

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

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**Deloitte
Touche
Tohmatsu**

24 October 2003

The Directors

**Xi'an Haitian Antenna Technologies Co., Ltd.
Core Pacific – Yamaichi Capital Limited**

Dear Sirs,

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

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

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

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

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

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

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

I. FINANCIAL INFORMATION

Income statements

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

Balance sheets

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

Statements of changes in equity

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

Cash flow statements

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

Notes to the financial information

1. Significant accounting policies

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

Turnover

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

Revenue recognition

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

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

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

Service income is recognised when services are provided.

Land use right

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

Technological know-how

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

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

Property, plant and equipment

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

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

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

Buildings	3 ¹ / ₃ %
Plant and machinery	10% – 33 ¹ / ₃ %
Furniture, fixtures and equipment	20%
Motor vehicles	12 ¹ / ₂ %

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

Club debenture

Club debenture is stated at cost less identified impairment losses.

Impairment of assets

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

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

Inventories

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

Taxation

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

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

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

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

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

Research and development costs

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

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

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

Foreign currencies

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

Borrowing costs

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

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

Government grants

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

Operating leases

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

Retirement benefits costs

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

2. Segment information

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

3. Other operating income

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

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

4. Other operating expenses

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

5. Profit from operations

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

6. Finance costs

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

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

7. Directors', supervisors' and employees' remunerations

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

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

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

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

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

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

8. Taxation

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

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

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

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

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

9. Dividends

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

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

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

10. Earnings per share

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

11. Land use right

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

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

12. Technological know-how

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

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

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

13. Property, plant and equipment

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

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

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

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

14. Inventories

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

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

15. Trade receivables

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

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

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

16. Amount due from a director

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

Details of amount due from a director are as follows:

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

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

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

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

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

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

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

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

18. Trade payables

The aged analysis of trade payables is as follows:

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

19. Amount due to a shareholder

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

Had the balance due to a shareholder been interest bearing at the prevailing interest rate, the Directors of the Company believe that the profit for the year/period of the Company for the Relevant Periods would have decreased by:

Notional interest expense	Year ended 31 December		Five months
	2001	2002	ended 31 May
	RMB	RMB	2003
	143,000	24,000	-

20. Bank and other borrowings

	As at 31 December		As at 31 May
	2001	2002	2003
	RMB	RMB	RMB
Bank loans			
Secured	20,000,000	71,923,497	97,090,935
Unsecured	20,000,000	–	–
Other loan – unsecured	–	1,200,000	–
	<u>40,000,000</u>	<u>73,123,497</u>	<u>97,090,935</u>
The bank and other borrowings are repayable as follows:			
Within one year	40,000,000	43,123,497	67,090,935
More than one year, but not exceeding two years	–	30,000,000	–
More than two years, but not exceeding five years	–	–	30,000,000
	<u>40,000,000</u>	<u>73,123,497</u>	<u>97,090,935</u>
Less: Amount repayable within one year shown under current liabilities	(40,000,000)	(43,123,497)	(67,090,935)
	<u>–</u>	<u>30,000,000</u>	<u>30,000,000</u>

The other loan from an independent third party was unsecured, charged interest at 0.565% per month and was fully repaid in January 2003.

Subsequent to the balance sheet date, the Company has obtained an irrecoverable written undertaking from a bank. Pursuant to such undertaking, the bank has irrecoverably undertaken to the Company to renew a two-year term loan of RMB30,000,000 (original due in March 2004) which need to be repaid on or before March 2008. Accordingly, the loan of RMB30,000,000 is classified as a non-current liability as at 31 May 2003.

21. Capital

The capital of the Company before the Reorganisation represents the registered paid-up capital.

	Number of shares	Value RMB
Registered, issued and fully paid share capital at 1 January 2001 and 31 December 2001	50,000,000	50,000,000
Subdivision of each issued share into 10 shares of RMB0.10 each (<i>Note</i>)	<u>450,000,000</u>	<u>–</u>
Registered, issued and fully paid share capital at 31 December 2002 and 31 May 2003	<u>500,000,000</u>	<u>50,000,000</u>

* *There were no movements in capital for the two years ended 31 December 2001, 2002 and the five months ended 31 May 2003.*

Note: Pursuant to the resolutions of the shareholders of the Company passed on 17 June 2002, every share of RMB1.00 each is subdivided into 10 shares of RMB0.10 each.

22. Reserves

(a) *Statutory surplus reserve*

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

(b) *Statutory public welfare fund*

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

23. Reconciliation of profit before taxation to net cash generated from operating activities are as follows:

	Year ended 31 December		Five months
	2001	2002	ended 31 May
	RMB	RMB	2003
Profit before taxation	19,615,594	44,561,815	11,161,948
Adjustments for:			
Interest expenses	671,329	4,205,294	2,403,029
Interest income	(65,096)	(82,501)	(34,606)
Depreciation and amortisation of property, plant and equipment	1,734,636	5,042,796	2,489,743
Amortisation of land use right	43,820	259,089	107,954
Amortisation of technological know-how	1,000,000	1,000,000	416,667
Loss on disposal of property, plant and equipment	–	626,465	18,455
Allowance for doubtful debts	694,398	4,252,215	1,696,472
Allowance for inventories	–	487,980	191,627
Operating cash flows before movements in working capital	23,694,681	60,353,153	18,451,289
Increase in inventories	(8,626,731)	(12,480,930)	(7,369,428)
(Increase) decrease in trade receivables	(13,089,814)	(78,043,307)	5,115,127
Increase in other receivables and prepayments	(5,867,204)	(5,327,832)	(3,732,851)
(Increase) decrease in amount due from a director	(45,008)	45,008	–
(Increase) decrease in amount due from a related company	(2,987,319)	2,987,319	–
Increase in trade payables	9,050,757	22,640,120	10,725,257
Increase (decrease) in bills payable	1,740,250	12,015,830	(5,501,193)
Increase (decrease) in other payables and accrued charges	4,076,493	7,485,697	(2,014,696)
Increase (decrease) in amount due to a director	–	60,000	(60,000)
Cash generated from operations	<u>7,946,105</u>	<u>9,735,058</u>	<u>15,613,505</u>

24. Operating lease commitments

The Company as lessee

Minimum lease payments paid under operating leases during the year/period:

	Year ended 31 December		Five months
	2001	2002	ended 31 May
	RMB	RMB	2003
Premises	<u>1,517,100</u>	<u>926,657</u>	<u>230,824</u>

At the respective balance sheet dates, the Company had outstanding commitments payable under non-cancellable operating leases in respect of rented premises which fall due as follows:

	As at 31 December		As at 31 May
	2001	2002	2003
	RMB	RMB	RMB
Within one year	348,040	476,333	553,926
In the second to fifth year inclusive	<u>172,700</u>	<u>374,024</u>	<u>325,020</u>
	<u>520,740</u>	<u>850,357</u>	<u>878,946</u>

Operating lease payments represent rental payable by the Company for its office premises, warehouse and staff quarters. Leases are negotiated for an average term of two years with fixed rentals.

25. Capital commitments

	As at 31 December 2001 RMB	2002 RMB	As at 31 May 2003 RMB
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	1,066,950	372,990	16,829,174

26. Contingent liabilities

At 31 December 2001, the Company and Xi'an Qing Song Keji Co., Ltd. 西安青松科技股份有限公司, a company in which 西安國際信托投資有限公司 ("XITIC"), a shareholder of the Company, has 10% beneficial interest, had given cross guarantee of an amount up to RMB10,000,000 to a bank in respects of banking facilities granted to Xi'an Qing Song Keji Co., Ltd. and the Company and the banking facilities utilised by Xi'an Qing Song Keji Co., Ltd. was amounted to RMB5,000,000 at 31 December 2001. The cross guarantee was released on 26 December 2002.

At 31 May 2003, discounted bills with recourse of the Company were amounted to RMB38,941,530. At 31 December 2001 and 2002, the Company did not have any discounted bills.

27. Pledge of assets

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

	As at 31 December 2001 RMB	2002 RMB	As at 31 May 2003 RMB
Bank deposits (Note)	1,740,250	11,191,502	26,692,213
Buildings	-	24,572,530	24,677,019
Land use right	12,651,537	12,392,448	12,284,494
Trade receivables	-	11,923,497	6,560,346
	<u>14,391,787</u>	<u>60,079,977</u>	<u>70,214,072</u>

Note: Included in the amount, an amount of RMB527,483 as at 31 December 2002 and RMB523,183 as at 31 May 2003 was pledged to a bank to secure the guarantee issued by a bank in favour of an overseas customer for the quality assurance of the goods the customers acquired from the Company. The guarantee will not expire within twelve months from the balance sheet date and is therefore such pledged bank deposit is shown as a non-current asset.

In addition to the above, as at 31 December 2001, XITIC issued corporate guarantees amounted to RMB20,000,000 to banks to secure banking facilities granted to the Company and 18,000,000 shares of the Company held by Professor Xiao in the Company and plant and machinery of the Company with net book value of RMB4,136,030 were pledged to XITIC as counter guarantees. Such security and guarantees were released during the year ended 31 December 2002.

28. Related party disclosures

During the years/period, the Company entered into the following transactions with related parties:

Name of related party	Notes	Nature of transactions	Five months		
			Year ended 31 December 2001 RMB	2002 RMB	ended 31 May 2003 RMB
Mr. Xiao Bing	(i)	Rental expenses paid by the Company for its office	1,200,150	-	-
Ms. Xiao Lei	(i)	Rental expenses paid by the Company for its sale contact point	60,000	60,000	25,000
Xi'an Haitong Antenna Co., Ltd. 西安海通天綫有限責任公司	(ii)	Sales of goods	3,621,640	595,729	100,682
Shaanxi Mant Knowledge Industrial Co., Ltd. 陝西門德知識產業開發有限責任公司	(ii), (iii)	Consultancy service fee paid by the Company for business advices	60,000	-	-
XITIC	(ii), (iii)	Guarantee service fee paid to XITIC as a guarantor of the Company	190,000	71,871	-
Xi'an Zhengheng Asset Appraisal Co., Ltd 西安正衡資產評估有限責任公司	(ii), (iv)	Valuation fee paid in respect of valuation of the Company	-	140,000	40,000
			<u>-</u>	<u>140,000</u>	<u>40,000</u>

Notes:

- (i) Rentals were charged in accordance with the lease terms mutually agreed between the relevant parties. The lease from Mr. Xiao Bing was terminated on 30 September 2001.
- (ii) Considerations for the transactions were paid at terms determined and agreed between the relevant parties. The transactions were carried out at market price, or where no market prices were available, at cost plus a percentage profit mark-up.
- (iii) The above party is a shareholder of the Company.
- (iv) Xi'an Zhengheng Asset Evaluation Co., Ltd. and Xi'an Zhengheng Investment & Advisory Co., Ltd, a shareholder of the Company, are under the control of their common shareholders.

Also, the Company had certain balances with its shareholder, director and related company/party, details of these are set out in notes 16, 17 and 19.

At 31 December 2001, the Company had given cross guarantee to Xi'an Qing Song Keji Co. Ltd. Details of these are set out in note 26.

In addition to the above, as at 31 December 2001, XITIC issued corporate guarantees to the banks. Details of these are set out in note 27.

The directors have represented that the above transactions were undertaken in the ordinary course of business on terms mutually agreed between the Company and the related parties. The directors have represented that other than rental expenses paid to Ms. Xiao Lei, the Company will discontinue the above transactions following the listing of Shares of the Company on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

29. Retirement benefits scheme

The Company participates in a defined contribution retirement scheme organised by the relevant local government authority in the PRC. Certain employees of the Company eligible to participate in the retirement scheme are entitled to retirement benefits from the scheme. The local government authority is responsible for the pension liabilities to these retired employees. The Company is required to make monthly contributions to the retirement scheme up to the time of retirement of the eligible employees, at 20% of the local standard basic salaries.

As at 31 December 2001, 2002 and 31 May 2003, the Company had no significant obligation apart from the contribution as stated above.

30. Government grants

Other than as disclosed in notes 3 and 13, the Company received a government grant of RMB1,200,000 during the year ended 31 December 2002 and RMB120,000 during the five months ended 31 May 2003 respectively towards the development of a 3G product. The amount received in respect of the government grant is repayable if the development of a 3G product is not completed. As at 31 December 2002 and 31 May 2003, as the development of a 3G product is not yet completed, the amount has not yet recognised in the income statement and is included as other payables.

31. Distributable reserves

In accordance with the Articles of Association of the Company, the reserve available for distribution is the lower of amount determined under accounting principles generally accepted in the PRC and the amount determined under the principles generally accepted in Hong Kong. Based on the financial statements of the Company prepared in accordance with the relevant accounting principles and financial regulations applicable to companies established in the PRC, the Company's distributable reserves were RMB16,919,955, RMB33,393,781 and RMB41,310,358 as at 31 December 2001, 31 December 2002 and 31 May 2003.

The Company has reserve amounting to RMB16,919,955, RMB32,809,619 and RMB41,310,358 respectively available for distribution to shareholders as at 31 December 2001, 2002 and 31 May 2003.

32. Directors' and Supervisors' remuneration

Save as disclosed herein, no remuneration has been paid or is payable by the Company to the Company's directors and supervisors in respect of the Relevant Periods.

Under the arrangements presently in force, the aggregate remuneration of the Company's directors and supervisors for the year ending 31 December 2003 is estimated to be approximately RMB1,796,000 (excluding any management bonus which may be paid).

33. Subsequent events

The following transactions took place subsequent to 31 May 2003:

On 18 October 2003, shareholders' resolutions were passed to approve the matters set out in the paragraph headed "Further information about the Company" in appendix VI to the Prospectus.

II. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company in respect of any period subsequent to 31 May 2003.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong