenced by a variety of factors, including the evolution of the Chinese communication network standards and protocols, the intensity of competition among the equipment suppliers and the international stock exchange listings of some of the network operators, which could result, among other things, in greater access to capital for infrastructure building or an increased focus on containing costs in order to increase returns for investors.

These factors can cause our operating results to fluctuate from period to period. For instance, we believe that throughout 2006, 2007 and most of 2008, PRC domestic network operators delayed or decreased their capital spending in China in anticipation of the issuance of the 3G licenses and the subsequent build out of 3G networks which would be capital intensive. Such reduced spending on wireless networks had a negative effect on domestic sales for 2006, 2007 and most of 2008. If network operators delay or reduce their levels of capital spending, our operating results would be negatively impacted. Similarly, an economic downturn could also lead to a softening in demand for our products and services, which could result in a decrease in our revenues and earnings. Accordingly, changes in the businesses, infrastructure and capital spending plans of the network operators have a direct impact on our results of operations.

Introduction of 3G standards and different transmission protocols

The wireless network infrastructure market is characterized by evolving industry standards and transmission protocols. We sell products that support a number of 3G transmission protocols, including TD-SCDMA, W-CDMA2000 and CDMA2000, the protocols adopted by China Mobile, China Unicom and China Telecom, respectively, on January 7, 2009, to global wireless network solution providers such as ZTE, Nokia Siemens Networks and Alcatel-Lucent. We expect the PRC network operators to continue their high level of capital spending to complete the deployment of 3G networks throughout 2009 and beyond. However, if the PRC consumers fail to adopt to 3G services or the network operators decided to decrease the rate of 3G network build out, or not to build out at all, we may not be able to realize returns on our research and development expenditure on 3G related products or we may continue to experience lower gross profit margin if our sales constitute primarily of 2G products.

Competitive market

We are in an extremely competitive industry, which is characterized by rapid technological advancement, downward pricing trends over the life cycle of a solution and high working capital requirements. We primarily compete on the following bases:

- design capability for wireless network infrastructure;
- quality of RF products;
- implementation capability;
- after-sales services;
- pricing and payment terms; and
- relationships with network operators.

There can be no assurance that we will maintain our competitiveness in these areas. If we fail to develop new products and services, periodically enhance our existing products and services, or otherwise compete successfully, it would reduce our sales and adversely affect our future prospects.

Limited number of customers

Most of our sales are made to a small number of key customers. For example, our largest customer, ZTE, accounted for approximately 46.2%, 39.6%, 35.4%, and 36.7% of our sales for the years ended December 31, 2006, 2007, 2008 and the eight months ended August 31, 2009. We expect that this will continue. Sales to our top five customers for the years ended December 31, 2006, 2007, 2008 and the eight months ended August 31, 2009, accounted for approximately 87.2%, 90.2%, 85.8% and 91.4% of our total revenues, respectively. Our future success is dependent upon the continued purchases of our products by a small number of customers, and any fluctuations in demand from such customers or other customers would negatively affect our results of operations. If we are unable to broaden our customer base and expand relationships with major network solution providers and operators, our business may continue to be affected by unanticipated demand fluctuations due to our dependence on a small number of customers. Unanticipated demand fluctuations can have a negative effect on our revenues and business, and an adverse effect on our results of operations and financial condition. In addition, our dependence on a small number of major customers exposes us to numerous other risks, including:

- a slowdown or delay in deployment of wireless networks by any one customer could significantly reduce demand for our products;

- reductions in a single customer's forecasts and demand could result in excess inventories;

- consolidation of customers can increase pricing pressure on our products due to increased purchasing leverage;

- each of our customers has significant bargaining leverage over us to require changes in sales terms including pricing, payment terms and product delivery schedules;

- a customer could compete with us directly should it decide to increase its level of internal designing and/or manufacturing of wireless communication network products; and

- we may face significant credit risk as a result of the significant concentration of accounts receivable, which could have a material adverse effect on our liquidity and financial condition if one of our major customers declared bankruptcy or delayed payment of our accounts receivables.

We expect to continue to depend upon a relatively limited number of customers for a significant portion of our revenue. Our ability to maintain close relationships with our customers is therefore essential to the ongoing growth and profitability of our business.

Declining selling prices

Wireless network operators are continuing to place pricing pressure on wireless infrastructure builders, including wireless network solution providers and coverage extension solution providers, which in turn, has resulted in lower selling prices for our products over time, with certain competitors aggressively reducing prices in an effort to increase their market share. Our industry is also characterized by evolving industry standards and transmission protocols. For instance, the PHS network infrastructure may gradually be phased out by China Unicom and China Telecom as they prepare to migrate their subscribers to 3G standards. While we expect the pricing for most of our 3G related products to be higher than our current 2G related products, the introduction of 3G standards in China may also attract new competitors to the wireless network infrastructure market due to the expected higher pricing.

FINANCIAL INFORMATION

SEGMENT INFORMATION

We are principally engaged in the manufacture and sale of antenna systems and radio frequency devices. All of our products are of a single nature and subject to similar risks and returns. Accordingly, our operating activities are attributable to a single business segment.

We divide our provision of sales and services geographically to PRC domestic sales and services, which in our primary geographic segment, and overseas sales and services, which mainly consist of our sales to customers in Europe and India. In 2006, 2007, 2008 and the eight months ended August 31, 2009, our overseas sales accounted for 11.6%, 37.3%, 30.5% and 8.1% of our revenues, respectively.

CRITICAL ACCOUNTING POLICIES

Revenue recognition

Our revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and related sales taxes.

Our sales of goods are recognized when goods are delivered and title has passed.

Our interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Property, plant and equipment

Our property, plant and equipment other than construction-in-progress are stated at cost less accumulated depreciation and any accumulated impairment losses. Construction-in-progress is stated at cost which includes all construction costs and other direct costs attributable to such projects.

Our construction-in-progress is not depreciated until completion of construction and the asset is available for use. The cost of completed construction works is transferred to the appropriate category of property, plant and equipment.

Our depreciation is provided to write off the cost of items of property, plant and equipment, other than construction-in-progress, over their estimated useful lives and after taking into account of their estimated residual values, using the straight-line method, at the following rates per annum:

Buildings	Over the shorter of the term of lease or 50 years
Furniture, fixtures and equipment	19%
Leasehold improvements	50%
Motor vehicles	19%
Plant and machinery	9.5% - 19%

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefit is expected to arise from the continue use of the asset. Any gain or loss arising on derecognizing of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the period in which the item is derecognized.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is calculated using the weighted average method.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortized cost using the effective interest method less impairment. The amount of impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognized, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Share-based Payment Transactions

We have granted options on January 15, 2003 ("2003 Option") and August 31, 2005 ("2005 Option") for the primary purpose of providing incentives to directors and eligible employees, and they will expire on January 15, 2013 and August 31, 2015, respectively. Under the Pre-IPO Stock Incentive Plan, our board of directors could grant options to eligible employees, including directors of our Company and its subsidiaries, to subscribe for shares in our Company. Additionally, we may, from time to time, grant share options to an individual consultant or advisor who renders or has rendered bona fide services to us.

On August 31, 2009, the number of shares prior to the Capitalization Issue in respect of which options had been granted and remained outstanding under the 2003 Option and 2005 Option was 5,124,000 (December 31, 2006: 5,332,500, December 31, 2007: 5,332,500, December 31, 2008: 5,265,500), representing 4.87% (December 31, 2006: 5.33%, December 31, 2007: 5.06%, December 31, 2008: 5.00%) of our shares in issue at that date. The maximum number of ordinary shares prior to the Capitalization Issue that may be delivered pursuant to awards granted to eligible persons under 2003 Option and 2005 Option is equal to 2,750,000 and 2,374,000 ordinary shares respectively.

No consideration is payable on the grant of an option. Options may be exercised at any time from 12 months from the date of grant of the share option to the tenth anniversary of the date of grant.

Details of specific categories of options are as follows:

Option type	Date of grant	Vesting period	Exercise period	Exercise price (pre-Capitalization Issue)	Fair value at grant date
2003 Option	January 15, 2003	January 15, 2003 to January 14, 2007	January 15, 2004 to January 14, 2013	RMB1.76	RMB0.95
2005 Option	August 31, 2005	August 31, 2005 to August 30, 2009	August 31, 2006 to August 30, 2015	RMB3.66	RMB1.36

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve). At each balance sheet date, we revise our estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognized in profit or loss, with a corresponding adjustment to share option reserve.

Assuming that all the outstanding options granted under the Pre-IPO Stock Incentive Plans were exercised in full on the Listing Date, the then original shareholding interest of the public would be reduced from approximately 31.6% to approximately 30.5% of the total issued share capital of our Company immediately after completion of the Global Offering, taking no account of any Shares that may be issued pursuant to the exercise of the Over-allotment Option, any Shares that may be allotted and issued pursuant to the exercise of any options granted under the Share Option Scheme or any Shares that may be issued by our Company pursuant to the general mandate as described under the paragraph headed "Extraordinary general meeting of our Company" in Appendix VI — Statutory and General Information. Our [Directors and the senior management of our Company] will not exercise any Pre-IPO Options if, as a result of such exercise, our Company will not be able to comply with the public float requirements of the Listing Rules.

Assuming that all the Pre-IPO Options were exercised in full on the Listing Date and taking no account of any Shares that may be issued pursuant to the exercise of the Over-allotment Option, any Shares that may be allotted and issued pursuant to the exercise of any options granted under the Share Option Scheme or any Shares that may be issued by our Company pursuant to the general mandate as described under the paragraph headed "Extraordinary general meeting of our Company" in Appendix VI — Statutory and General Information, our shareholding would be diluted by approximately 3.5%, and the effect of the exercise of the Pre-IPO Options on the diluted earnings per Share for the year ended December 31, 2008 is insignificant. Except as disclosed above, no further options will be granted under the Pre-IPO Stock Incentive Plans after the date of this Web Proof Information Pack. We engaged an international valuation consultancy to make an appraisal of the fair market value of the Pre-IPO Options granted on January 15, 2003 and August 31, 2005 of RMB0.95 and RMB1.36, respectively, as at the grant date, which represent a discount of [●]% and [●]%, respectively, to the minimum Offer Price of HK$[●] and a discount of [●]% and [●]%, respectively, to the maximum Offer Price of HK$[●], without taking into account the Capitalization Issue.

Allowance for bad and doubtful debts

Ongoing credit evaluations of customers is performed and credit limits would be adjusted based on payment history and the customer's current credit-worthiness, as determined by the review of their current credit information. Allowance for bad and doubtful debts is maintained for estimated credit losses. The amount of allowance is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition) based upon its historical experience and any specific customer collection issues that has been identified. Reversal of allowance for bad and doubtful debts was made when the recoverable amount of those debts on which allowance had previously been made is estimated to be greater than its carrying amount. For the years ended December 31, 2006, 2007, 2008 and the eight months ended August 31, 2009, allowance for (reversals of allowance for) bad and doubtful debts (included in administrative expenses) were RMB(192,000), RMB782,000, RMB452,000 and nil.

Warranty Provision

We offer free repair or replacement of defective products to our customers during the warranty period. We do not make provision for warranty costs and we have no separately identifiable repair and maintenance costs. Defective products returned by our customers are reworked by our factories. The amount of rework can be as little as further fine tuning to replacing major components. After being reworked, the products will either be returned back to our customers or sold. The material costs and labor costs for the rework is absorbed and allocated to the total number of products manufactured in that month. As product warranty costs had not been significant during 2006, 2007, 2008 and the eight months ended August 31, 2009, we found no need make any provision for product warranties during 2006, 2007, 2008 and the eight months ended August 31, 2009. We also have not had any product recall or third party claims for any damage or loss sustained arising from defective products during 2006, 2007, 2008 and the eight months ended August 31, 2009.

PRINCIPAL INCOME STATEMENT COMPONENTS

Revenue.

We mainly derive our revenue from the manufacture and sale of antenna systems and RF devices. Our product portfolio is categorized into three principal groups: antenna systems, base station subsystems and coverage extension solutions. We sell our products directly to network operators in China and overseas for deployment into the networks they are constructing. We also sell our products to wireless network solution providers who incorporate our products into their wireless coverage solutions, such as their proprietary base stations, which they then sell to network operators worldwide. Our overseas sales principally consist of our direct sales to overseas networks operators, such as Reliance in India, and overseas factory or inventory hubs of global network solution providers, such as Nokia Siemens Networks headquartered in Finland. We also sell to distributors in Vietnam and Indonesia.

We believe that throughout 2006, 2007 and most of 2008, PRC domestic network operators delayed or decreased their capital spending in China in anticipation of the issuance of the 3G licenses and the subsequent build out of 3G networks that would be capital intensive. Also, the competition among the vendors of the 2G related products in China was also more intense in 2006, 2007 and 2008, as there was a larger number of capable manufacturers in China while the demand for 2G related products was decreasing. Starting from June 2, 2008, China Telecom acquired the CDMA network from China Unicom, through a series of transactions. On October 6, 2008, China Netcom merged with and into China Unicom. On January 7, 2009, 3G operator licenses for TD-SCDMA, W-CDMA and CDMA2000 networks were issued to China Mobile, China Unicom and China Telecom, respectively. We believe that as a result of these events and in particular China Telecom's acquisition of the CDMA network from China Unicom in late 2008, the PRC domestic network operators had clearer objectives for capital expenditures for both 2G and 3G related products only since late 2008. Starting from late 2008, we began to increase our sales to the PRC domestic network operators 3G related products that commanded higher gross profit margins as there were fewer capable manufacturers that had the technological sophistication to manufacture these products. Starting from January 2009, after the 3G operator licenses were granted to the PRC domestic network operators, we began to see significant increase in the sales of our 3G related products to 3G network operators in China to facilitate their deployment of 3G networks. For the eight months ended August 31, 2009, sales to PRC network operators and solution providers such as ZTE accounted for 91.9% of our total revenue.

In the overseas markets, as our technological sophistication began to be recognized, we began to develop new customer relationships with overseas customers starting from 2006. We were qualified to supply Reliance in 2006. We began to ramp up the manufacturing of products for Reliance in 2007 and Reliance has continued to be an important customer of ours in 2008. However, Reliance delayed or decreased its network capital expenditures in 2008, which we believe was partially attributable to the global financial and economic crisis that the world is currently experiencing. Since then, Reliance has significantly delayed or decreased its order from us. Our sales to Reliance constituted 17.1%, 11.5% and nil of our total revenues for the years ended December 31, 2007, 2008 and the eight months ended August 31, 2009. We were qualified to supply to Nortel Networks in 2007, and ramp up our production in 2008. However, on January 14, 2009, Nortel Network filed for protection from creditors under Chapter 11 of the United States Bankruptcy Code, which we believe was also partially attributable to the global financial and economic crisis. Since then, we have significantly decreased our sales to Nortel Networks. Our sales to Nortel Network constituted 0.7%, 9.4% and 2.5% of our total revenues for the years ended December 31, 2007, 2008 and the eight months ended August 31, 2009.

In 2009, our overseas sales decreased substantially, which the Directors believe was primarily attributable to a decrease in demand due to a reduction in capital outlay by our overseas customers due to the global economic and financial crisis, however the build up of the 3G network in China had kept our revenue strong. Our total revenues for the years ended December 31, 2006, 2007, 2008 and the eight months ended August 31, 2009, were RMB 361.0 million, RMB 626.8 million, RMB 671.2 million and RMB 632.4 million, respectively.

The following table sets forth the revenue in each of our product groups and as a percentage of our total revenue.

	For the Year Ended December 31,						For the Eight Months Ended August 31,			
	2006		2007		2008		2008		2009	
	RMB	*%*	*RMB*	*%*	*RMB*	*%*	*RMB*	*%*	*RMB*	*%*
							(unaudited)			
	(in thousands, except percentages)									
Total antenna system	186,392	51.7%	268,751	42.9%	260,543	38.8%	129,641	30.4%	276,282	43.7%
CDMA/GSM fixed-downtilt antennas[3]	111,001	30.8%	116,681	18.6%	80,663	12.0%	28,761	6.7%	81,795	12.9%
CDMA/GSM remote electric-downtilt antennas[3]	845	0.2%	14,134	2.3%	18,728	2.8%	8,847	2.1%	35,976	5.7%
PHS antennas	25,482	7.1%	8,908	1.4%	1,957	0.3%	1,361	0.3%	90	0.0%
Yagi antennas	32,172	8.9%	6,708	1.1%	1,095	0.2%	253	0.1%	276	0.0%
W-CDMA antennas[2]	1,238	0.4%	1,287	0.2%	72,059	10.7%	44,350	10.4%	74,404	11.8%
TD-SCDMA antennas[2]	38	0.0%	20,823	3.3%	5,711	0.8%	4,564	1.1%	23,488	3.7%
Microwave antennas	10,203	2.8%	82,943	13.2%	62,276	9.3%	34,167	8.0%	30,114	4.8%
Other antennas	5,413	1.5%	17,267	2.8%	18,054	2.7%	7,338	1.7%	30,139	4.8%
Total base station RF subsystem	165,433	45.8%	340,940	54.3%	388,675	57.9%	285,025	66.8%	274,501	43.5%
CDMA2000 RF devices[2]	16,382	4.5%	59,049	9.4%	50,757	7.5%	28,784	6.7%	65,151	10.4%
CDMA RF devices[1]	37,823	10.5%	34,510	5.5%	33,323	5.0%	28,431	6.7%	17,724	2.8%
GSM RF devices[1]	105,506	29.2%	112,910	18.0%	198,490	29.6%	139,102	32.6%	134,540	21.3%
CDMA/GSM RF devices[1]	230	0.1%	119,358	19.0%	95,901	14.3%	81,449	19.1%	30,494	4.8%
TD-SCDMA RF devices[2]	496	0.1%	9,146	1.5%	2,016	0.3%	1,487	0.3%	1,128	0.2%
W-CDMA RF devices[2]	4,684	1.3%	5,228	0.8%	7,548	1.1%	5,512	1.3%	23,014	3.6%
Other devices	312	0.1%	739	0.1%	640	0.1%	260	0.1%	2,450	0.4%
Total coverage extension solution	9,131	2.5%	17,115	2.8%	21,964	3.3%	11,772	2.8%	81,584	12.8%
In-door antennas	6,426	1.8%	4,368	0.7%	4,085	0.6%	3,096	0.7%	721	0.1%
Aesthetic antennass[3]	—	—	3,456	0.6%	9,372	1.4%	3,608	0.9%	36,674	5.8%
Other antennas	2,705	0.7%	1,124	0.2%	4,100	0.6%	3,142	0.7%	9,160	1.4%
Electric cables	—	—	8,167	1.3%	4,407	0.7%	1,926	0.5%	35,029	5.5%
Total revenues	360,956	100.0%	626,806	100.0%	671,182	100.0%	426,438	100.0%	632,367	100.0%

Notes:

(1) 2G related products.

(2) 3G related products.

(3) Dual usage.

The following table sets forth the revenue in each of our geographic segments and as a percentage of our total revenue.

	For the Year Ended December 31,						For the Eight Months Ended August 31,			
	2006		2007		2008		2008		2009	
	RMB	*%*	*RMB*	*%*	*RMB*	*%*	*RMB*	*%*	*RMB*	*%*
							(unaudited)			
	(in thousands, except percentages)									
PRC domestic[1]	319,252	88.4%	393,271	62.7%	466,320	69.5%	261,178	61.2%	581,072	91.9%
Overseas										
India	13,905	3.9%	111,166	17.8%	79,342	11.8%	60,033	14.1%	4,594	0.7%
Finland	25,492	7.1%	112,494	17.9%	102,687	15.3%	87,522	20.5%	41,156	6.5%
Others	2,307	0.6%	9,875	1.6%	22,833	3.4%	17,705	4.2%	5,545	0.9%
Subtotal	41,704	11.6%	233,535	37.3%	204,862	30.5%	165,260	38.8%	51,295	8.1%
Total	360,956	100.0%	626,806	100.0%	671,182	100.0%	426,438	100%	632,367	100%

Note:

(1) Includes sales made to ZTE for both PRC and overseas uses as well as China sourcing offices of international solution providers, such as Nokia Siemens Networks.

The following table sets forth our revenue attributable to sales to our major customers, in absolute terms and as a percentage of our revenue:

	For the Year Ended December 31,						For the Eight Months Ended August 31,			
	2006		2007		2008		2008		2009	
	RMB	*%*	*RMB*	*%*	*RMB*	*%*	*RMB*	*%*	*RMB*	*%*
							(unaudited)			
	(in millions, except percentages)									
PRC Domestic										
ZTE	166.8	46.2%	248.5	39.6%	237.3	35.4%	120.9	28.4%	231.9	36.7%
China Unicom	36.4	10.1%	18.3	2.9%	34.3	5.1%	6.3	1.5%	148.0	23.4%
China Mobile	40.0	11.1%	40.1	6.4%	37.1	5.5%	19.6	4.6%	56.9	9.0%
China Telecom	19.7	5.5%	9.9	1.6%	10.2	1.5%	0.6	0.1%	53.3	8.4%
Nokia[1] (China)	26.4	7.3%	46.8	7.5%	58.1	8.7%	47.8	11.2%	49.2	7.8%
Nortel Networks	—	—	1.3	0.2%	48.9	7.3%	46.0	10.8%	14.5	2.3%
NEC	0.3	0.1%	8.3	1.3%	18.8	2.8%	7.0	1.6%	13.8	2.2%
Lucent[2] (China)	0.7	0.2%	—	—	6.2	0.9%	2.6	0.6%	7.4	1.2%
China Netcom	0.6	0.2%	1.5	0.2%	0.5	0.1%	—	—	—	—
UTStarcom	19.7	5.5%	6.5	1.0%	1.4	0.2%	1.0	0.2%	—	—
Others	8.7	2.2%	12.1	2.1%	13.5	2.0%	9.3	2.2%	6.1	0.9%
Overseas										
Nokia[1] (overseas)	25.5	7.1%	112.5	17.9%	102.7	15.3%	87.5	20.5%	41.2	6.5%
ITI (India)	13.9	3.9%	3.7	0.6%	1.8	0.3%	0.4	0.1%	4.6	0.7%
Nortel Networks (overseas)	—	—	3.3	0.5%	14.4	2.1%	11.0	2.6%	1.4	0.2%
Lucent[2] (overseas)	—	—	—	—	1.2	0.2%	0.8	0.2%	1.0	0.2%
Reliance (India)	—	—	107.4	17.1%	77.5	11.5%	59.7	14.0%	—	—
Others	2.3	0.6%	6.6	1.1%	7.3	1.1%	5.9	1.4%	3.1	0.5%
Total	361.0	100.0%	626.8	100.0%	671.2	100.0%	426.4	100.0%	632.4	100.0%

Notes:

(1) The figures represent sales to Nokia Siemens Network after Nokia's merger with Siemens in early 2007.

(2) The figures represent sales to Alcatel-Lucent after Lucent's merger with Alcatel in 2006.

For further discussion of period-by-period comparison of our revenues, see "Results of Operations — Selected consolidated financial information".

Cost of Sales.

Cost of sales includes production costs such as direct material costs, direct labor costs, manufacturing overhead, core business tax, extra charges and change of work-in-progress and finished good inventories. In 2006, 2007, 2008 and the eight months ended August 31, 2009, our cost of sales were RMB275.9 million, RMB472.7 million, RMB487.9 million and RMB451.9 million, or 76.4%, 75.4%, 72.7% and 71.5% of our revenues, respectively. The following table sets forth the cost of our production inputs as an approximate percentage of the total cost of production in each of the periods indicated.

	For the Year Ended December 31,			For the Eight Months Ended August 31,	
	2006	**2007**	**2008**	**2008**	**2009**
Raw materials and components	87.6%	88.4%	85.3%	86.6%	85.9%
Manufacturing overhead	7.9%	7.3%	8.9%	7.7%	8.4%
Labor	4.5%	4.3%	5.8%	5.7%	5.7%
Total cost of production	100.0%	100.0%	100.0%	100.0%	100.0%

Gross Profit.

In the years ended December 31, 2006, 2007, 2008 and the eight months ended August 31, 2009, our customer base and product mix had changed significantly. In 2006, 2007 and most of 2008, as PRC domestic network operators delayed or decreased their capital spending in China in anticipation of the issuance of the 3G licenses, our customer base shifted to overseas customers as our technological sophistication had begun to be recognized internationally. Starting from late 2008, as the global economical crisis negatively affected our overseas markets, the acquisition of the China Unicom's CDMA network by China Telecom and the pending issuance of the 3G license in China allowed each PRC domestic network operators to have clearer direction for capital expenditures. As a result, our sales for both 2G and 3G network related products to the PRC domestic network operators increased significantly starting from late 2008. For the eight months ended August 31, 2009, sales to PRC network operators and solution providers accounted for 91.9% of our total revenue. While sales of 2G related products commanded lower gross profit margins, our sales of 3G related products that commanded higher gross profit margins had made up the difference. In the years ended December 31, 2006, 2007, 2008 and the eight months ended August 31, 2009, our gross profit margins were 23.6%, 24.6%, 27.3% and 28.5%, respectively.

The following table sets forth the gross profit margins in each of our product group.

	For the Year Ended December 31,			For the Eight Months Ended August 31,	
	2006	**2007**	**2008**	**2008**	**2009**
Antenna system	24.3%	27.9%	29.4%	30.4%	30.2%
Base station RF subsystem	22.0%	22.0%	25.6%	24.9%	24.9%
Coverage extension solutions	37.8%	23.4%	32.2%	30.3%	35.1%

Other Income.

Our other income consists of gains on sales of materials and work-in-progress, subsidy income from the PRC government, which sometimes is recognized as deferred income and amortized over a period of time, bank interest income and non-operating income. As a new technology based enterprise, we receive government subsidies for investing in development of telecommunication products and technologies.

Distribution and Selling Expenses.

Our distribution and selling expenses consist primarily of salary expenses paid to our distribution and sales employees, customer development expenses, telecommunications expenses, the costs of advertising, travel, carriages, exhibition admission fees and rent.

Administrative Expenses.

Our administrative expenses include general and administrative expenses. Our general and administrative expenses consist primarily of salary expenses paid to our management and administrative personnel, maintenance of our administrative office space, rent and utilities, travel, transportation, amortization of options, social welfare obligations, auditors' and professional fees.

Research and Development Costs.

Our research and development costs consist primarily of salary for our research and development engineers, expenses for raw materials and testing fees as well as depreciation of research, development and testing equipment. The following table sets forth the percentage of our research and development expenditures allocated to each of our product groups during each of the periods indicated.

	For the Year Ended December 31,			For the Eight Months Ended August 31,	
	2006	**2007**	**2008**	**2008**	**2009**
Antenna systems	41.2%	38.9%	37.7%	37.2%	41.3%
Base station subsystems	49.2%	48.1%	44.4%	43.8%	43.6%
Coverage extension solutions	9.6%	13.0%	17.9%	19.0%	15.1%
Total	100%	100%	100%	100%	100%

Finance Costs.

Our finance costs mainly represent interest expense on bank loans. To the extent we increase our reliance on bank loans to finance our working capital requirements, we expect our finance costs to increase.

Income Tax Expense.

Our Company is incorporated in the Cayman Islands and is not subject to the income tax in the Cayman Islands.

MOBI Shenzhen was established in Shenzhen, PRC, with applicable tax rate of 15%. In accordance with the tax legislations applicable to MOBI Shenzhen, it is entitled to exemption from PRC enterprise income tax for the two years commencing from its first profit making year of operations, after offsetting all unexpired tax losses carried forward from previous years, and thereafter, entitled to a 50% relief from PRC enterprise income tax of 15% for the next three years. The first year for which MOBI Shenzhen recorded profit for PRC tax purpose was the year ended

December 31, 2000. In addition, MOBI Shenzhen is a high technology company defined by Shenzhen Science, Technology and Information Bureau and therefore is entitled to 50% relief from PRC enterprise income tax of 15% for another three years. Accordingly, the tax rate for MOBI Shenzhen is 7.5% for the year ended December 31, 2006 and 2007. December 16, 2008, the MOBI Shenzhen is recognized as a high new technology company defined by Shenzhen Science and Technology Bureau, Shenzhen Finance Bureau, Administrator of Local Taxation of Shenzhen Municipality and Shenzhen Municipal office of the State Administration of Taxation and therefore is entitled to 15% preferential tax rate from PRC enterprise income tax for the next three years. Accordingly, the tax rate for MOBI Shenzhen is 15% for the year ended December 31, 2008 and for the eight months ended August 31, 2009.

The applicable tax rate of MOBI Jian is 33% before year 2007, and according to the New PRC Enterprise Income Tax Law, the applicable tax rate is decreased to 25% from year 2008. In accordance with the tax legislations applicable to the Company, it is entitled to exemption from PRC enterprise income tax for the two years commencing from its first profit making year of operations, after offsetting all unexpired tax losses carried forward from previous years, and thereafter, entitled to a 50% relief from PRC enterprise income tax of 25% for the next three years. Accordingly, the tax rate for MOBI Jian is nil for the period from May 23, 2006 (date of establishment) to December 31, 2006, and 2007, and the tax rate for MOBI Jian is 12.5% for the year ended December 31, 2008 and for the eight months ended August 31, 2009.

The applicable tax rate of MOBI Xian is 25% for the period from April 28, 2008 (date of establishment) to December 31, 2008 and for the eight months ended August 31, 2009.

On March 16, 2007, the PRC promulgated the Law of the People's Republic of China on Enterprise Income Tax by Order No. 63 of the President of the People's Republic of China (the "New PRC Enterprise Income Tax Law"), which became effective on January 1, 2008. On December 6, 2007, the State Council issued Implementation Regulations of the New PRC Enterprise Income Tax Law. The New PRC Enterprise Income Tax Law revokes the former preferential income tax rate applicable to the PRC subsidiaries and adopts a unified income tax rate of 25% on those subsidiaries. According to the New PRC Enterprise Income Tax Law, the current income tax rate of 15% for its subsidiary in Shenzhen will be increased to 25% on a gradual basis over five years starting from year 2008, which means that the tax rate will be 18%, 20%, 22%, 24% and 25% from year 2008 to year 2012. Also, the preferential tax treatments granted to foreign invested manufacturing enterprises established before the above said promulgation date would be grandfathered for a period of five years following the effective date of the New PRC Enterprise Income Tax law. The PRC subsidiaries currently enjoying regular tax exemption and reduction treatment may continue to enjoy the granted remaining incentives until its expiration.

RESULTS OF OPERATIONS

Selected consolidated financial information

The following table is a summary of our consolidated audited results for each of the periods indicated. The selected consolidated statements of comprehensive income data presented below for the periods indicated is derived from our audited consolidated financial statements included in Appendix I — "Accountants' report" and you should read the entire financial statements included therein, including the notes thereto, for more details.

	For the Year Ended December 31,			For the Eight Months Ended August 31,	
	2006	2007	2008	2008	2009
				(unaudited)	
	(RMB in thousands)				
Revenue	360,956	626,806	671,182	426,438	632,367
Cost of sale	(275,888)	(472,674)	(487,884)	(312,593)	(451,873)
Gross profit	85,068	154,132	183,298	113,845	180,494
Other income	3,741	2,943	7,103	3,647	3,610
Research and development costs	(15,171)	(24,945)	(34,550)	(21,654)	(21,305)
Distribution and selling expenses	(19,223)	(27,875)	(35,170)	(17,606)	(32,055)
Administrative expenses	(20,762)	(41,819)	(47,401)	(31,766)	(31,181)
Finance costs	(153)	(2,899)	(3,803)	(2,932)	(2,664)
Profit before taxation	33,500	59,537	69,477	43,534	96,899
Income tax expense	(2,019)	(2,764)	(7,552)	(6,186)	(12,694)
Profit and the total comprehensive income for the year/period and attributable to owners of our Company	31,481	56,773	61,925	37,348	84,205

The following table sets forth our selected consolidated statement of comprehensive income data as a percentage of our revenues for each of the periods indicated:

	For the Year Ended December 31,			For the Eight Months Ended August 31,	
	2006	2007	2008	2008	2009
				(unaudited)	
Revenue	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of sales	(76.4%)	(75.4%)	(72.7%)	(73.3%)	(71.5%)
Gross profit	23.6%	24.6%	27.3%	26.7%	28.5%
Other income	1.0%	0.5%	1.1%	0.9%	0.6%
Research and development costs	(4.2%)	(4.0%)	(5.1%)	(5.1%)	(3.4%)
Distribution and selling expenses	(5.3%)	(4.4%)	(5.2%)	(4.1%)	(5.1%)
Administrative expenses	(5.8%)	(6.7%)	(7.1%)	(7.4%)	(4.9%)
Finance costs	—	(0.5%)	(0.6%)	(0.7%)	(0.4%)
Profit before taxation	9.3%	9.5%	10.4%	10.2%	15.3%
Income tax expense	(0.6%)	(0.4%)	(1.1%)	(1.5%)	(2.0%)
Profit and the total comprehensive income for the year/period and attributable to owners of our Company	8.7%	9.1%	9.2%	8.8%	13.3%

Eight months ended August 31, 2008 compared with eight months ended August 31, 2009

Revenue. Revenue increased by RMB206.0 million, or 48.3%, from RMB426.4 million in the eight months ended August 31, 2008 to RMB632.4 million in the eight months ended August 31, 2009. Sales of our antenna system and coverage extension solution product groups increased by RMB146.7 million and RMB69.8 million, respectively, while sales of our base station RF subsystem products decreased by RMB10.5 million.

Starting from January 7, 2009, after the 3G operator licenses were granted to the PRC domestic network operators, we began to see significant increase in the sales of our 3G related products to 3G network operators in China to facilitate their deployment of 3G networks. For the eight months ended August 31, 2009, sales to PRC network operators and solution providers accounted for 91.9% of our total revenue. The increase in sales of our antenna system products were due primarily to increases in sales of CDMA/GSM fixed-downtilt antenna, CDMA/GSM remote electric-downtilt antenna, W-CDMA antenna and TD-SCDMA antenna products and offset in part primarily by a decrease in sales of our microwave antenna products. The slight decrease in sales of our base station RF subsystem products were due primarily to a decrease in sales of CDMA/GSM device products and offset in part primarily by an increase in sales of CDMA and W-CDMA device products. The increase in sales of our coverage extension solutions products was due primarily to an increase in sales of our electric cable and aesthetic antenna products.

In the overseas market, as the global financial and economic crisis continued to negatively affect our overseas sales in the eight months ended August 31, 2009. Reliance had delayed or decreased its network capital expenditures in 2008, which we believe was partially attributable to the global financial and economic crisis that the world is currently experiencing. Since then, Reliance has significantly decreased its order from us. In comparison, our sales to Reliance constituted 17.1%, 11.5% and nil of our total revenue for the years ended December 31, 2007, 2008 and the eight months ended August 31, 2009. Further, on January 14, 2009, Nortel Network filed for protection from creditors under Chapter 11 of the United States Bankruptcy Code, which we believe was also partially attributable to the global financial and economic crisis. Since then, we have also significantly decreased our sales to Nortel Networks. Our sales to Nortel Network constituted 0.7%, 9.4% and 2.5% of our total revenue for the years ended December 31, 2007, 2008 and the eight months ended August 31, 2009.

Cost of Sales. Cost of sales increased by RMB139.3 million, or 44.6%, from RMB312.6 million in the eight months ended August 31, 2008 to RMB451.9 million in the eight months ended August 31, 2009. The increase was substantially in line with the increase in our revenue.

Gross Profit. As a result of the increase in our revenue, our gross profit increased by RMB66.7 million, or 58.5%, from RMB113.8 million in the eight months ended August 31, 2008 to RMB180.5 million in the eight months ended August 31, 2009. Our gross profit margin was 26.7% in the eight months ended August 31, 2008 compared to 28.5% in the eight months ended August 31, 2009. The increase in our gross profit margin was due primarily to an increase in sales of 3G related products that commanded higher gross profit margins, while the gross profit margin for our older models relating to 2G and PHS protocols decreased during this period.

Other Income. Other income decreased by RMB37,000, or 1.0%, from RMB3.65 million in the eight months ended August 31, 2008 to RMB3.61 million in the eight months ended August 31, 2009.

Distribution and Selling Expenses. Distribution and selling expenses increased by RMB14.5 million, or 82.1%, from RMB17.6 million in the eight months ended August 31, 2008 to RMB32.1 million in the eight months ended August 31, 2009. This increase was due primarily to increased sales activities as the scale of our operation grew and for increased transportation costs for the deployment of our products in China.

Administrative Expenses. Administrative expenses decreased by RMB0.6 million, or 1.8%, from RMB31.8 million in the eight months ended August 31, 2008 to RMB31.2 million in the eight months ended August 31, 2009. We did not have any significant changes in our general and administrative expenses in these two periods.

Research and Development Costs. Research and development costs decreased by RMB349,000, or 1.6%, from RMB21.7 million in the eight months ended August 31, 2008 to RMB21.3 million in the eight months ended August 31, 2009. We did not have any significant changes in our research and development costs in these two periods.

Profit Before Taxation. Profit before taxation increased by RMB53.4 million, or 122.6%, from RMB43.5 million in the eight months ended August 31, 2008 to RMB96.9 million in the eight months ended August 31, 2009.

Income Tax Expense. Our income tax expenses increased by RMB6.5 million, or 105.2%, from RMB6.2 million in the eight months ended August 31, 2008 to RMB12.7 million in the eight months ended August 31, 2009. Our effective tax rates calculated from the tax charged to the income statement over the profit before tax were 14.2% and 13.1% for the eight months ended August 31, 2008 and eight months ended August 31, 2009, respectively.

Profit for the Period. Profit for the period increased by RMB46.9 million, or 125.5%, from RMB37.3 million in the eight months ended August 31, 2008 to RMB84.2 million in the eight months ended August 31, 2009. Our net profit margin was 8.8% in the eight months ended August 31, 2008, compared to 13.3% in the eight months ended August 31, 2009. The increase in our net profit margin was due primarily to an increase in sales of 3G related products that commanded higher net profit margins than the sales of 2G related products, as well as the efficiency brought about by our increased economy of scale.

2008 compared with 2007

Revenue. Revenue increased by RMB44.4 million, or 7.1%, from RMB626.8 million in 2007 to RMB671.2 million in 2008. Sales of our antennas system products decreased by RMB8.3 million, while sales of our base station subsystems and coverage extension solutions product groups increased by RMB47.8 million and RMB4.9 million, respectively.

The decrease in sales of our antenna system products was due primarily to a decrease in sales of yagi antennas that are used in remote villages in China, as 2G deployment to remote villages in China has slowed down, a decrease in sales of PHS antennas as the PHS protocol became outmoded due to limited bandwidth and coverage area, and a decrease in sales of TD-SCDMA antennas as PRC domestic network operators (other than China Unicom) completed field-testing of 3G networks and were delaying their capital spending until the 3G licenses were issued. The decrease in sales of our antenna system products was offset in part primarily by an increase in sales of W-CDMA antennas, as China Unicom increased its capital expenditures, including capital spending for W-CDMA network, after selling its CDMA network to China Telecom on a series of transactions starting from June 2, 2008.

The increase in sales of our base station RF subsystem products was due primarily to an increase in sales of our GSM RF devices due primarily to China Unicom began to increase its network build up after selling its CDMA network to China Telecom. The increase in sales of our base station RF subsystem was offset in part primarily by a decrease in sales of our CDMA2000 RF devices and TD-SCDMA RF devices, as PRC domestic network operators, other than China Unicom, continued to delay or decrease their capital spending in 2008 pending the issuance of 3G licenses. The increase in sales of our coverage solution products was due primarily to an increase in sales of our aesthetic antennas to PRC network operators.

We believe the overall increase in revenue can also be attributable to our technology sophistication began to be recognized internationally. In 2008, our sales to international or overseas network solution providers Nortel Networks and NEC increased by RMB58.7 million and RMB10.5 million, respectively. This increase was offset in part primarily by a decrease in sales to certain overseas network operators including Reliance in India, which we believe was partially attributable to the global economic and financial crisis. Domestically, after China Unicom sold its CDMA networks to China Telecom, China Unicom increased the build up of both of its GSM and W-CDMA networks. Our sales to China Unicom increased by RMB16.0 million.

Cost of Sales. Cost of sales increased by RMB15.2 million, or 3.2%, from RMB472.7 million in 2007 to RMB487.9 million in 2008. The increase was substantially in line with the increase in our revenue.

Gross Profit. As a result of the increase in our revenue, our gross profit increased by RMB29.2 million, or 18.9%, from RMB154.1 million in 2007 to RMB183.3 million in 2008. Our gross profit margin was 27.3% in 2008 compared to 24.6% in 2007. In 2008, we were able to obtain higher gross profit margins for sales to certain overseas customers such as Reliance as there was less competition in the emerging markets such as India, while the gross profit margin for our antenna products relating to 2G and PHS protocols decreased during this period. We had also developed new products involving 3G technology or customized products to specific customer requirements that commanded higher gross margins that were primarily sold to Nokia Siemens Networks and ZTE.

Other Income. Other income increased by RMB4.2 million, or 141.4%, from RMB2.9 million in 2007 to RMB7.1 million in 2008. This increase was due primarily to government grants for certain research projects and tax refund.

Distribution and Selling Expenses. Distribution and selling expenses increased by RMB7.3 million, or 26.2%, from RMB27.9 million in 2007 to RMB35.2 million in 2008. This increase was due primarily to an increase due to an increased number of employees and sales activities as the scale of our operation grew and for increased transportation costs for the deployment of our products in China when PRC domestic network operators began to increase their purchases in late 2008. This increase was offset in part primarily by a decrease in sales activities overseas, as certain of our overseas customers decreased their purchases in light of the global financial and economic crisis.

Administrative Expenses. Administrative expenses increased by RMB5.6 million, or 13.3%, from RMB41.8 million in 2007 to RMB47.4 million in 2008. This increase was due primarily to an increase in the number of employees as the scale of our operation grew.

Research and Development Costs. Research and development costs increased by RMB9.7 million, or 38.5%, from RMB24.9 million in 2007 to RMB34.6 million in 2008. This increase was due primarily to an increase in employee expenses for our research and development engineers, as we increased the number of our recruits in order to keep up with our product development plans, and new product development expenses.

Finance Costs. Finance costs increased by RMB0.9 million, or 31.2%, from RMB2.9 million in 2007 to RMB3.8 million in 2008. This increase was due primarily to an increase in the amount of our bank borrowing and a slight increase in interest rate.

Profit Before Taxation. Profit before taxation increased by RMB10.0 million, or 16.7%, from RMB59.5 million in 2007 to RMB69.5 million in 2008.

Income Tax Expense. Our income tax expenses increased by RMB4.8 million, or 173.2%, from RMB2.8 million in 2007 to RMB7.6 million in 2008. Our effective tax rates calculated from the tax charged to the income statement over the profit before tax were 4.6% and 10.9% for 2007 and 2008, respectively.

Profit for the Year. Profit for the year increased by RMB5.1 million, or 9.1%, from RMB56.8 million in 2007 to RMB61.9 million in 2008. Our net profit margin was 9.2% in 2008, compared to 9.1% in 2007.

2007 compared with 2006

Revenue. Revenue increased by RMB265.8 million, or 73.7%, from RMB361.0 million in 2006 to RMB626.8 million in 2007. Sales of our antenna system, base station RF subsystem and coverage extension solution product groups increased by RMB82.4 million, RMB175.4 million and RMB8.0 million, respectively. The increase in sales of our antenna system products was due primarily to an increase in sales of products relating to microwave antennas for long distance infrastructure networks, TD-SCDMA products for trial networks in China and remote electric downtilt antennas for CDMA/GSM dual protocols, which we were one of the price/technology leader. The increase in sales of our antenna system products was offset in part primarily by a decrease in sales of our yagi antennas that are used in remote villages in China, as 2G deployment to remote villages in China has slowed down and a decrease in sales of our PHS antennas as the PHS protocol became outmoded due to limited bandwidth and coverage area. The increase in sales of our base station RF subsystem products was due primarily to an increase in sales of our CDMA/GSM dual protocol RF devices, CDMA2000 RF devices, TD-SCDMA RF devices and GSM RF devices. This increase was offset in part primarily by a decrease in sales of our CDMA RF devices. The increase in sales of our coverage extension products was due primarily to an increase in sales of our electric cables, and was offset in part primarily by a decrease in sales of our in-door and other antennas.

We believe the overall increase in revenue can also be attributable to an increase in demand for our products overseas. This increase in demand for our products came primarily from our global network solution provider customers, such as ZTE and Nokia Siemens Networks, and network operator customers in the emerging markets, such as Reliance in India. Sales to ZTE, Nokia Siemens Networks and Reliance increased by RMB81.7 million, RMB107.4 million and RMB107.4 million, respectively. This increase was offset in part primarily by a decrease in sales to PRC domestic network solution providers and network operators as the PRC domestic network operators delayed or decreased their capital spending ahead of the issuance of 3G licenses.

Cost of Sales. Cost of sales increased by RMB196.8 million, or 71.3%, from RMB275.9 million in 2006 to RMB472.7 million in 2007. The increase was substantially in line with the increase in our revenue.

Gross Profit. As a result of the increase in our revenue, our gross profit increased by RMB69.0 million, or 81.2%, from RMB85.1 million in 2006 to RMB154.1 million in 2007. Our gross profit margin was 24.6% in 2007 compared with 23.6% in 2006. We were able to obtain higher gross profit margins for sales to certain overseas customers such as Reliance as there was less competition in the emerging markets such as India. We had also developed new products involving 3G technology or customized products to specific customer requirements that commanded higher gross margins. These products were primarily sold to Nokia Siemens Networks and ZTE. The gross profit for our older models relating to 2G and PHS protocols decreased during this period.

Other Income. Other income decreased by RMB0.8 million, or 21.3%, from RMB 3.7 million in 2006 to RMB2.9 million in 2007.

Distribution and Selling Expenses. Distribution and selling expenses increased by RMB8.7 million, or 45.0%, from RMB19.2 million in 2006 to RMB27.9 million in 2007. This increase was due primarily to an increase due to an increased number of employees and sales activities both domestically and overseas as the scale of our operation grew.

Administrative Expenses. Administrative expenses increased by RMB21.0 million, or 101.4%, from RMB20.8 million in 2006 to RMB41.8 million in 2007. This increase was due primarily to an increase in the number of employees as the scale of our operation grew and certain one-time accounting and professional fees.

Research and Development Costs. Research and development costs increased by RMB9.7 million, or 64.4%, from RMB15.2 million in 2006 to RMB24.9 million in 2007. This increase was due primarily to increases in material costs and testing fees for product development and employee expenses for our research and development engineers, as we increased the number of our recruits in order to keep up with our product development plans.

Financing Costs. Financing costs increased by RMB2.7 million, or 1,794.8%, from RMB0.2 million in 2006 to RMB2.9 million in 2007. This increase was due primarily to an increase in bank borrowing that resulted in an increase in interest payments.

Profit Before Taxation. Profit before taxation increased by RMB26.0 million, or 77.7%, from RMB33.5 million in 2006 to RMB59.5 million in 2007.

Income Tax Expense. Our income tax expenses increased by RMB0.8 million, or 36.9% from RMB2.0 million in 2006 to RMB2.8 million in 2007. Our effective tax rates calculated from the tax charged to the income statement over the profit before tax were 6.0% and 4.6% for 2006 and 2007, respectively.

Profit for the Year. Profit for the year increased by RMB25.3 million, or 80.3%, from RMB31.5 million in 2006 to RMB56.8 million in 2007. Our net profit margin was 9.1% in 2007, compared to 8.7% in 2006. Our profit for the year improved in 2007 compared to 2006 primarily as a result of our increased sales of certain existing antenna system products to newly developed overseas customers, such as Reliance, and newly developed antenna system and base station RF subsystem products relating to the GSM, CDMA, CDMA2000 and TD-SCDMA protocols to existing customers.

ANALYSIS OF BALANCE SHEET POSITION

The following table sets forth financial information in our consolidated balance sheet as of December 31, 2006, 2007, 2008 and August 31, 2009. Such financial information is extracted from the Accountants' Report included in Appendix I to this Web Proof Information Pack and you should read the entire financial statements included therein, including the notes thereto, for more details.

	As of December 31,			As of August 31,
	2006	2007	2008	2009
	(RMB in thousands)			
Selected Consolidated Statements of Financial Position				
Non-current assets				
Property, plant and equipment	70,253	89,029	107,484	117,711
Prepaid lease payments	4,324	4,233	21,570	21,303
Deferred tax assets	—	1,527	6,000	7,384
	74,577	94,789	135,054	146,398
Current assets				
Inventories	51,808	127,442	222,049	290,767
Trade and other receivables	205,882	280,747	362,159	513,902
Prepaid lease payments	98	98	471	453
Pledged bank balances	1,308	8,006	14,739	41,592
Bank balances and cash	43,080	131,470	59,067	69,203
	302,176	547,763	658,485	915,917
Current liabilities				
Trade and other payables	153,327	281,500	380,311	490,370
Dividend payable	—	—	429	758
Tax payable	495	2,404	8,033	11,325
Entrusted bank loan	—	5,000	—	—
Short-term bank borrowings	7,909	69,500	73,454	157,744
Deferred income	54	563	563	746
Provision	500	500	500	500
	162,285	359,467	463,290	661,443
Net current assets	139,891	188,296	195,195	254,474
Total assets less current liabilities	214,468	283,085	330,249	400,872
Non-current liabilities				
Deferred income	1,297	3,236	2,673	3,600
Net assets	213,171	279,849	327,576	397,272
Capital and reserves				
Share capital	1	1	1	1
Reserves	213,170	279,848	327,575	397,271
Equity attributable to owners of our Company	213,171	279,849	327,576	397,272

Property, Plant and Equipment

Property, plant and equipment consists of buildings, furniture fixtures and equipment, leasehold improvements, motor vehicles, plant and machinery and construction-in-progress. As of December 31, 2006, 2007, 2008 and August 31, 2009, property, plant and equipment amounted to RMB70.3 million, RMB89.0 million, RMB107.5 million and RMB117.7 million, respectively. The increases were due primarily to purchase of new equipment for the research and development department and for capacity expansion.

Prepaid Lease Payment

Prepaid lease payment consists of the payment for the right to occupy and use certain parcels of land held by us. As of the Latest Practicable Date, we held three parcels of land, including the land in Shenzhen where our Nanshan Manufacturing Facility is located and a parcel of land in Jian where our Jizhou Manufacturing Facility is located and a parcel of land in Xian where our Xian facility is located. The table below sets forth the prepaid lease payment for during each of the periods indicated.

	For the Year Ended December 31,			For the Eight Months Ended August 31,
	2006	**2007**	**2008**	**2009**
	(RMB in thousands)			
Land use right in the PRC				
Medium term lease	4,422	4,331	22,041	21,756
Analysed for reporting purposes as:				
Current portion	98	98	471	453
Non-current portion	4,324	4,233	21,570	21,303
	4,422	4,331	22,041	21,756

Current Asset/(Liabilities)

We have current assets of RMB302.2 million, RMB547.8 million, RMB658.5 million, RMB915.9 million and RMB954.1 million, as of December 31, 2006, 2007, 2008 and August 31 and October 31, 2009. We have current liabilities of RMB162.3 million, RMB359.5 million, RMB463.3 million, RMB661.4 million and RMB682.6 million as of December 31, 2006, 2007, 2008 and August 31 and October 31, 2009. Our current assets have mainly consisted of inventories, trade receivables, notes receivable, other receivables, pledged bank balances, cash and bank balances. Our current liabilities have mainly consisted of trade payables, notes payable, other payables, tax payable and bank borrowing.

Our net current assets have been increased during 2006, 2007, 2008 and the eight months ended August 31, 2009. Due to the significant revenue growth during the year ended December 31, 2007 and the period ended August 31, 2009, our net current assets increased significantly as of December 31, 2007 and August 31, 2009 comparing to that as of December 31, 2006 and December 31, 2008, respectively.

Inventories

The following table sets out a summary of our inventory balances as of the balance sheet dates indicated, as well as the turnover days of our inventory for the periods indicated.

	As of December 31,			As of August 31,
	2006	**2007**	**2008**	**2009**
	(RMB in thousands)			
Raw materials	12,840	46,534	50,192	63,612
Work-in-progress	3,926	19,020	20,303	35,336
Finished goods	35,042	61,888	151,554	191,819
	51,808	127,442	222,049	290,767

As of October 31, 2009, we used up approximately RMB37.1 million and RMB30.7 million of the RMB63.6 million and RMB35.3 million of raw materials and work-in-progress outstanding and sold approximately RMB86.0 million of the RMB192.0 million finished good outstanding as of August 31, 2009.

Our sales and marketing managers review our inventory ageing list on a periodical basis for those aged inventories throughout 2006, 2007, 2008 and the eight months ended August 31, 2009. This involves comparison of carrying value of the aged inventory items with the respective net realizable value. The purpose of the comparison is to ascertain whether allowance is required to be made for any obsolete and slow-moving items. For the years ended December 31, 2006, 2007, 2008 and the eight months ended August 31, 2009, our inventory write-downs were RMB1.1 million, RMB1,000, RMB0.4 million and RMB0.7 million, respectively. We recorded inventory write-down during 2006, 2007, 2008 and the eight months ended August 31, 2009 due to lower net realizable value comparing to carrying value of the aged inventory items.

Our inventory balance increased by RMB75.6 million, or 146.0%, from RMB51.8 million as of December 31, 2006 to RMB127.4 million as of December 31, 2007 as we increased our sales to overseas customers. Our inventory balance increased by RMB94.6 million, or 74.2%, from RMB127.4 million as of December 31, 2007 to RMB222.0 million as of December 31, 2008 due primarily to an increase in our inventory in finished goods in products related to the 3G standard, as we anticipated an increased demand once the 3G operator licenses are granted in China. Our sales to overseas customers slowed down in late 2008 as a result of the global economic and financial crisis. Our inventory balance increased by RMB68.8 million, or 31.0%, from RMB222.0 million as of December 31, 2008 to RMB290.8 million as of August 31, 2009 due primarily to our increased scale of operation.

Turnover days of inventory are derived by dividing the arithmetic mean of the beginning and ending balances of inventory for the relevant period by cost of sales and multiplying by the number of days in the period. Our inventory turnover days were 70 days, 69 days, 131days and 138 days in 2006, 2007, 2008 and the eight months period ended August 31, 2009. Our inventory turnover days generally remain the same, from 70 days in 2006 to 69 days in 2007. The increase in inventory turnover days from 69 days in 2007 to 131 days in 2008 was attributable primarily to an increase in our inventory in finished goods. As our scale of operation grew in 2009, we maintained a higher level of inventory as of August 31, 2009.

Trade and other receivables

Our trade receivables represent receivables from the sales of our antenna systems and RF devices.

We offer credit terms generally accepted in the antenna systems and RF devices manufacturing industry to our trade customers, which for a significant number of our products is around 30 to 120 days, although longer credit terms may be extended to certain customers, depending on price, the size of the contract, credibility and reputation of the customers. In order to manage the credit risks associated with trade receivables effectively, credit limits of customers are evaluated periodically.

In order to minimize the credit risk, our management has delegated a team of at least four members, depending on the customer account, headed by our Vice President in Sales and Marketing, to be responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In this regard, our directors consider our credit risk to be significantly reduced.

An ageing analysis of our trade receivables as of the balance sheet dates indicated is set forth below, based on the invoice date, as well as the turnover days of our trade receivables for the periods indicated:

				As of
	As of December 31,			**August 31,**
Age	**2006**	**2007**	**2008**	**2009**
	(RMB in thousands)			
0 to 30 days	63,375	66,350	85,521	77,470
31 to 60 days	30,135	75,335	39,049	71,558
61 to 90 days	10,589	16,543	14,036	38,724
91 to 120 days	6,102	5,287	36,017	34,731
121 to 180 days	4,651	8,140	5,161	24,923
Over 180 days	30,068	34,133	25,740	65,319
	144,920	205,788	205,524	312,725

As of October 31, 2009, approximately RMB151.3 million of the RMB312.7 million trade receivables outstanding as of August 31, 2009 were settled.

Turnover days of trade receivables are derived by dividing the arithmetic mean of the opening and closing balances of net trade and note receivables for the relevant period by revenue and multiplying by the number of days in the period. As such, the analysis of trade receivable turnover days can be highly influenced by the amount of outstanding receivable at either the opening or closing date of the particular period being analyzed. For instance, in periods where we experienced rapid growth, our trade receivable balance was higher at the closing date of such periods, which in turn resulted in a higher arithmetic means in the calculation of turnover days. Our revenues also fluctuated significantly due to a number of factors that are not periodic or seasonal. See "Risk Factors — We have experienced, and will continue to experience, significant fluctuations in sales and operating results from period to period." As these factors are not seasonal and do not correspond to the opening and closing date of a particular period, our turnover days analysis may not be as indicative as other companies whose revenues fluctuate seasonally.

Trade receivable turnover days were 163 days, 135 days, 167 days and 164 days in 2006, 2007, 2008 and the eight months period ended August 31, 2009. The decrease in trade receivable turnover days, from 163 days in 2006 to 135 days in 2007, was attributable primarily to an increase in sales to certain overseas customers to whom we extended a shorter credit period, and a general improvement in our receivable management throughout 2007. The increase in trade receivable turnover days from 135 days in 2007 to 167 days in 2008 was attributable primarily to us extending a longer credit period to certain overseas customers as a result of the global economic and financial crisis and an increase in sales to certain PRC domestic network operator customers in late 2008, for which we generally granted a much longer credit period than the credit period for overseas customers. As a result of us increasing our sales to PRC domestic network operator customers, who enjoy a longer credit period, the trade receivable turnover days remain to be high for the eight months ended August 31, 2009. See "Business — Sales and Marketing — Sales to PRC network operators" for more detailed descriptions of the payment terms of our PRC network operator customers.

Historically, the trade receivables outstanding over 180 days were substantially attributable to the PRC network operators. Our management considers our historical experiences with such customers, the goods and services provided to such customers, our relationship with such customers and their financial creditability in order to determine the level of provision for bad and doubtful debt. For the years ended December 31, 2006, 2007, 2008 and the eight months ended August 31, 2009, our (reversal of provision for)/provision for bad and doubtful debts were approximately RMB(0.2) million, RMB0.8 million, RMB0.5 million and nil, respectively.

Our other receivables and prepayments consist of the following:

	As of December 31,			As of August 31,
	2006	**2007**	**2008**	**2009**
		(RMB in thousands)		
Other receivables from employees	693	1,467	2,159	2,313
Other receivables from utilities	273	313	451	559
Prepaid expenses and sundry receivables	12	146	374	593
Legal advisory and other professional expenses for IPO	—	5,441	5,420	5,417
Value Added Tax	863	4,656	—	—
Patent application expenditure	75	112	140	128
Total other receivable and prepayment	1,916	12,135	8,544	9,010

Other receivables and prepayments principally represent advances to employees for various business trips, value added taxes and professional expenses. Advances to employees increase in periods where we undertook extended marketing activities, especially for overseas markets. The balance of Value Added Tax reflect the balance of input Value Added Tax less the balance of output Value Added Tax.

Trade and other payables

Our trade payables represent amounts payable for purchases of raw materials and components from various suppliers. Our suppliers typically offer us credit terms of 90 days, based on the invoice date.

FINANCIAL INFORMATION

We record our trade payable on the balance sheet based on the estimated value of the raw materials and components received by our warehouse. After inventorying the delivery, we generally discuss with our suppliers regarding any quality, shortage or surplus issue. It generally takes several weeks to two months after our receipt of delivery before our suppliers would issue us an undisputable invoice. We typically have credit terms of 90 days after we receive the undisputable invoice from our suppliers. As of the Latest Practicable Date, we have maintained good relationship with our suppliers.

An ageing analysis of our trade payables as of the balance sheet dates indicated, as well as the turnover days of our trade payables for the periods indicated is set forth below:

	As of December 31,			As of August 31,
Age	**2006**	**2007**	**2008**	**2009**
		(RMB in thousands)		
0 to 30 days	29,552	29,679	63,063	40,636
31 to 60 days	29,730	37,009	36,677	40,382
61 to 90 days	17,730	38,336	40,099	42,713
90 to 180 days	29,867	124,244	55,409	153,479
Over 180 days	1,879	1,035	3,228	38,250
	108,758	230,303	198,476	315,460

As of October 31, 2009, we settled approximately RMB119.2 million of the RMB315.5 million trade payables outstanding as of August 31, 2009.

Our trade payable aged 90-180 days and over 180 days increased significantly as of August 31, 2009 compared to the trade payable aged 90-180 days and over 180 days as of December 31, 2008, due primarily to an increase in order we made to our suppliers starting from the first quarter of 2009, as we anticipated a substantial increase in demand after 3G licenses were granted in China, as well as the fact that our suppliers generally issue invoices several weeks to two months after the delivery of the raw materials and components, while such purchases were usually accrued in accordance with our accounting policy.

Turnover days of trade payable are derived by dividing the arithmetic mean of the beginning and ending balances of net trade and note payables for the relevant period by cost of sales and multiplying by the number of days in the period.

Our trade payable turnover days were 135 days, 143 days, 219 days and 212 days in 2006, 2007, 2008 and the eight months period ended August 31, 2009. Our payable turnover days generally remain relatively stable at 135 days in 2006 and 143 days in 2007. Our payable turnover days increased significantly from 143 days in 2007 to 219 days in 2008, due primarily to our increasing use of 90-days bank acceptance notes as a payment method, which further extended the payment period. Our trade payable turnover days decreased slightly from 219 days in 2008 to 212 days for the eight months ended August 31, 2009. See "Business — Suppliers of Raw Materials and Components" for more detailed descriptions of our payment terms.

The following table sets forth our other taxes payable for the periods indicated.

	As of December 31,			As of August 31,
	2006	2007	2008	2009
	(RMB in thousands)			
Value Added Tax	3,775	—	3,168	1,027
City Construction Tax and Individual Income Tax and other taxes	123	165	631	1,387
Total other taxes payable	3,898	165	3,799	2,414

The value added taxes payable by MOBI Shenzhen reflect the balance of output value added tax less balance of input value added tax. City construction tax is levied on 1% of the value added tax. Individual income tax are withheld by us to be paid on behalf of our employees.

The following table sets forth our accrued expenses for the periods indicated.

	As of December 31,			As of August 31,
	2006	2007	2008	2009
	(RMB in thousands)			
Accrued engineering expenses	1,328	1,523	1,704	3,362
Accrued manufacturing expenses	782	5,143	7,463	6,360
Other accrued expenses(1)	1,346	8,502	8,083	6,793
Total accrued expenses	3,456	15,168	17,250	16,515

Note:

(1) Represents year-end accrual of selling and distribution, administrative and other office expenses.

Accrued expenses included expenses accrued for various manufacturing processes and audit fee. Our accrued expenses increased significantly as of December 31, 2007 from December 31, 2006 as a result of the increase in expenses associated with research, development and production activities undertaken as our sales and production increased.

Entrusted bank loan

The interest-free entrusted loan of RMB5.0 million as of December 31, 2007 is from Shenzhen High Tech Investment and Guaranty Company Limited, a party independent from us, which entrusted loans was granted on March 22, 2007 for repayment on March 22, 2008.

Deferred income

Deferred income represents non-recurring and non-conditional government grants received by MOBI Shenzhen and MOBI Jian in 2006, 2007, 2008 and the eight months ended August 31, 2009 from Finance Bureau of Shenzhen (深圳市財政局), Shenzhen Bureau of Trade and Industry (深圳市貿易工業局), Shenzhen Bureau of Science Technology & Information (深圳市科技和信息局), People's Government of Jian Province (吉安市人民政府) and Finance Bureau of Jian (吉安市財政局) and Shenzhen Nanshan District Bureau of Science and Technology （深圳市南山區科學技術局) respectively, for acquisition and improvement of property, plant and equipment. We have no actual knowledge of the policies and decisions behind why these government grants were made available to us. The allocation of the amount of the government grant amount may vary from period to period, and as a result, we cannot assure you that we will receive similar grants in the future, if at all. We also believe that, upon satisfaction of certain conditions including, but not limited to, being a technology company engaged in the industry sector that fits the PRC government's industrial policy, such grants may also be available to other companies.

The deferred income is released to the consolidated income statement over the expected useful life of the relevant assets. Movements of deferred income during the periods indicated are as follows:

	As of December 31,			As of August 31,
	2006	2007	2008	2009
	(RMB in thousands)			
At January 1	—	1,351	3,799	3,236
Additions	1,369	2,560	—	2,030
Realized to consolidated income statement	(18)	(112)	(563)	(920)
At December 31 or August 31	1,351	3,799	3,236	4,346
Analyzed for reporting purposes as:				
Current portion	54	563	563	746
Non-current portion	1,297	3,236	2,673	3,600
	1,351	3,799	3,236	4,346

LIQUIDITY AND CAPITAL RESOURCES

Financial resources

We have funded our operations and capital requirements from cash generated from our operations, trade credit from our suppliers and short-term bank borrowings. Our primary uses of cash have been for our increased working capital requirements, capital expenditures on purchases of production equipment and acquisition of land use rights for our real property in Shenzhen and Jian.

The following table sets forth a condensed summary of our consolidated cash flow statements for the periods indicated. Such summary of our consolidated cash flow statements is extracted from the Accountants' Report included in Appendix I to this Web Proof Information Pack and you should read the entire financial statements included therein, including the notes thereto, for more details.

	As of December 31,			As of August 31,	
	2006	2007	2008	2008	2009
	(RMB in thousands)				
Net cash from (used in) operating activities	5,494	55,382	3,347	41,231	(10,061)
Net cash used in investing activities	(31,938)	(39,684)	(56,330)	(33,908)	(46,758)
Net cash (used in) from financing activities	(209)	72,692	(19,420)	(47,003)	66,955
Net (decrease) increase in cash and cash equivalents	(26,653)	88,390	(72,403)	(39,680)	10,136
Cash and cash equivalents at beginning of year/period	69,733	43,080	131,470	131,470	59,067
Cash and cash equivalents at end of year/period	43,080	131,470	59,067	91,790	69,203

Operating Activities

Our net cash inflow/outflow from operating activities varied and is affected by: (i) our profitability, (ii) credit terms and settlement method given to us by different customers, (iii) payment method we made to suppliers, as well as (iv) level of inventory as at each reporting date. In general, credit term given by PRC domestic network operators is longer than network solution providers and overseas customers. Customer paid by bank acceptance note takes longer time for bank clearance/settlement than cash receipt. Payment we made to suppliers by bank acceptance note also allows longer time of payment than payment by direct cash remittance. Also, from time to time, our increased inventory level engaged more working capital.

In the eight months ended August 31, 2009, our net cash used in operating activities was RMB10.1 million. We generated profit before taxation of RMB96.9 million due primarily to an increase in sales to certain PRC network operators and network solution providers, primarily to facilitate their deployment of 3G networks; offset in part by a decrease in sales in the overseas market, as the global financial and economic crisis continued to negatively affect our overseas sales. Our trade and other receivable increased by RMB151.7 million due primarily to an increase in sales to PRC domestic network operator customers who enjoy a longer credit period and our inventories increased by RMB69.4 million also due primarily to our increased scale of operation. However, the increase in our cash used in operating activities was offset in part by an increase in trade and other payables due primarily to us adopting a new settlement method with our suppliers by 90-days bills payable.

In 2008, our net cash from operating activities was RMB3.3 million. We generated profit before taxation of RMB69.5 million due primarily to an increase in sales to certain PRC network operators, specifically, China Unicom began to increase its network build up after selling its CDMA network to China Telecom; offset in part primarily by a decrease in sales to certain overseas network operators, including Reliance in India, which we believe was reducing its capital outlay due to the global economic and financial crisis. Our trade and other payables also increased by RMB99.3 million due primarily to us increasing our use of 90-days bank acceptance notes as a payment method, which has a longer payment period. However, the increase in our cash from operating activities was offset in part by an increase in inventories by RMB95 million due primarily to an increase in inventory in finished goods. Our sales to overseas customers slowed down in late 2008 as a result of the global economic and financial crisis, and at the same time, we purposely increased our inventory of finished goods in products related to 3G standard in anticipation of an increased demand once the 3G licenses are granted in China. The increase in our cash from operating activities was also offset in part by a decreased in trade and other receivables by RMB81.9 million due primarily to us extending a longer credit period to certain overseas customers as a result of the global economic and financial crises and an increase in sales to certain PRC domestic network operator customers in late 2008, for which we generally extended a much longer credit period than the credit period for overseas customers.

In 2007, our net cash from operating activities was RMB55.4 million. We generated profit before taxation of RMB59.5 million due primarily to an increase in sales to overseas customers. Our trade and other payables also increased by RMB135.8 million due primarily to an increase in sales and supplier given us a longer credit period. However, the increase in our cash from operating activities was offset in part by a decrease in trade and other receivables by RMB75.6 million due primarily to an increase in sales to certain overseas customers to whom we extended a shorter credit period, and a general improvement in our receivable management throughout 2007 and an increase in inventories by RMB75.6 million as we increased our sales to overseas customers.

In 2006, our net cash from operating activities was RMB5.5 million. We generated profit before taxation of RMB33.5 million due primarily to an increase in sales. Our trade and other payables increased by RMB45.6 million due primarily to an increase in sales. Our inventories decreased by RMB1.4 million due primarily to an increase in sales that decreased our inventory. However, the increase in our cash from operating activities was offset in part by an increase in trade and other receivable by RMB81.6 million also due primarily to an increase in sales.

Investing Activities

In the eight months ended August 31, 2009, our net cash used in investing activities was RMB46.8 million, consisted primarily of an increased in pledged bank balance of RMB26.9 million and payments for the purchase of property, plant and equipment of RMB21.2 million. Our cash used in investing activities was offset in part primarily by a government grant for certain research and development projects of RMB1.0 million.

In 2008, our net cash used in investing activities was RMB56.3 million, consisted primarily of payments for the purchase of property, plant and equipment for capacity expansion of RMB32.4 million, prepaid lease payments for our Xian facility of RMB18.1 million and an increase in pledged bank balance of RMB6.7 million.

In 2007, our net cash used in investing activities was RMB39.7 million, consisted primarily of payments for the purchase of property, plant, equipment for capacity expansion of RMB34.7 million and an increase in pledged bank balance of RMB6.7 million. Our cash used in investing activities was offset in part by the receipt of government grants for certain research and development projects of RMB0.9 million.

In 2006, our net cash used in investing activities was RMB31.9 million, consisted primarily of payments for the purchase of property, plant, equipment for capacity expansion of RMB40.9 million and prepaid lease payment of RMB1.3 million. Our cash used in investing activities was offset in part by a decreased in pledged bank balance of RMB5.5 million and the receipt of government grants for certain research and development projects of RMB4.0 million.

Financing Activities

In the eight months ended August 31, 2009, our net cash from financing activities was RMB67.0 million. We had new bank loans raised of RMB122.1 million and net proceeds on discounting notes receivable and trade receivables of RMB12.2 million. Our cash from financing activities was offset in party by repayments of bank borrowings RMB50.0 million and dividends paid of RMB14.7 million.

In 2008, our net cash used in financing activities was RMB19.4 million. We repaid bank borrowings in by RMB100.0 million, net repaid discounting notes receivable and trade receivables of RMB1.0 million, paid dividend of RMB14.6 million and interest of RMB3.8 million. Our cash used in financing activities was offset in part by new bank loans raised of RMB100.0 million.

In 2007, our net cash from financing activities was RMB72.7 million. We had new bank loans raised of RMB55.0 million and net proceeds on discounting notes receivable and trade receivable of RMB16.6 million and proceeds from subscription of series A preferred shares and ordinary shares of RMB9.0 million. Our cash from financing activities was offset in part by repayment of bank borrowings of RMB5.0 million and interest paid of RMB2.9 million.

In 2006, our net cash used in financing activities was RMB0.2 million. We had net proceeds on discounting notes receivable and trade receivables of RMB7.9 million and paid dividend paid of RMB8.0 million.

INDEBTEDNESS

Borrowings and bank facilities Bank facilities available to us as of December 31, 2006, 2007, 2008 and August 31, 2009 were approximately RMB37.9 million, RMB169.2 million, RMB371.9 million and RMB473.9 million, respectively. As of the close of business on October 31, 2009, being the latest practicable date for the purpose of this indebtedness statement, our unaudited net current assets increased to RMB271.5 million as a result of revenue growth since August 31, 2009, and we had total bank borrowings of RMB172.7 million, all of which consist of a short-term bank loans.

Subject to the completion of this Global Offering, we do not intend to raise material external debt financing. There is no material covenants relating to the outstanding bank borrowing. Except as disclosed herein, we did not have, at the close of business on the October 31, 2009, any other mortgages or charges on any property owned by our Group.

	As of December 31,			As of August 31,
Categories	**2006**	**2007**	**2008**	**2009**
		(RMB in thousands)		
Secured				
- Fixed rate	7,909	24,500	23,454	35,609
- Floating rate	—	—	—	13,135
Unsecured				
- Fixed rate	—	—	10,000	59,000
- Floating rate	—	45,000	40,000	50,000
	7,909	69,500	73,454	157,744

Short-term bank borrowings are arranged at fixed rates as well as floating rates.

The short-term secured floating rate bank borrowings are denominated in RMB and carry at prevailing market interest rates of 1.39% per annum during 2006, 2007, 2008 and eight months ended August 31, 2009. The short-term secured fixed rate bank borrowings are denominated in RMB and carry fixed interest rates ranging from 1.39% to 7.67% per annum during 2006, 2007, 2008 and eight months ended August 31, 2009. The short-term secured bank borrowing as of August 31, 2009 are secured by notes receivable and bank deposit of approximately RMB48,744,000 (December 31, 2008: by notes receivable of approximately RMB23,454,000, December 31, 2007: by receivables of approximately RMB24,500,000, December 31, 2006: by notes receivable of approximately RMB7,909,000). The related trade and note receivables were discounted with recourse and therefore, they have not been derecognised at December 31, 2006, 2007 and 2008 and August 31, 2009.

The short-term unsecured floating rate bank borrowings are denominated in RMB and carry at prevailing market interest rates of 4.62% to 7.47% per annum during the Relevant Periods. The short-term unsecured fixed rate bank borrowings are denominated in RMB and carry fixed interest rates ranging from 4.62% to 6.12% per annum during 2006, 2007, 2008 and eight months ended August 31, 2009.

We have not had difficulties renewing our facilities in the past. We have obtained confirmation from our banks which granted us facilities with expiry dates prior to end of February 2010 in respect of rolling over these facilities for 2010. We believe our funding requirements in the foreseeable future can be met by undrawn banking facilities.

Operating Lease Arrangement

At the end of each reporting period, we were committed to make the following future minimum lease payments in respect of rented premises under non-cancellable operating leases which fall due as follows:

	As of December 31,			As of August 31,
	2006	2007	2008	2009
	(RMB in thousands)			
Within one year	5,223	4,152	5,031	9,403
In the second to fifth year (inclusive)	5,170	3,463	1,848	26,657
	10,393	7,615	6,879	36,060

The leases are generally negotiated for terms ranging from one to six years and rentals are fixed for an average of three years.

Capital commitments

The following table presents our capital commitments as of the dates indicated.

	For the Year Ended December 31,			For the Eight Months Ended August 31,
	2006	2007	2008	2009
	(RMB in thousands)			
Capital expenditure contracted for but not provided in the Financial Information in respect of the acquisition of property, plant and equipment	2,681	3,703	3,310	2,459

Off-balance sheet arrangements

As of the close of business on August 31, 2009, we did not have any outstanding derivative financial instruments, off-balance sheet guarantees, interest rate swap transactions or foreign currency forward contracts.

Contingent liabilities

As of the close of business on August 31, 2009, we did not have any significant contingent liabilities.

Working capital

We have historically financed our operations through cash from operating activities, bank borrowings and private placement of ordinary and preferred shares. In the future, we expect to use funds from a combination of sources to fund our operation and expansion plan, including bank loans, internally generated cash flow, and proceeds from the Global Offering.

Taking into account the financial resources available to us including internally generated funds, available banking facilities and the estimated net proceeds of the Global Offering, the Directors are of the opinion that we have sufficient working capital to meet our present requirements, and at least for the period ending 12 months from the date of this Web Proof Information Pack.

MARKET RISKS

Our business and result of operations are affected by economic cycles, including the recent global financial and economic crisis. Since the second half of 2008, the global financial system has experienced significant difficulties and disruptions, leading to reduced liquidity, greater volatility, widened credit spreads and a lack of price transparency in the global credit and financial markets. The difficulties in global credit and financial markets have also resulted in a widening global economic crisis. There are indications that the current financial and economic downturn may persist or worsen. The slowdown experienced in the economies of the United States, the European Union and certain Asian countries adversely affected capital expenditures of the network providers in different countries, which inevitably affect the demand of our products. The decrease and slowdown in demand for mobile communication infrastructure equipment resulted from the global financial and economic crisis has put significant downward pressure on prices of antenna system and base station RF subsystem products, which are our major source of sales revenues. Nonetheless, we will continue monitoring the latest development in these markets through our international sales team or independent distributors for opportunities to ramp up sales with our existing customers and to develop new customer relationships. Apart from the inherent risks of the economy, we are also exposed to credit, currency and interest rate risks in the normal course of our business.

Credit risk

Our credit risk is primarily attributable to our trade receivables. The credit risk on trade receivables is concentrated on the trade receivables from top five customers which attributable to a significant portion of our trade receivables. For certain of our customers, we have longer payment terms that result in long accounts receivable cycle. See "Business — Sales and Marketing". In order to minimize the credit risk, our management has delegated a team of at least four members, depending on the customer account, headed by the our Vice President in Sales and Marketing, to be responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. We review the recoverable amount of each individual trade debtor at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, our Directors consider our credit risk to be significantly reduced.

Currency Risk

We have foreign currency sales and purchases and certain trade receivables and bank balances of ours are denominated in United States dollar ("USD"), Euro ("EUR") and Hong Kong dollar ("HKD"), currencies other than the functional currency of the respective group entities, which expose the Group to foreign currency risk. Our bank balances are denominated in USD and HKD. We currently do not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure when the need arises.

The carrying amount of the foreign currency denominated monetary assets and monetary liabilities at the end of each reporting period are as follows:

	As of December 31,						As of August 31,	
	2006		2007		2008		2009	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
	(RMB in thousands)							
The Group								
USD	33,045	—	73,737	6,343	40,948	6,343	25,528	19,478
EUR	—	—	31,371	—	13,118	—	9,654	—
HKD	68	—	15	290	5	290	217	290
The Company								
USD	16,543	—	11,960	6,343	9,674	6,343	8,504	6,343
HKD	50	—	—	290	1	290	214	290

The following table details the sensitivity to a 5% change in the RMB against USD, EUR and HKD. The 5% is the rate used when reporting currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in the foreign exchange rates. The sensitivity analyses of our exposure to foreign currency risk at the end of each reporting period have been determined based on the adjustment of translation of the monetary assets and liabilities at the end of each reporting period for a 5% change in foreign currency rates. A positive or negative number indicates an increase or a decrease in the post-tax profit/a decrease or an increase in post-tax loss where RMB strengthens against USD, EUR and HKD. For a 5% weakening of RMB against USD, EUR and HKD, there would be an equal and opposite impact of the post-tax profit.

	For the Year Ended December 31,			For the Eight Months Ended August 31,	
	2006	2007	2008	2008	2009
	(RMB in thousands)				
				(unaudited)	
The Group					
Increase (decrease) in post-tax profit[1]					
If RMB strengthens against USD	(1,404)	(2,862)	(1,443)	(1,317)	(259)
If RMB strengthens against EUR	—	(1,333)	(558)	(1,102)	(410)
If RMB strengthens against HKD	(3)	11	12	10	3
The Company					
Increase (decrease) in post-tax profit or (increase) decrease in post-tax loss					
If RMB strengthens against USD	(703)	(239)	(114)	(155)	(89)
If RMB strengthens against HKD	(2)	12	12	10	3

Note:

(1) This is mainly attributable to the outstanding foreign currency receivables and bank balances at year end as a result of our foreign currency sales.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the exposure at the end of each reporting period does not reflect the exposure during the Relevant Periods.

Interest Rate Risk

We are exposed to fair value interest rate risk which arose from pledged bank balance, bank balances, entrusted bank loan and fixed rate bank borrowings. Our interest bearing pledged bank balance and bank balances are mainly short-term nature. Therefore, any future variations in interest rates are not likely to have a significant impact on our results of operations. We currently have not implemented any interest rate hedging policy. However, our management monitors interest rate exposure and will consider repaying bank loans when significant interest rate exposure is anticipated.

TAXATION AND ESTATE DUTY

Our Company was incorporated in the Cayman Islands and is not subject to the income tax in the Cayman Islands.

MOBI Shenzhen was established in Shenzhen, PRC, with applicable tax rate of 15%. In accordance with the tax legislations applicable to MOBI Shenzhen, it is entitled to exemption from PRC enterprise income tax for the two years commencing from its first profit making year of operations, after offsetting all unexpired tax losses carried forward from previous years, and thereafter, entitled to a 50% relief from PRC enterprise income tax of 15% for the next three years. The first year for which MOBI Shenzhen recorded profit for PRC tax purpose was the year ended December 31, 2000. In addition, MOBI Shenzhen is a high technology company defined by Shenzhen Science and Technology Bureau and therefore is entitled to 50% relief from PRC enterprise income tax of 15% for another three years. Accordingly, the tax rate for MOBI Shenzhen is 7.5% for the year ended December 31, 2006 and 2007. December 16, 2008, the MOBI Shenzhen is recognized as a high technology company defined by Shenzhen Science and Technology Bureau, Shenzhen Finance Bureau, Administrator of Local Taxation of Shenzhen Municipality and Shenzhen Municipal office of the State Administration of Taxation and therefore is entitled to 15% preferential tax rate from PRC enterprise income tax for the next three years. Accordingly, the tax rate for MOBI Shenzhen is 15% for the year ended December 31, 2008 and for the eight months ended August 31, 2009.

The applicable tax rate of MOBI Jian is 33% before year 2007, and according to the New PRC Enterprise Income Tax Law, the applicable tax rate is decreased to 25% from year 2008. In accordance with the tax legislations applicable to the Company, it is entitled to exemption from PRC enterprise income tax for the two years commencing from its first profit making year of operations, after offsetting all unexpired tax losses carried forward from previous years, and thereafter, entitled to a 50% relief from PRC enterprise income tax of 25% for the next three years. Accordingly, the tax rate for MOBI Jian is nil for the period from May 23, 2006 (date of establishment) to December 31, 2006, and 2007, and the tax rate for MOBI Jian is 12.5% for the year ended December 31, 2008 and for the eight months ended August 31, 2009.

The applicable tax rate of MOBI Xian is 25% for the period from April 28, 2008 (date of establishment) to December 31, 2008 and for the eight months ended August 31, 2009.

On March 16, 2007, the PRC promulgated the Law of the People's Republic of China on Enterprise Income Tax by Order No. 63 of the President of the People's Republic of China (the "New PRC Enterprise Income Tax Law"), which become effective on January 1, 2008. On December 6, 2007, the State Council issued Implementation Regulations of the New PRC Enterprise Income Tax Law. The New PRC Enterprise Income Tax Law revokes the former preferential income tax rate applicable to the PRC subsidiaries and adopts a unified income tax rate of 25% on those subsidiaries. According to the New PRC Enterprise Income Tax Law, the current income tax rate of 15% for its subsidiary in Shenzhen will be increased to 25% on a gradual basis over five years starting from year 2008, which means that the tax rate will be 18%, 20%, 22%, 24% and 25% from year 2008 to year 2012. Also, the preferential tax treatments granted to foreign invested manufacturing enterprises established before the above said promulgation date would be grandfathered for a period of five years following the effective date of the New PRC Enterprise Income Tax law. The PRC subsidiaries currently enjoying regular tax exemption and reduction treatment may continue to enjoy the granted remaining incentives until its expiration.

INFLATION

Inflation in China has not materially impacted our results of operations over 2006, 2007, 2008 and the eight months ended August 31, 2009. According to the National Bureau of Statistics of China, inflation as measured by the increase in the consumer price index in China was 1.5%, 4.8% and 5.9% in 2006, 2007 and 2008, respectively.

PROPERTY INTERESTS

Details relating to our property interests are set out in Appendix IV to this Web Proof Information Pack. Savills Valuation and Professional Services Limited, an independent property valuation firm, has valued the properties owned and leased by us as of September 30, 2009. The text of their letters, summaries of values and valuation certificates are set out in Appendix IV to this Web Proof Information Pack.

A reconciliation of the net book value of the relevant leasehold buildings and prepaid land premiums as at August 31, 2009 to their fair value as stated in appendix IV to this Web Proof Information Pack is as follows:

	RMB in thousands
Net book value at August 31, 2009	
— Leasehold buildings and prepaid lease payments	76,190
Depreciation/amortisation for the month ended September 30, 2009	(186)
Net book value at September 30, 2009	76,004
Valuation surplus	63,296
Valuation amount at September 30, 2009	139,300

EARNINGS PER SHARE

Basic earnings per Share of 7.91 cents, 15.21 cents, 15.41 cents, 8.83 cents and 21.38 cents for the year ended December 31, 2006, 2007, 2008 and the eight months ended August 31, 2008 and 2009, respectively, are calculated by reference to the earnings of RMB29.5 million, RMB56.8 million, RMB57.6 million, RMB33.0 million and RMB79.8 million in each of the respective periods and weighted average number of Shares of 372,500,000, 373,232,000, 373,543,000, 373,543,000 and 373,543,000 in each of the respective periods.

Diluted earnings per Share of 5.98 cents, 10.78 cents, 11.76 cents, 7.09 cents and 15.99 cents for the year ended December 31, 2006, 2007, 2008 and the eight months ended August 31, 2008 and 2009, respectively, are calculated by reference to the earnings of RMB31.5 million, RMB56.8 million, RMB61.9 million, RMB37.3 million and RMB84.2 million in each of the respective periods and weighted average number of Shares of 526,543,000, 526,543,000, 526,543,000, 526,543,000, and 526,543,000 in each of the respective periods.

DIVIDENDS

Dividend of RMB0.07965 per share was proposed and paid during the year ended December 31, 2006 to each ordinary share and Series A Preferred Share and amounted to approximately RMB5.9 million and RMB2.0 million respectively. Dividend of RMB0.1424 per share was proposed and paid during the year ended December 31, 2008 to each ordinary share and Series A Preferred Share and amounted to approximately RMB10.6 million and RMB4.4 million respectively. The dividends were paid out in cash and out of distributable profits of our Company.

DIVIDEND POLICY

We currently do not have a dividend policy. The declaration, payment and amount of dividends in the future will be subject to the discretion of the Board and will depend on our results of operations, cash flows, financial condition, statutory and regulatory restrictions on the payment of dividends by us, future prospects and other factors that our Directors may consider relevant. Holders of our Shares will be entitled to receive such dividends pro rata according to the amounts paid up or credited as paid up on the Shares. The declaration, payment, and amount of dividends will be subject to the discretion of the Directors.

Dividends may be paid only out of our distributable profits as permitted under the relevant laws. To the extent profits are distributed as dividends, such portion of profits will not be available to be reinvested in our operations. There can be no assurance that our Company will be able to declare or distribute any dividend in the amount set out in any plan of the Board or at all. The dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by us in the future.

DISTRIBUTABLE AND STATUTORY RESERVE

MOBI Shenzhen and MOBI Jian are subject to the requirement on accruing statutory reserve in accordance with applicable laws and regulations in the PRC. According to relevant PRC laws, wholly foreign owned companies in the PRC are required to accrue at least 10% of their net profit after taxation, as determined under the PRC accounting regulation. Our Company is exempted from the accrual request after its accumulative reserve reaches 50% of the registered capital. The accrual of this reserve must be made before the distribution of a dividend to equity owners. The reserve can be used to make up for previous year's losses, if any. The reserve must be accrued before distributing dividends by MOBI Shenzhen and MOBI Jian.

DISCLOSURE UNDER THE LISTING RULES

Our Directors have confirmed that there are no circumstances which, had we been required to comply with Rules 13.13 to 13.19 of the Listing Rules, would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that there has been no material adverse change in the financial or trading position, indebtedness, mortgage, contingent liabilities, guarantees or prospects of our Group since August 31, 2009, the date to which the latest audited financial statements of our Group were made up.