西安海天天綫科技股份有限公司
Xi'an Haitian Antenna Technologies Co., Ltd.*

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

(Stock Code : 8227)

Annual Report **2003**

* for identification purposes only

CHARACTERISTIC OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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

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

This annual report, for which the directors (the “Directors”) of Xi’an Haitian Antenna Technologies Co., Ltd. (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (“Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this annual report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this annual report misleading; and (iii) all opinions expressed in this annual report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

Contents

REGISTERED OFFICE

No. 36 Gao Xin Liu Road
Xi'an National Hi-tech Industrial Development Zone
Xi'an, Shaanxi Province
PRC

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

No. 36 Gao Xin Liu Road
Xi'an National Hi-tech Industrial Development Zone
Xi'an, Shaanxi Province
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

34/F., West Tower
Shun Tak Centre
200 Connaught Road Central
Hong Kong

GEM STOCK CODE

8227

WEBSITE ADDRESSES

www.xaht.com, www.htantenna.com

RETAINED LEGAL ADVISER

Kwok & Yih

COMPANY SECRETARY

曾如鐵先生 (Mr. TSANG Yu Tit), FCCA, AHKSA

COMPLIANCE OFFICER

肖良勇教授 (Professor XIAO Liangyong)

QUALIFIED ACCOUNTANT

曾如鐵先生 (Mr. TSANG Yu Tit), FCCA, AHKSA

MEMBERS OF AUDIT COMMITTEE

鄧元明先生 (Mr. DENG Yuanming), chairman
龔書喜先生 (Mr. GONG Shuxi), member
李文琦先生 (Mr. LI Wenqi), member

AUTHORISED REPRESENTATIVES

肖良勇教授 (Professor XIAO Liangyong)
肖兵先生 (Mr. XIAO Bing)

AUTHORISED PERSON TO ACCEPT SERVICE OF PROCESS AND NOTICE

曾如鐵先生 (Mr. TSANG Yu Tit), FCCA, AHKSA

HONG KONG SHARE REGISTER AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Room 1901-5, 19th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

China Everbright Bank
Yamei Building
No. 39 Keji Road
Xi'an National Hi-tech Industrial Development Zone
Xi'an, Shaanxi Province
PRC

Agricultural Bank of China
No. 25 Gao Xin Road
Xi'an National Hi-tech Industrial Development Zone
Xi'an, Shaanxi Province
PRC

Shanghai Pudong Development Bank
No. 3 Bei Da Jie
Xin Cheng District
Xi'an, Shaanxi Province
PRC

On behalf of the board of Directors (the "Board") of the Company, we hereby present the Annual Report of the Company for the year ended 31 December 2003.

Year 2003 was a challenging year to the Company. With concerted effort of staff and strong support from all parties, the Company achieved significant progress in telecommunication equipment industry and successfully listed its foreign shares ("H Shares") on the GEM of the Stock Exchange on 5 November 2003.

The Company researches and develops, manufactures and sells base station antennas and related products. It also provides solutions in respect of technical support, system integration and network optimization to mobile communication network operators and telecommunication equipment vendors/ system integrators. With its continuous dedication to its main product lines, the Company has become one of the leading providers of base station antennas and related products in the People's Republic of China (the "PRC") and has explored new markets overseas.

While gaining progress in the business, the Company unceasingly enhances its ability in research and development, including on technologies and products to be applied in the third generation ("3G") mobile communication. The achievements in product research and development differentiate the Company from its competitors and lay the foundation for future business development.

On behalf of the Board, I would like to extend my sincere gratitude and appreciation to the shareholders and staff for their support and hard work during the year.

Professor XIAO Liangyong
Chairman

Xi'an, the PRC
19 March 2004

From 5 November 2003 to 31 December 2003

Business objectives	Actual business progress
Research and development of the Company's products	
Preliminary research on 3G base station antennas, TD-SCDMA intelligent antennas and wireless access systems.	Research has commenced. 2 models of 3G base station antennas, including ones to be applied in TD-SCDMA system, has been developed.
Research and development of optical fibre and 3G repeaters/RF.	Research has commenced and is in progress.
Further empowering of the Company's research and development	
Study feasibility of the proposal on and set up a near field/far field antenna testing system.	The setting up of a near field/far field antenna testing system has been completed.
Study feasibility of the proposal on and set up an anechoic chamber.	Feasibility study has been completed. Construction of the anechoic chamber has commenced.
Construction of antenna test centre.	Construction of the antenna test centre has commenced.
Increase of production capacity	
Purchase processing and testing equipment according to production line capacity.	Testing equipment has been purchased. Processing equipment has not yet been purchased considering the actual demand for production capacity.
Enhance the 3 existing production lines.	The production lines have been enhanced.
Purchase processing and testing equipment for production purpose.	Processing and testing equipment has been purchased for production purpose.

From 5 November 2003 to 31 December 2003

Business objectives	Actual business progress
Expansion of sales and marketing network	
Set up an additional sales contact point in the PRC.	The setting up of the sales contact point has been deferred until the management consider necessary.
Commence consolidation of sales and marketing system in the PRC.	Consolidation of sales and marketing system in the PRC has commenced.
Set up a sales contact point in Hong Kong.	The setting up of the sales contact point has been deferred to year 2004.
Collaboration with business partners and establishing strategic alliances	
Strengthening relationships with mobile communication network operators and equipment vendors.	The Company continued strengthening relationships with mobile network operators and equipment vendors through events such as visiting customers and organizing technical seminars.
Monitor if any new licence of the mobile telecommunication operator will be issued in the PRC.	New licences of mobile telecommunication network operator have not been issued. The Company has been maintaining continuous contact with participants in the market which are potential licencees of the new mobile telecommunication network.

Comparison between Intended and Actual Use of Net Proceeds of Placing of the Company's H Shares

From 5 November 2003 to 31 December 2003

Business objectives	**Planned uses of proceeds as set out in the Prospectus** *HK$ million*	**Actual amount of proceeds used up to 31 December 2003** *HK$ million*
Research and development of the Company's antennas and related products	12.5	12.5
Further empowering of the Company's research and development capabilities	10.0	10.0
Increase of production capacity	3.0	0.5
Expansion of sales and marketing network	1.7	0.3
Collaborating with business partners and establishing strategic alliance	1.0	1.0
Total	28.2	24.3

The unused proceeds from the placing of the Company's H shares were placed in banks in the PRC as deposits as at 31 December 2003.

RESULT OF OPERATIONS

The Company recorded a total turnover of approximately RMB226.7 million and a net profit of approximately RMB43.0 million for the year ended 31 December 2003. The Company had continued to develop as compared to a turnover of approximately RMB164.5 million and net profit of approximately RMB36.4 million in the year 2002. The Company's turnover increased by 37.8% from the year 2002. The increase in turnover was the result of continuing expansion of CDMA and Xiaolingtong network in the PRC and the Company's success in maintaining close cooperation relationship with its major customers, including UTStarcom Telecom Co., Ltd. ("UTStarcom"), 中國移動通信集團有限公司 (China Mobile Communications Corporation) and its subsidiaries and branch offices (collectively "China Mobile Group") and 中國聯合通信有限公司 (China United Telecommunications Corporation) and its subsidiaries and branch offices (collectively "China Unicom Group").

The Company's gross profit margin was 50.2% for the year 2003 as compared to a gross profit margin of 55.6% for the year 2002. The Company continued to adopt the strategy of capturing market share (based on the Directors' estimate, the Company's share in the GSM/CDMA antenna and WLL/PHS base station antenna market for the year 2003 was 24% and 35% respectively) by lowering selling price of products after they are launched for a period of time. However, the Company has been adopting cost controlling measures including subcontracting certain parts of the production process of WLL/PHS base station antenna series.

The Company recorded other operating income, which mainly comprised subsidy for interest expenditure incurred for obtaining external finance by the Company for the construction of property, plant and equipment, for upgrading existing production capacity and to promote export sales, of approximately RMB3.0 million for the year 2003, comparing to the other operating income, which mainly comprised income received from network inspection services provided to customers, of approximately RMB2.1 million for the year 2002.

Distribution costs increased for approximately 36.1% from approximately RMB18.0 million for the year 2002 to approximately RMB24.5 million for the year 2003. The increase was in line with the increase in the Company's turnover. Percentage of distribution costs to turnover was 10.8% for the year 2003, approximate to 10.9% for the year 2002.

Administration expenses increased by approximately 75.6% from approximately RMB11.9 million for the year 2002 to approximately RMB20.9 million for the year 2003. The increase was mainly due to the increase in payroll and staff welfare expenses, traveling expenses and motor vehicle expenses.

Other operating expenses mainly comprised amortization of intangible assets, allowance for doubtful debts and product research and development costs. Total other operating expenses decreased for approximately 13.2% from approximately RMB15.1 million for the year 2002 to approximately RMB13.1 million for the year 2003. The decrease was mainly due to the fact that allowance made for doubtful debts decreased by approximately RMB2.6 million. At the same time, approximately RMB6.4 million (2002: nil) of product research and development costs had been capitalized. The total product research and development costs, including capitalized and directly charged to income statement as expense, increased because the Company continued its policy of differentiating itself from competitors by maintaining advancement in technologies.

Trade receivables, before allowance for doubtful debts, as at 31 December 2003 amounted to approximately RMB165.4 million, increased by approximately RMB61.2 million or 58.7% from the balance as at 31 December 2002. The increase was mainly due to increase in turnover. Debtor turnover day (calculated as trade receivables before allowance net of value added tax divided by turnover) for the year 2003 was 228 days (2002: 198 days). As sales to China Mobile Group and China Unicom Group were mainly made in the third and fourth quarters and the two groups of customers settle trade debts by instalments of which, settlement time are mutually agreed by the relevant parties; such instalments are usually agreed to be settled in a period of time longer than the 90 days to 240 days credit terms granted to other customers, trade receivable balance at the year end is usually higher than at other month ends. Further, according to sale and purchase contracts with the two groups of customers, 10% of sale price are kept by the customers as retention monies for quality assurance. Such retention monies will be released after the network where the Company's antennas are installed passes the final testing. As sales to the two groups of customers was increasing and retention monies accumulated as the final testing condition of releasing the monies had not yet been fulfilled, long aged trade receivable due from the two groups of customers increased. For prudence, approximately RMB1.7 million of allowance has been made in addition to the allowance made in previous accounting periods for trade receivables. As at 31 December 2003, total allowance for doubtful debts amounted to approximately RMB7.3 million. Considering that the Company's major customers such as China Unicom Group, China Mobile Group and UTStarcom are well-financed listed companies or companies affiliated to listed companies and that repayment history of trade debts including those balances for which allowance for doubtful debts had been provided before were satisfactory, the Directors consider the current level of allowance for doubtful debts is sufficient. The Directors are aware of the trade receivable position and have taken more aggressive approaches, including reminding customers to pay during customer visit, sending written payment reminders and even taking legal action to customers having long-outstanding trade debts. The Company finances the working capital, which is partially invested in trade receivable balance, by cash generated from operation, by trade financing facilities such as issuing bills of exchange backed by partial payment and by short term bank loans.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

During the year, the Company was mainly financed by proceeds from placing of its H shares, cash from operations and banking facilities.

From 1 January 2003 to 31 December, 2003, short-term borrowings increased from approximately RMB43.1 million to approximately RMB54.7 million and long term borrowings increased from approximately RMB30.0 million to RMB50.0 million. Total borrowings amounted to RMB104.7 million as at 31 December 2003. These borrowings were mainly used for the Company's daily operation and acquisition of fixed assets.

As at 31 December 2003, all of the Company's borrowings bear interest of a fixed rate ranging from 4.2% to 5.49%. Since all the borrowings were denominated in RMB dollars, exposure to foreign exchange risk was minimal.

The Company's borrowings are repayable as follows:

	RMB million
Within 1 year	54.7
More than 1 year, but not exceeding 2 years	–
More than 2 years, but not exceeding 5 years	50.0
	104.7

Over the year, the Company's gearing ratio decreased to 47.4% (2002: 79.5%), which is calculated based on total bank and other borrowings of approximately RMB104.7 million and total shareholders' funds of approximately RMB220.9 million. Cash and cash equivalents increased from approximately RMB21.0 million to RMB113.6 million. Most of the Company's bank deposits were deposited with banks as short-term deposits and denominated in either Hong Kong dollars or RMB, which are directly related to the Company's businesses in the areas of the currencies concerned.

CHARGES ON COMPANY ASSETS

As at 31 December 2003, the Company pledged a bank deposit of approximately RMB24.8 million, buildings of net book value of approximately RMB24.3 million, land use right of net book value of approximately RMB12.1 million and trade receivables of approximately RMB10.9 million for banking facilities.

CONTINGENT LIABILITIES

As at 31 December 2003, the Company did not have any material contingent liabilities.

FOREIGN EXCHANGE EXPOSURE

Since most of the transactions of the Company are denominated in Renminbi, the Company has not experienced any material difficulties or effects on its operations or liquidity as a result of fluctuations in currency exchange rates during the year under review. The Company did not enter into any material foreign exchange contracts, interest or currency swaps or other financial activities.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2003, the Company had approximately 525 full-time employees. Total staff costs for the year 2003 amounted to approximately RMB29.1 million (2002: RMB18.1 million), including remuneration of the Directors and members of supervisory committee (the "Supervisors") and staff costs included in research and development costs and capitalized. The Company reviews employee remuneration from time to time and increases are normally granted annually or by special adjustment depending on length of service and performance when warranted. In addition to salaries, the Company provides employee benefits including medical insurance and retirement benefits scheme. Bonuses are also available to employees of the Company at the discretion of the Directors and depending upon the financial performance of the Company. The Company has not granted any share options to the Directors and its full-time employees.

SIGNIFICANT INVESTMENT HELD

During the year ended 31 December 2003 and as at the balance sheet date, the Company did not hold investment in equity interest in any company.

FUTURE PLANS FOR MATERIAL INVESTMENTS

As at 31 December 2003, the Company had capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment amounted to approximately RMB6.3 million (2002: RMB0.4 million). Save as disclosed herein and the business objectives set out in the prospectus of the Company, the Company did not have other plans for material investment.

MATERIAL ACQUISITIONS AND DISPOSALS

During the year ended 31 December 2003, the Company did not have any material acquisitions and disposals of subsidiaries and affiliated companies.

DISCLOSURE UNDER CHAPTER 17 OF THE GEM LISTING RULES

As at 31 December 2003, trade receivables due from members of China Unicom Group (in aggregate), members of China Mobile Group (in aggregate), UTStarcom and other trade customers (in aggregate) amounted to approximately RMB99.1 million, RMB35.8 million, RMB11.8 million and RMB18.7 million respectively. Such trade receivables in an aggregate amount of approximately RMB165.4 million were owed by trade customers who are Independent Third Parties.

All of the above trade receivables are unsecured and repayable in accordance with terms specified in the contracts governing the relevant transactions. No collateral is required to be made by these three customers and no interest is charged on such balances. The balances due from China Unicom Group (in aggregate), China Mobile Group (in aggregate) and UTStarcom represented approximately 50.6%, 18.3% and 6.0% of the Company's net tangible assets as at 31 December 2003. As the amount due from China Unicom Group (in aggregate) was more than 25% of the Company's net tangible assets as at the balance sheet date, this constitutes a disclosure obligation on the part of the Company pursuant to Rule 17.15 of the GEM Listing Rules as the relevant advance to an entity from the Company exceeds 25% of the Company's net tangible assets. Each of China Unicom Group, China Mobile Group and UTStarcom is independent from each other. Save for the aforesaid, the Directors have confirmed that, as at 31 December 2003, they were not aware of any circumstances which would give rise to a disclosure requirement under Rule 17.15 of the GEM Listing Rules. According to the Directors, the terms of such advance are on normal commercial terms and in the ordinary course of business.

According to the Directors, the Company has not encountered any negative impact to its operations or business despite the Company's significant exposure to China Unicom Group. In addition, the Directors believe that with the strong backing of these customers, the Company is able to further expand its business as one of the leading providers of the base station antennas and related products in the PRC. Since there are only two mobile telecommunication network operators in the PRC for GSM/CDMA networks as at 31 December 2003, namely China Unicom Group and China Mobile Group, and UTStarcom is a major supplier to 中國電信集團公司 (China Telecommunications Corporation) and its subsidiaries and branch offices for WLL/PHS base station antennas, reliance on these customers becomes an industry norm and practice for the Company's nature of business.

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

TOP FIVE SUPPLIERS AND CUSTOMERS

For the year ended 31 December 2003, sales to the top five customers and the largest customer accounted for approximately 94.7% (2002: 88.1%) and 37.3% (2002: 36.5%) respectively of the Company's total turnover.

For the year ended 31 December 2003, purchases from the top five suppliers and the largest supplier accounted for approximately 59.1% (2002: 36.0%) and 23.0% (2002: 10.5%) respectively of the Company's total purchases.

Each of the top five customers and the top five suppliers is independent of and not connected with any of the Directors or any shareholders of the Company (the "Shareholders") which, to the best knowledge of the Directors, own more than 5% of the Company's share capital and their associates.

ORDERS RECEIVED AND PROSPECTS FOR NEW BUSINESS

The Company's customers give short delivery period when place orders. Therefore, there was no material order received as at 31 December 2003.

The Company will continue to be engaged in research and development, manufacture and sale of base station antennas and related telecommunication equipment products. The Company plans to expand its product lines into other products and services related to telecommunication base station antennas and equipment, especially provision of software adhesive to antenna and base station and network optimization services. The Company expects that revenues generated from provision of such antenna and base station adhesive software and services will contribute to not less than 10% of the Company's turnover in the coming year.

DIRECTORS

Executive Directors

Professor XIAO Liangyong (肖良勇教授, "Professor Xiao"), aged 68, graduated from Zhangjiakou PLA Communication Engineering College (張家口解放軍通訊工程學院) (now known as 西安電子科技大學 Xidian University) in 1957 with a degree in radio engineering. He took positions as the tutor, lecturer, associate professor, professor and dean of the sixth department (currently the electronic engineering college) and antenna development centre of Xidian University from January 1957 to January 1998. Besides, Professor Xiao was an executive director and the general manager of Xi'an Haitian Communications from January 2000 to October 2000 and has been the chairman of the Company since October 2000.

Mr. XIAO Bing (肖兵先生), aged 38, is the son of Professor Xiao. Mr. Xiao studied in the College of Continuous Education in Xidian University. He worked in Xi'an General Factory of Oil Instruments (西安石油勘探儀器總廠) from 1988 to 1991 and was the deputy general manager of Xi'an Haitian Communications from 1999 to 2000. He was elected as a Director and assumed the post of the president of the Company since October 2000.

Mr. GUO Weisheng (郭渭盛先生), aged 72, graduated from Northwest Institute of Communications Engineering (now known as Xidian University) in 1963 and is a professor. He worked as lecturer, associate professor, professor, deputy dean and dean of the electromagnetic engineering department of Xidian University from 1960 to 1992. He was the deputy general manager of Xi'an Haitian Communications from 1999 to 2000 and was elected as a Director and assumed the post of the vice president of the Company since October 2000.

Non-executive Directors

Mr. LUO Maosheng (羅茂生先生), aged 42, graduated from Shaanxi Radio and Television University (陝西省廣播電視大學) and is a senior accountant. In 1995, Mr. Luo joined Xi'an Jiefang Group and served as financial controller. Currently, he is an executive director, the financial controller and deputy senior manager of Xi'an Jiefang Group and was elected as a Director since October 2000.

Mr. MI Yunping (米雲平先生), aged 47, is a senior economist with a doctorate degree in science. He is the deputy general manager of BJ Holdings since March 2000 and was elected as a Director since October 2000.

Mr. WANG Quanfu (王全福先生), aged 41, graduated from Party School of the Shaanxi Provincial Committee of the Chinese Communist Party of PRC (中共陝西省委黨校) in 1997. He started working in Xi'an Jiefang Group since 1988 and is an assistant to the general manager of Xi'an Jiefang Group from May 2001 to date and was elected as a Director since October 2000.

Mr. LIU Yongqiang (劉永強先生), aged 65, graduated from Northwest Journalism Institute (西北新聞刊投學院) in 1987 and he became the deputy secretary-general of Xi'an Municipal People's Government in 1989. Mr. Liu became the chairman of the board of 西安國際信託投資有限公司 (Xi'an International Trust Investment Co. Ltd. or XITIC) in 1999 and was elected as a Director since October 2000.

Mr. LI Wenqi (李文琦先生), aged 38, graduated from Shaanxi College of Finance and Economics in (陝西財經學院) (now known as 西安交通大學 (Xi'an Jiaotong University) and is an accountant. He worked as the deputy chief and manager of Planning and Finance Department from October 1987 to April 1994 and from April 1994 to October 1997 and the assistant to general manager and manager of Planning and Finance Department from October 1997 to May 2001. He is the chief accountant and manager of Planning and Finance Department of Shaanxi Silk from May 2001 and was elected as a Director since October 2000.

Independent non-executive Directors

Mr. ZHOU Tianyou (周天游先生), aged 42, graduated from the Electronics and Computer Science Department of Shanghai Jiao Tong University (上海交通大學) with a bachelor degree in automatic control engineering in 1983 and is an engineer. Mr. Zhou was awarded a Certificate of Siemens Training Centre for Communication Techniques in Germany and is a certified instructor for operation. During his service in the international cellular infrastructure division of Motorola Group, he was awarded a certificate of appreciation for his contribution to the success of Motorola cellular infrastructure business in the PRC in 1994. In October 1998, he was awarded a certificate of completion in respect of the Iridium Communications System by the ground systems division of Motorola Satellite Communications Group. He worked as the marketing manager in Beijing Digipro Information Technology Co. Ltd. (北京長信嘉信息技術有限公司) for the period between 1 December 1999 and 1 December 2001. Since October 2000, he was elected as an independent non-executive Director.

Mr. GONG Shuxi (龔書喜先生), aged 47, graduated from Northwest Institute of Communications Engineering (now known as Xidian University) with bachelor and master degrees and doctorate degree in electromagnetic and microwave technology in Xi'an Jiantong University and is a professor. Mr. Gong became the professor in Antenna Research Institute of Xidian University in 1997. Since October 2000, he was elected as an independent non-executive Director.

Mr. DENG Yuanming (鄧元明先生), aged 65, graduated in 1960 with a bachelor degree in Northwest University (西北大學). He was a professor in industrial economics of Xi'an Jiaotong University and retired in 2003. In 1996 and 1998, Mr. Deng was a member of the standing committee of the People's Congress of Shaanxi Province. Since October 2000, he was elected as an independent non-executive Director. Mr. Deng has ceased to be the independent director of Xi'an Jiefang Group with effect from 12 May 2003.

SUPERVISORS

Mr. HU Hui (胡暉先生), aged 37, graduated from the Changsha Railway University (長沙鐵道學院) (now know as Central South University (中南大學)) majoring in mechanical engineering in 1989 and is an engineer. Mr. Hu was employed by the Zhuzhou Gear Co., Ltd. (株州齒輪股份有限公司) from 1989 to December 2001. He joined the Company in May 2002 as the assistant supervisor of the corporate planning department and he was elected as a Supervisor in July 2002.

Ms. SUN Guilian (孫桂蓮小姐), aged 40, graduated from the Zhongnan University of Economics and Law (中南財經政法大學) majoring in BBA in 2002. She was employed by the No. 704 factory of the State and worked in the enterprise statistics department from 1984 to 2000. Ms. Sun joined the Company in September 2000 and was elected as a Supervisor in July 2002.

Mr. LIU Jiyang (劉激揚先生), aged 36, graduated from Xi'an Jiaotong University with a bachelor degree in management engineering in 1989. Mr. Liu also holds a master degree in economic laws from Xi'an Jiaotong University in 1993. Mr. Liu was employed by Xi'an Datang Telephone Company Limited (西安大唐電信有限公司) as the enterprise legal adviser and deputy general manager of 西安山脈科技發展有限公司 from April 2001 to February 2002. From March 2002 till now, he has been working as the general manager of 西安協聖科技有限責任公司 and was elected as a Supervisor in October 2002.

Ms. SHI Ping (師萍小姐), aged 55, holds a doctorate degree. Ms. Shi has started working as a professor, tutor of doctorate students, deputy manager of the Institute of Economics and Management in Northwest University since December 1985. Currently, she is an independent non-executive director of Xi'an Jiefang Group. She was elected as a Supervisor in October 2002.

Mr. GU Linqiang (谷林強先生), aged 37, graduated from the Shandong University (山東大學) in 1989 with a bachelor degree in management science. In 1994, Mr. Gu worked in the credit department of XITIC. In 1997, he was posted to the investment banking division and assumed the posts of deputy manager and manager. Mr. Gu was elected as a Supervisor in October 2002.

SENIOR MANAGEMENT

Mr. LI Kun (李琨先生), aged 69, graduated from the physics department of East China Normal University (華東師範大學) in 1960 and taught at Xidian University as lecturer, associate professor and professor from 1960 to 1993. Mr. Li co-founded the Company with Professor Xiao and Mr. Xiao Bing after his retirement. He was appointed as the vice president of the Company in October 2000. Mr. Li is responsible for human resource management and administration of the Company.

Mr. LIU Peng (劉鵬先生), aged 36, graduated from the Changsha Railway University (長沙鐵道學院) (now known as Central South University (中南大學)) in 1989, and has finished the MBA courses in Northern Jiaotong University (北方交通大學) in 2000 and is an engineer. He worked at the equipment factory of China Nonferrous Metal 23 Metallurgy Corporation Second Branch (中國有色二十三冶二公司工業設備廠) from July 1989 to March 1997. From April 1997 to February 2001, he worked as the assistant to president of Hunan Gold Zhengfang Enterprise Group (湖南金正方企業集團) as well as the general manager of Huali Garment Wholesale Market (華麗服裝批發大市場). He joined the Company in April 2001 and was appointed as a vice president of the Company in May 2002. Mr. Liu is responsible for production planning and purchasing of the Company.

Mr. LIANG Zhijun (梁志軍先生), aged 40, graduated from Shaanxi Mechanical Engineering Institute (陝西機械學院) (now known as Xi'an University of Technology (西安理工大學)) in 1985 and taught in Xidian University from 1985 to 1993. Mr. Liang worked in China Electronics Import & Export Corporation, Hainan Branch (中國電子進出口總公司海南公司) from 1988 to 1989 and Xi'an Datang Telephone Company Limited (西安大唐電信有限公司) from 1993 to 2000. He joined the Company in July 2000. Currently, he is the secretary of the Board since October 2000 and was appointed as vice president of the Company in April 2003. Mr. Liang is responsible for the secretarial work of the Board.

Ms. MAO Yuehua (茅躍華), aged 45, graduated from the Northwest University (西北大學) majoring in economic management in 1989. Ms. Mao worked in Guangzhou Post and Telecom Equipment Co., Ltd. (廣州郵電通信設備有限公司) from 1997 to 2002, during which she was appointed as a representative officer in Beijing from 2001 to 2002. She joined the Company in July 2001 and she was appointed as a vice president of the Company in April 2003. Ms. Mao is responsible for the marketing and public relations of the Company.

Mr. FANG Xi (方曦先生), aged 34, graduated from the agricultural finance department of 中南財經大學 (Zhongnan University of Finance and Economics) in 1993 and worked as head of finance department and deputy chief accountant of State-owned Yellow River Machine Manufactory (國營黃河機器製造廠) from 1993 to 2001. Currently, he is responsible for the finance function of the Company.

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Mr. TSANG Yu Tit (曾如鐵先生), aged 35, is a qualified accountant with over nine years of experience in accounting, auditing and financial management. He is also the company secretary of the Company. Mr. Tsang graduated with a bachelor degree in accountancy from the Hong Kong Polytechnic University. He is an associate member of the Hong Kong Society of Accountants and a fellow member of the Association of Chartered Certified Accountants. Mr. Tsang joined the Company in November 2002. Before joining the Company, he worked for an international certified public accountants firm, Deloitte Touche Tohmatsu, for three years and then joined a private company which engaged in manufacturing and trading.

To the Shareholders,

During the financial year of 2003, the Supervisory Committee of the Company (the "Committee") thoroughly performed its duties faithfully in accordance with the provisions of the Company Law and the Articles of Association of the Company. Adhering to the principles of safeguarding interests of Shareholders and benefits of the staff of the Company, the Supervisors attended Board meetings, acquiring first-hand information of the decision marking of the Board on important issues and monitored effectively members of the Board and the senior management in performing their duties.

The Supervisory Committee considers that:

1. The Company's operation for the year 2003 complied with the relevant regulations of the state and local governments and the Company's Articles of Association. With unremitting efforts of the management, the Company was successfully listed and achieved satisfactory operating results for 2003;

2. The Directors and managers of the Company performed their duties in strict discipline for the development of the Company. They carried out their work diligently without violating any law, regulation or the Company's Articles of Association and had not conducted any activities which was against the interests of the Company;

3. Asset acquisitions and disposals of the Company were transacted at reasonable prices, there was no insider trading which prejudiced the interests of certain Shareholders or caused any loss of assets of the Company;

4. The connected transactions of the Company were conducted on a fair and reasonable basis without jeopardizing the interests of the Company and Shareholders;

5. During the year, the Committee co-operated positively with the Company's listing work to ensure its success. At the same time, its role in monitoring the management was strengthened by attending Board meetings, participating in the decision-making process of the management and reviewing regularly the Company's financial statements and accounts. The Supervisors believe that the financial management of the Company were performed in strict accordance with the relevant accounting principles, that the financial statements and accounts were prepared timely and properly and that no improper disclosures were identified; and

6. The Supervisors have carefully examined the financial statements of the Company to be submitted to the Annual General Meeting and believe that during the reporting period, the operating results of the Company adequately reflect its state of affairs; all expenses and costs were incurred reasonably.

The Committee would like to extend its appreciation to all Shareholders, Directors and members of staff for their strong support of the Committee's work.

By order of the Supervisory Committee

HU Hui
Chairman of the Supervisory Committee

Xi'an, the PRC
19 March 2004

The Directors present their annual report and the audited financial statements for the year ended 31 December 2003.

REORGANISATION AND LISTING ON THE GEM OF THE STOCK EXCHANGE

Xi'an Haitian Communications Equipment Company Limited 西安海天通訊設備有限公司 ("XHCE"), the predecessor of the Company, was established in the People's Republic of China (the "PRC") on 13 October 1999 as a limited liability company. Through a reorganisation (the "Reorganisation"), XHCE was transformed into a joint stock limited company in the PRC on 11 October 2000.

On 22 April 2003, the China Securities Regulatory Commission issued an approval consenting the Company to issue overseas-listed foreign shares ("H Shares") and list on the GEM of the Stock Exchange. The Company's H Shares were listed on GEM with effect from 5 November 2003.

PRINCIPAL ACTIVITIES

The Company is principally engaged in the research and development, manufacture and sale of base station antennas and related products.

RESULTS AND APPROPRIATIONS

The results of the Company for the year ended 31 December 2003 are set out in the income statement on page 27 of the annual report.

The Directors now recommend the payment of a final dividend of RMB0.005 per share to the Shareholders on the register of members on 20 April 2004, amounting to RMB3,235,294, and the retention of the remaining profit for the year.

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 RMB64,606,117 as at 31 December 2003 (2002: RMB33,393,781).

The Company has reserve amounting to RMB64,606,117 available for distribution to shareholders as at 31 December 2003 (2002: RMB32,809,619).

FINANCIAL SUMMARY

A summary of the results of the Company for each of the three years ended 31 December 2003, and the assets and liabilities of the Company as at 31 December 2001, 2002 and 2003 is set out on page 51 of the annual report.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Company spent approximately RMB9 million on plant and equipment and approximately RMB26 million on properties under construction to expand and upgrade its production capacity.

In the prospectus of the Company dated 24 October 2003, the Company included a valuation of its properties at approximately RMB38 million, which valuation has not been incorporated in the financial statements for the year ended 31 December 2003. These properties have been included in the balance sheet at 31 December 2003 at approximately RMB36 million, being their historical cost less accumulated depreciation and accumulated impairment losses. Had the properties been stated at their revalued amount in the financial statements, additional depreciation of approximately RMB25,000 would have been charged against the income statement.

Details of these and other movements during the year in the property, plant and equipment of the Company are set out in note 15 to the financial statements.

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 20 to the financial statements.

During the period from 5 November 2003 (date of listing) to 31 December 2003, the Company did not purchase, sell or redeem any of the Company's listed securities.

DIRECTORS AND SUPERVISORS AND SERVICE CONTRACTS

The directors and supervisors of the Company during the year and up to the date of this report were:

Executive directors:

Professor Xiao Liangyong *(Chairman)*
Mr. Xiao Bing *(President)*
Mr. Guo Weisheng *(Vice President)*

DIRECTORS AND SUPERVISORS AND SERVICE CONTRACTS *(continued)*

Non-executive directors:

Mr. Luo Maosheng
Mr. Mi Yunping
Mr. Wang Quanfu
Mr. Liu Yongqiang
Mr. Li Wenqi

Independent non-executive directors:

Mr. Zhou Tianyou
Mr. Gong Shuxi
Mr. Deng Yuanming

Supervisors:

Mr. Hu Hui
Ms. Sun Guilian
Mr. Liu Jiyang
Ms. Shi Ping
Mr. Gu Linqiang

Each of the directors and supervisors has entered into a service contract with the Company on 18 October 2003 or 19 October 2003 for an initial term of three years subject to renewal upon approval by shareholders for one or more consecutive terms of three years.

In accordance with the provisions of the Company's Articles of Association, the term of office of the directors shall be three years commencing from the date of appointment or re-election and renewable upon re-appointment or re-election. In accordance with the provisions of the Company Law in the PRC, the term of office of supervisors shall also be three years and renewable upon re-appointment or re-election. During the year, none of the directors' and supervisors' terms of office expire and all directors and supervisors continue in office.

Other than as disclosed above, none of the directors and supervisors has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' AND SUPERVISORS' INTERESTS IN SECURITIES

At 31 December 2003, the interests of the directors and supervisors and their associates in the shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Long positions in domestic shares of RMB0.10 each of the Company

Name of director	Type of interest	Capacity	Number of issued domestic shares held	Percentage of the issued share capital of the Company
Professor Xiao Liangyong	Personal	Beneficial owner	180,000,000	27.8%

Other than as disclosed above, none of the directors, supervisors nor their associates had any interests or short positions in any shares of the Company or any of its associated corporations as at 31 December 2003.

ARRANGEMENTS TO PURCHASE SHARES

At no time during the year was the Company a party to any arrangement to enable the directors and supervisors of the Company to acquire benefits by means of the acquisition of shares in the Company or any other body corporate.

DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

No contract of significance, to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or any time during the year.

COMPETING INTEREST

None of the directors or the management shareholders of the Company (as defined in the Rules Governing the Listing of Securities on the GEM (the "GEM Listing Rules") had an interest in any business which competes or may compete with the business of the Company.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2003, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following shareholders had notified the Company of relevant interests and short position in the issued share capital of the Company.

Long positions in domestic shares of RMB0.10 each of the Company

Name of director	Type of interest	Capacity	Number of issued domestic shares held	Percentage of the issued share capital of the Company
Professor Xiao Liangyong	Personal	Beneficial owner	180,000,000	27.8%
Xi'an Jiefang Group Co., Ltd.	Corporate	Beneficial owner	100,000,000	15.5%
Xi'an International Trust & Investment Co., Ltd. ("XITIC")	Corporate	Beneficial owner	70,151,471	10.8%
Xi'an Finance Bureau	Corporate	Held by controlled corporation *(Note 1)*	70,151,471	10.8%
Shaanxi Baosheng International Investment Company Limited ("Shaanxi Baosheng")	Corporate	Held by controlled corporation *(Note 1)*	70,151,471	10.8%
Beijing Holdings Investment Management Co., Ltd. ("BJ Holdings")	Corporate	Beneficial owner	54,077,941	8.4%
Beijing Holdings Limited	Corporate	Held by controlled Corporation *(Note 2)*	54,077,941	8.4%
Shaanxi Silk Import & Export Corporation ("Shannxi Silk")	Corporate	Beneficial owner	45,064,706	7%
Shaanxi Finance Bureau	Corporate	Held by controlled Corporation *(Note 3)*	45,064,706	7%

SUBSTANTIAL SHAREHOLDERS *(continued)*

Long positions in domestic shares of RMB0.10 each of the Company *(continued)*

Notes:

1. Each of Xi'an Finance Bureau and Shaanxi Baosheng is deemed to be interested in the 70,151,471 domestic shares of RMB0.10 each held by XITIC as each of Xi'an Finance Bureau and Shaanxi Baosheng is interested in approximately 39.6% and 34.3% respectively of the registered capital of XITIC.

2. Beijing Holdings Limited is deemed to be interested in the 54,077,941 domestic shares of RMB0.10 each held by BJ Holdings as the entire registered capital of BJ Holdings is held by Beijing Holdings Limited.

3. Shaanxi Finance Bureau is deemed to be interested in the 45,064,706 domestic shares of RMB0.10 each held by Shaanxi Silk as the entire registered capital of Shaanxi Silk is held by Shaanxi Finance Bureau.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31 December 2003.

CORPORATE GOVERNANCE

The Company has complied in the period between its listing date and 31 December 2003 with the Code of Best Practice as set out in 5.28 to 5.39 of the GEM Listing Rules.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the year. The Company has not purchased or sold any of the Company's shares during the year.

AUDIT COMMITTEE

An audit committee was established on 4 April 2003 with terms of reference in compliance with Rules 5.23 and 5.24 of the GEM Listing Rules. During the year, one meeting was held by the audit committee and the primary duties of the audit committee are to review the financial reporting process and internal control system of the Company.

Mr. Gong Shuxi and Mr. Li Wenqi, an independent non-executive director and a non-executive director, respectively, have been appointed as members to the audit committee. Mr. Deng Yuanming, an independent non-executive director, was appointed as the Chairman of the audit committee.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or the laws of the PRC, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

SPONSOR'S INTEREST

As notified and updated by Core Pacific-Yamaichi Capital Limited (''CPY Capital''), the Company's sponsor, pursuant to Rule 6.35 of the GEM Listing Rules, as at 31 December 2003, Core Pacific - Yamaichi International (H.K.) Limited, an associate (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) of CPY Capital, held 508,000 H Shares in the Company. Save as disclosed herein, neither CPY Capital nor its directors or employees or associates had any interest in the share capital of the Company. Pursuant to the sponsor agreement dated 24 October 2003 (the "Agreement") entered into between CPY Capital and the Company, CPY Capital received and will receive fees for acting as the Company's retained sponsor for the period from 5 November 2003 up to 31 December 2004 and the period from 1 January 2005 up to 31 December 2005 or until the Agreement is terminated upon the terms and conditions set out therein.

AUDITORS

A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Professor XIAO Liangyong
Chairman

Xian, the PRC
19 March 2004

德勤·關黃陳方會計師行

Certified Public Accountants
26/F, Wing On Centre
111 Connaught Road Central
Hong Kong

香港中環干諾道中111號
永安中心26樓

Deloitte
Touche
Tohmatsu

TO THE SHAREHOLDERS OF
XI'AN HAITIAN ANTENNA TECHNOLOGIES COMPANY LIMITED
西安海天天綫科技股份有限公司
(established as a joint stock limited company in the People's Republic of China)

We have audited the financial statements on pages 27 to 50 which have been prepared in accordance with the accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purposes. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company as at 31 December 2003 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche & Tohmatsu
Certified Public Accountants

Hong Kong, 19 March 2004

For the year ended 31 December 2003

	Notes	2003 RMB	2002 RMB
Turnover	4	**226,731,785**	164,525,831
Cost of sales		**(112,824,028)**	(73,091,608)
Gross profit		**113,907,757**	91,434,223
Other operating income		**2,987,098**	2,120,260
Distribution costs		**(24,454,516)**	(17,974,095)
Administrative expenses		**(20,898,230)**	(11,897,950)
Other operating expenses		**(13,060,712)**	(15,095,329)
Profit from operations	6	**58,481,397**	48,587,109
Finance costs	9	**(4,954,481)**	(4,025,294)
Profit before taxation		**53,526,916**	44,561,815
Income tax expenses	10	**(10,518,081)**	(8,168,467)
Net profit for the year		**43,008,835**	36,393,348
Dividends	11	**3,235,294**	15,000,000
Earnings per share – Basic	12	**8.2 cents**	7.3 cents

Balance Sheet

As at 31 December 2003

	Notes	2003 RMB	2002 RMB
NON-CURRENT ASSETS			
Land use right	13	**12,133,359**	12,392,448
Intangible assets	14	**12,870,942**	7,666,667
Property, plant and equipment	15	**80,080,735**	51,398,720
Club debenture		**280,000**	280,000
Deposits for acquisition of land use right/ property, plant and equipment		**526,980**	750,000
Pledged bank deposits		**270,496**	527,483
		106,162,512	73,015,318
CURRENT ASSETS			
Inventories – at cost	16	**27,059,721**	32,759,464
Trade receivables	17	**158,131,100**	98,593,928
Bills receivable		**200,000**	–
Other receivables and prepayments		**16,963,142**	11,528,610
Pledged bank deposits		**24,544,369**	10,664,019
Bank balances and cash		**113,588,038**	20,988,295
		340,486,370	174,534,316
CURRENT LIABILITIES			
Trade payables	18	**27,419,900**	34,000,088
Bills payable		**47,626,722**	13,756,080
Other payables and accrued charges		**28,672,359**	13,574,819
Taxation		**16,833,149**	7,816,783
Dividend payable		**–**	13,299,158
Bank and other borrowings – due within one year	19	**54,673,880**	43,123,497
		175,226,010	125,570,425
NET CURRENT ASSETS		**165,260,360**	48,963,891
		271,422,872	121,979,209
CAPITAL AND RESERVES			
Share capital	20	**64,705,882**	50,000,000
Reserves	21	**156,216,990**	41,979,209
		220,922,872	91,979,209
NON-CURRENT LIABILITY			
Bank and other borrowings – due after one year	19	**50,000,000**	30,000,000
Deferred taxation	22	**500,000**	–
		271,422,872	121,979,209

The financial statements on pages 27 to 50 were approved and authorised for issue by the Board of Directors on 19 March 2004 and are signed on its behalf by:

Xiao Liangyong	**Xiao Bing**
Director	*Director*

For the year ended 31 December 2003

	Registered/ share capital RMB (Note 20)	Share premium RMB	Statutory surplus reserve RMB (Note 21(a))	Statutory public welfare fund RMB (Note 21(b))	Accumulated profits RMB	Total RMB
At 1 January 2002	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 paid	–	–	–	–	(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
Issue of H shares upon listing on the GEM of the Stock Exchange	16,176,470	–	–	–	–	16,176,470
Conversion of certain state-owned domestic shares to H shares	(1,470,588)	–	–	–	–	(1,470,588)
Premium arising on issue of shares	–	93,924,637	–	–	–	93,924,637
Expenses incurred in connection with the issue of shares	–	(22,695,691)	–	–	–	(22,695,691)
Net profit for the year	–	–	–	–	43,008,835	43,008,835
Transfer	–	–	3,672,040	1,836,020	(5,508,060)	–
At 31 December 2003	**64,705,882**	**71,228,946**	**9,503,111**	**5,174,539**	**70,310,394**	**220,922,872**

Cash Flow Statement

For the year ended 31 December 2003

	2003	2002
	RMB	*RMB*
OPERATING ACTIVITIES		
Profit from operations	**58,481,397**	48,587,109
Adjustments for:		
Depreciation and amortisation of property, plant and equipment	**4,950,870**	5,042,796
Amortisation of land use right	**259,089**	259,089
Amortisation of development costs	**196,819**	–
Amortisation of technological know-how	**1,000,000**	1,000,000
Loss on disposal of property, plant and equipment	**19,495**	626,465
Allowance for doubtful debts	**1,696,472**	4,252,215
(Write back of) allowance for inventories	**(114,135)**	487,980
Operating cash flows before movements in working capital	**66,490,007**	60,255,654
Decrease (increase) in inventories	**5,813,878**	(12,480,930)
Increase in trade and bills receivables	**(61,433,644)**	(78,043,307)
Increase in other receivables and prepayments	**(5,434,532)**	(4,527,832)
Decrease in amount due from a director	**–**	45,008
Decrease in amount due from a related company	**–**	2,987,319
(Decrease) increase in trade payables	**(6,580,188)**	22,640,120
Increase in bills payable	**33,870,642**	12,015,830
Increase other payables and accrued charges	**15,097,540**	8,745,697
Cash generated from operations	**47,823,703**	11,637,559
Interest received	**(143,230)**	(82,501)
Dividend paid	**(13,299,158)**	(5,321,034)
PRC Taxation paid	**(1,001,715)**	(351,684)
NET CASH GENERATED FROM OPERATING ACTIVITIES	**33,379,600**	5,882,340
INVESTING ACTIVITIES		
Interest received	**143,230**	82,501
Proceeds from disposals of property, plant and equipment	**460**	383,686
Purchase of land use right/property, plant and equipment	**(34,422,638)**	(20,146,532)
Increase in pledged bank deposits	**(13,623,363)**	(9,451,252)
Expenditure on product development	**(4,881,296)**	–
Deposits for purchase of land use right/property, plant and equipment	**(526,980)**	(750,000)
NET CASH USED IN INVESTING ACTIVITIES	**(53,310,587)**	(29,881,597)

For the year ended 31 December 2003

	2003	2002
	RMB	*RMB*
FINANCING ACTIVITIES		
Proceeds from issue of shares, net of expenses	**85,934,828**	–
New bank and other borrowings raised	**156,339,158**	114,340,000
Repayment of bank and other borrowings	**(124,788,775)**	(81,216,503)
Repayment to a shareholder	**–**	(2,221,791)
Interest paid	**(4,954,481)**	(4,025,294)
NET CASH GENERATED FROM FINANCING ACTIVITIES	**112,530,730**	26,876,412
INCREASE IN CASH AND CASH EQUIVALENTS	**92,599,743**	2,877,155
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**20,988,295**	18,111,140
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	**113,588,038**	20,988,295

For the year ended 31 December 2003

1. REORGANISATION AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS

Xi'an Haitian Communication Equipment Company Limited 西安海天通訊設備有限公司 (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 (the "Reorganisation"), the Predecessor was transformed into a joint stock limited company, Xi'an Haitian Antenna Technologies Company Limited 西安海天天綫科技股份有限公司 (the "Company"), which was established in the PRC on 11 October 2000.

Upon its establishment, the Company continued to carry on the business activities of the Predecessor for research and development, manufacture and sale of base station antennas and related products. Accordingly, for the purposes of preparation of the financial statements, the Company and the Predecessor is regarded as one continuing entity.

Following the consent from the China Securities Regulatory Commission ("CSRC") on 22 April 2003, the Company's overseas-listed foreign shares ("H shares") were listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 5 November 2003.

The Company's books and records are maintained in Renminbi ("RMB"), the currency in which the majority of the Company's transactions is denominated.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Company has adopted, for the first time, the following Hong Kong Financial Reporting Standard ("HKFRS") issued by the Hong Kong Society of Accountants ("HKSA"), the term of HKFRS, is inclusive of Statements of Standard Accounting Practice ("SSAPs") and Interpretations approved by the HKSA.

Income Taxes

In the current year, the Company has adopted SSAP 12 (Revised) "Income Taxes". The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. The adoption of SSAP 12 (Revised) had had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have 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.

Revenue recognition

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

Service income is recognised when services are provided.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment *(continued)*

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, such 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, costs 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or 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.

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 profit 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 asset 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs and are reported separately within other operating income.

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.

4. TURNOVER

Turnover represents the amounts received and receivable for goods sold to outside customers exclusive of value added taxes, less returns and allowances and, income received and receivable from provision of services:

	2003	2002
	RMB	*RMB*
Sales of goods	**220,949,748**	164,525,831
Service income	**5,782,037**	–
	226,731,785	164,525,831

5. 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, accordingly, no segment information is presented.

6. PROFIT FROM OPERATIONS

	2003	2002
	RMB	*RMB*
Profit from operations has been arrived at after charging:		
Directors' and supervisors' remuneration *(note 7)*	**2,052,450**	1,683,961
Other staff costs	**26,469,159**	16,193,897
Retirement benefit scheme contributions (excluding those of directors and supervisors)	**531,276**	174,743
Total staff costs	**29,052,885**	18,052,601
Less: Staff costs included in research and development costs	**(5,469,319)**	(4,449,724)
Staff costs capitalised in development costs	**(3,825,653)**	–
	19,757,913	13,602,877
Allowance for doubtful debts	**1,696,472**	4,252,215
Allowance for inventories	**–**	487,980
Auditors' remuneration	**500,000**	250,000
Cost of inventories recognised in the income statement	**95,360,425**	73,091,608

6. PROFIT FROM OPERATIONS *(continued)*

	2003 RMB	2002 RMB
Depreciation and amortisation of property, plant and equipment	**6,470,668**	5,042,796
Less: Depreciation and amortisation included in research and development costs	**(969,570)**	(1,650,846)
Depreciation and amortisation capitalised in development costs	**(1,519,798)**	–
	3,981,300	3,391,950
Amortisation of development cost (included in other operating expenses)	**196,819**	–
Amortisation of technological know-how (included in other operating expenses)	**1,000,000**	1,000,000
Amortisation of land use right (included in administrative expenses)	**259,089**	259,089
Total depreciation and amortisation	**5,437,208**	4,651,039
Loss on disposal of property, plant and equipment	**19,495**	626,465
Rentals of premises under operating leases	**812,758**	926,657
Less: Rentals of staff quarters included in staff costs	**(147,000)**	(216,500)
	665,758	710,157
Research and development costs	**16,086,892**	9,090,429
Less: Development costs capitalised	**(6,401,094)**	–
	9,685,798	9,090,429
and after crediting:		
Interest income	**143,230**	82,501
Allowance for inventories written back	**114,135**	–

7. DIRECTORS' AND SUPERVISORS' REMUNERATION

	2003	2002
	RMB	*RMB*
Directors' fees	**–**	–
Other emoluments for:		
Executive directors		
– basic salaries and allowances	**1,577,010**	1,399,809
– bonus	**135,000**	–
– retirement benefits scheme contributions	**5,803**	5,026
	1,717,813	1,404,835
Non-executive directors	**30,000**	30,000
Independent non-executive directors	**108,000**	108,000
	1,855,813	1,542,835
Other emoluments for supervisors		
– basic salaries and allowances	**159,219**	118,100
– bonus	**35,000**	18,000
– retirement benefits scheme contributions	**2,418**	5,026
	196,637	141,126
	2,052,450	1,683,961

For the year ended 31 December 2003, the three executive directors received individual emoluments of approximately RMB779,000 (2002: RMB677,000), RMB497,000 (2002: RMB365,000) and RMB441,000 (2002: RMB363,000) respectively; the five non-executive directors each received allowance of RMB6,000 (2002: RMB6,000); and the three independent non-executive directors each received allowance of RMB36,000 (2002: RMB36,000).

For each of the year ended 31 December 2003 and 2002, no emoluments were paid by the Company to any of the directors and supervisors as an inducement to join or upon joining the Company or as compensation for loss of office, and, none of the directors and supervisors has waived any emoluments.

8. EMPLOYEES' EMOLUMENTS

The aggregate emoluments of the five highest paid individuals included three (2002: three) executive directors of the Company, whose emoluments are included in note 7 above. The aggregate emoluments of the remaining two (2002: two) highest paid individuals are as follows:

	2003	2002
	RMB	*RMB*
Basic salaries and allowances	**607,477**	531,946
Bonus	**75,000**	–
Retirement benefits scheme contributions	**5,803**	2,512
	688,280	534,458

The emoluments of each of the five highest paid individuals in 2003 and 2002 were below HK$1,000,000 (equivalent to approximately RMB1,060,000).

9. FINANCE COSTS

	2003	2002
	RMB	*RMB*
Interest on bank and other borrowings wholly repayable within five years	**4,954,481**	3,953,423
Guarantee fee for bank borrowings	**–**	71,871
	4,954,481	4,025,294

10. INCOME TAX EXPENSES

	2003	2002
	RMB	*RMB*
Current tax	**10,018,081**	8,168,467
Deferred tax *(note 22)*	**500,000**	–
	10,518,081	8,168,467

The amount represents provision for PRC Enterprise Income Tax on the Company's estimated assessable profit for the year.

10. INCOME TAX EXPENSES *(continued)*

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

	2003		2002	
	RMB	**%**	*RMB*	%
Profit before taxation	**53,526,916**		44,561,815	
Tax at the domestic income tax rate of 15%	**8,029,037**	**15.0**	6,684,272	15.0
Tax effect of expenses that are not deductible in determining taxable profit	**3,855,192**	**7.2**	2,986,833	6.7
Tax effect on additional tax allowance in respect of domestic acquired machineries	**(648,118)**	**(1.2)**	(832,719)	(1.9)
Tax effect on additional tax allowance in respect of the research and development costs	**(1,206,517)**	**(2.3)**	(669,919)	(1.5)
Tax effect on additional tax allowance in respect of the government subsidy for export sales	**(11,513)**	**–**	–	–
Tax expense and effective tax rate	**10,018,081**	**18.7**	8,168,467	18.3

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 High-tech Industrial Development Zone and therefore subject to an income tax rate of 15%.

11. DIVIDENDS

The directors recommend the payment of a final dividend of RMB0.005 per share in respect of the year ended 31 December 2003 to shareholders on the register of members at 4.00 p.m. on 20 April 2004.

During the year ended 31 December 2002, the Company declared dividends of RMB15,000,000 and the amount was fully settled during the year ended 31 December 2003.

12. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the net profit for the year of RMB43,008,835 (2002: RMB36,393,348) and the weighted average number of 522,965,351 shares in issue during the year (2002: 500,000,000 shares as if the sub-division of shares as described in note 20 had taken place at 1 January 2002).

No diluted earnings per share has been presented because there is no potential ordinary shares outstanding during either period.

13. LAND USE RIGHT

	RMB
COST	
At 1 January 2003 and 31 December 2003	12,695,357
AMORTISATION	
At 1 January 2003	302,909
Provided for the year	259,089
At 31 December 2003	**561,998**
NET BOOK VALUE	
At 31 December 2003	**12,133,359**
At 31 December 2002	12,392,448

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

14. INTANGIBLE ASSETS

	Development costs *RMB*	Technological know-how *RMB*	Total *RMB*
COST			
At 1 January 2003	–	10,000,000	10,000,000
Addition	6,401,094	–	6,401,094
At 31 December 2003	**6,401,094**	**10,000,000**	**16,401,094**
AMORTISATION			
At 1 January 2003	–	2,333,333	2,333,333
Provided for the year	196,819	1,000,000	1,196,819
At 31 December 2003	**196,819**	**3,333,333**	**3,530,152**
NET BOOK VALUE			
At 31 December 2003	**6,204,275**	**6,666,667**	**12,870,942**
At 31 December 2002	–	7,666,667	7,666,667

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

The development costs represent product development expenditure incurred by the Company.

Intangible assets are amortised on a straight-line basis over the following periods:

Development costs	5 years
Technological know-how	10 years

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Properties under construction	Total
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
COST						
At 1 January 2003	25,453,291	22,688,252	6,885,865	3,529,026	–	58,556,434
Additions	542,471	5,827,438	2,498,047	65,000	26,239,682	35,172,638
Disposals	–	–	(41,938)	–	–	(41,938)
At 31 December 2003	**25,995,762**	**28,515,690**	**9,341,974**	**3,594,026**	**26,239,682**	**93,687,134**
DEPRECIATION AND AMORTISATION						
At 1 January 2003	880,761	4,269,892	1,235,853	771,208	–	7,157,714
Provided for the year	818,226	3,722,379	1,508,418	421,645	–	6,470,668
Eliminated on disposals	–	–	(21,983)	–	–	(21,983)
At 31 December 2003	**1,698,987**	**7,992,271**	**2,722,288**	**1,192,853**	**–**	**13,606,399**
NET BOOK VALUE						
At 31 December 2003	**24,296,775**	**20,523,419**	**6,619,686**	**2,401,173**	**26,239,682**	**80,080,735**
At 31 December 2002	24,572,530	18,418,360	5,650,012	2,757,818	–	51,398,720

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

16. INVENTORIES – AT COST

	2003	2002
	RMB	*RMB*
Raw materials	**8,445,411**	11,560,906
Work in progress	**1,999,455**	4,667,815
Finished goods	**16,614,855**	16,530,743
	27,059,721	32,759,464

17. TRADE RECEIVABLES

Generally, the Company allows a credit period from 90 days to 240 days to its trade customers. For receivables from some customers, the amounts are settled by instalments which are mutually determined and agreed by the relevant parties. The aged analysis of trade receivables is as follows:

	2003	2002
	RMB	*RMB*
Aged:		
0–60 days	**61,212,591**	52,047,788
61 –120 days	**41,317,053**	26,447,585
121–180 days	**24,564,814**	14,618,542
181–240 days	**8,753,782**	2,660,295
241–365 days	**5,891,147**	7,681,177
Over 365 days	**23,697,093**	747,449
	165,436,480	104,202,836
Less: Allowance for doubtful debts	**(7,305,380)**	(5,608,908)
	158,131,100	98,593,928

18. TRADE PAYABLES

The aged analysis of trade payables is as follows:

	2003	2002
	RMB	*RMB*
Aged:		
0–60 days	**24,961,590**	21,680,747
61 –120 days	**1,303,863**	5,885,630
121–365 days	**782,865**	6,370,953
Over 365 days	**371,582**	62,758
	27,419,900	34,000,088

19. BANK AND OTHER BORROWINGS

	2003	2002
	RMB	*RMB*
Bank loans		
Secured	**100,000,000**	71,923,497
Unsecured	**4,673,880**	–
Other loan – unsecured	**–**	1,200,000
Total	**104,673,880**	73,123,497
The bank and other borrowings are repayable as follows:		
Within one year	**54,673,880**	43,123,497
More than one year, but not exceeding two years	**–**	30,000,000
More than two years, but not exceeding five years	**50,000,000**	–
	104,673,880	73,123,497
Less: Amount repayable within one year shown under current liabilities	**(54,673,880)**	(43,123,497)
	50,000,000	30,000,000

The other loan from an independent third party was unsecured, bore interest at 0.565% per month and was fully settled during the year.

20. SHARE CAPITAL

	Notes	Number of shares Domestic shares	H shares	Registered, issued and fully paid RMB
At 1 January 2002		50,000,000	–	50,000,000
Effect of sub-division of shares of RMB1.00 each into 10 shares of RMB0.10 each	*(a)*	450,000,000	–	–
At 31 December 2002		500,000,000	–	50,000,000
Issue of H shares upon listing on the GEM of the Stock Exchange	*(b)*	–	147,058,824	14,705,882
Conversion of certain state-owned domestic shares to H shares	*(b)*	(14,705,882)	14,705,882	–
At 31 December 2003 (RMB0.10 each)		485,294,118	161,764,706	64,705,882

(a) 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.

(b) Pursuant to the approval from the Ministry of Finance of the PRC regarding the sale of the state-owned shares, the total number of H shares issued was 161,764,706 H shares, comprising 147,058,824 new H shares and 14,705,882 H shares converted from 14,705,882 domestic shares.

21. 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.

21. RESERVES *(continued)*

(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 shareholders' equity but is non-distributable other than in liquidation.

22. DEFERRED TAXATION

The amount represents deferred tax liability recognised during the year and at balance sheet date in relation to deferred development costs.

23. MAJOR NON-CASH TRANSACTION

Part of the development costs capitalised during the year comprised depreciation and amortisation of property, plant and equipment amounted to RMB1,519,798 (2002: nil).

24. OPERATING LEASE COMMITMENTS

The Company as lessee

Minimum lease payments paid under operating leases during the year in respect of office premises, warehouse and staff quarters amounted to RMB812,758 (2002: RMB926,657).

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:

	2003	2002
	RMB	*RMB*
Within one year	**2,831,346**	476,333
In the second to fifth year inclusive	**933,000**	374,024
	3,764,346	850,357

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

	2003	2002
	RMB	*RMB*
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	**6,346,567**	372,990

26. 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:

	2003	2002
	RMB	*RMB*
Bank deposits	**24,814,865**	11,191,502
Buildings	**24,296,775**	24,572,530
Land use right	**12,133,359**	12,392,448
Trade receivables	**10,868,716**	11,923,497
	72,113,715	60,079,977

27. RELATED PARTY DISCLOSURES

During the year, the Company entered into the following transaction with related party:

Name of related party	**Relationship**	**Nature of transactions**	**2003** ***RMB***	2002 *RMB*
西安國際信托投資有限公司 XITIC	Shareholder of the Company	Guarantee service fee paid to XITIC as a guarantor of the Company	**–**	71,871

The directors have represented that the above transaction was undertaken in the ordinary course of business on terms mutually agreed between the Company and the related party.

28. 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 of 31 December 2002 and 2003, the Company had no significant obligation apart from the contribution as stated above.

29. GOVERNMENT GRANTS

During the year ended 31 December 2003, government grants of RMB2,000,000 (2002: nil), RMB200,000 (2002: nil), and RMB344,865 (2002:RMB25,904) have been received to subsidise interest expenditure incurred for obtaining external finance by the Company for the construction of property, plant and equipment, for upgrading existing production capacity and to encourage export sales in the PRC, respectively. The amounts have been included in other operating income for the year.

During the year ended 31 December 2002, the Company received a government grant of RMB1,200,000 for research and development and industrialisation of antenna for the 3G mobile communication. The amount received in respect of the government grant is repayable if the development of antennas fulfilling the technical parameters specified by the Government and establishment of production capacity for the antennas are not completed.

As at 31 December 2002 and at 31 December 2003, the development and industrialisation of antenna for the 3G mobile communication is not yet completed, the amount has not yet been recognised in the income statement and is included as other payables.

	Year ended 31 December		
	2001	2002	**2003**
	RMB	*RMB*	***RMB***
RESULTS			
Turnover	74,905,651	164,525,831	**226,731,785**
Profit before taxation	19,615,594	44,561,815	**53,526,916**
Income tax expense	–	(8,168,467)	**(10,518,081)**
Net profit for the year	19,615,594	36,393,348	**43,008,835**

	As at 31 December		
	2001	2002	**2003**
	RMB	*RMB*	***RMB***
ASSETS AND LIABILITIES			
Total assets	134,357,184	247,549,634	**446,648,882**
Total liabilities	(63,771,323)	(155,570,425)	**(225,726,010)**
Shareholders' funds	70,585,861	91,979,209	**220,922,872**

Note: The results for each of the two years ended 31 December 2002, and the assets and liabilities as at 31 December 2001 and 2002 which were extracted from the Company's prospectus dated 24 October 2003 have been prepared on the basis as if the Company which the Company's predecessor, Xi'an Haitian Communications Equipment Company Limited, has reorganised into, had been in existence throughout those years.

NOTICE IS HEREBY GIVEN that an Annual General Meeting of Xi'an Haitian Antenna Technolgies Co., Ltd. (the "Company") will be held at Ya Jian International Golf Club, Xi'an, Shaanxi Province, the People's Republic of China on 20 May 2004 at 4:00 p.m. for the following purposes:

1. To consider and approve the report of the board of directors of the Company (the "Board") for the year 2003;

2. To consider and approve the report of the Supervisory Committee of the Company for the year 2003;

3. To consider and approve the audited financial statements for the year ended 31 December 2003;

4. To re-appoint Mr. Xiao Liangyong, Mr. Xiao Bing and Mr. Guo Weisheng as executive directors; Mr. Wang Quanfu, Mr. Liu Yongqiang and Mr. Li Wenqi as non-executive directors; and Mr. Zhou Tianyou, Mr. Gong Shuxi and Mr. Deng Yuanming as independent non-executive directors of the Company;

5. To elect and appoint Mr. Wang Ke and Ms Wang Jing as non-executive directors of the Company;

6. To consider and approve the dividend distribution proposal for the year 2003;

7. To reappoint Deloitte Touche Tohmatsu as the Company's auditors and to authorize the Board to fix their remuneration;

8. As special business for considering and, if thought fit, passing the following special resolution of the Company:

SPECIAL RESOLUTION

"THAT the Articles of Association of the Company be amended in the following manner:

(a) deleting the words "the second extraordinary general meeting in 2002 held on 7 June 2002" and substituting therefor the words "the 2003 annual general meeting held on 13 May 2004" in the third line of Article 6.

(b) deleting the existing Article 7 and substituting therefor the following:

"This articles of association have been approved by a special resolution of the Company at the Company's 2003 annual general meeting and became effective in accordance with Article 200 of this articles of association. Since the coming into effect of this articles of association, the previous articles of association were superceded by this articles of association."

(c) adding the words "research and manufacture, systemic integration, application and other related technology services of computer software" after the words "(the abovementioned projects which need approvals will operate only after such approvals have been obtained); " in Article 13.

(d) deleting the words "Hong Kong Stock Exchange" and substituting therefor the words "The Stock Exchange of Hong Kong Limited (hereinafter called "Hong Kong Stock Exchange")" in the third line of Article 19.

(e) adding the following paragraph immediately after the end of the first paragraph of Article 78:

"Where any member is, under the applicable laws and regulations, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted."

(f) deleting the words "Notice in writing of the intention to propose a person for election as a Director and notice in writing by that person of his willingness to be elected shall have been delivered to the Company 7 days before the date of the general meeting" in the second paragraph of Article 102 and substituting therefor the following:

"The shortest notice period for a notice in writing to propose a person for election as a Director (during such period that person could deliver to the Company a notice in writing of his willingness to be elected) shall be at least 7 days. Such notice period shall commence no earlier than the day after the dispatch of the notice of the general meeting appointed for such election and ending no later than 7 days prior to the date of such general meeting."

(g) deleting the words "A Director shall not vote or be counted in the quorum in respect of any contract, transaction or arrangement in which he is materially interested" in the second paragraph of Article 140 and substituting therefor the following paragraph:

"Except as otherwise stipulated in this articles of association which have been approved by the Hong Kong Stock Exchange, a Director shall not vote or be counted in the quorum in respect of any contract, arrangement or proposed resolution in which he or any or his associate(s) (as defined in the Rules Governing the Listing of Securities in the Growth Enterprise Market of the Hong Kong Stock Exchange) is/are materially interested, but this prohibition shall not apply to:

(i) (a) the giving of any security or indemnity to a Director or his associate(s) in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries; or

(b) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which a Director or his associate(s) has himself/themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;

(ii) any proposal concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where a Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

(iii) any proposal concerning any other company in which a Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or shareholder or in which the director or his associate(s) is/are beneficially interested in shares of that company, provided that the director and any of his associates are not in aggregate beneficially interested in 5% or more of the issued shares of any class of such company (or of any third company through which his interest or that of his associates is derived) or of the voting rights);

(iv) any proposal or arrangement concerning the benefit of employees of the Company or its subsidiaries including:

(a) the adoption, modification or operation of any employees' share scheme or any share incentive or share option scheme under which a Director or his associate(s) may benefit; or

(b) the adoption, modification or operation of a pension fund or retirement, death or disability benefits scheme which relates both to the Directors, his associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and

(v) any contract or arrangement in which a Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company."

(h) deleting the word "interim" in the first line of Article 157."

9. To consider and approve any proposal put forward by any shareholder of the Company holding 5% or more of the shares with voting rights at such meeting.

By order of the Board of
Xi'an Haitian Antenna Technologies Co., Ltd.*
XIAO Liangyong
Chairman

Xi'an, the People's Republic of China, 26 March, 2004

Principal place of business in Hong Kong:
34/F., West Tower
Shun Tak Centre
200 Connaught Road Central
Hong Kong

* *For identification purpose only*

Notes:

1. The register of members of the Company will be closed from Tuesday, 20April 2004 to Friday, 20 May 2004 (both days inclusive), during which no transfer of shares can be registered.

2. Holders of domestic shares and H shares whose names appear on the register of members of the Company before 4:00 p.m. Tuesday, 20 April 2004 are entitled to attend and vote at the meeting convened by the above notice and may appoint one or more proxies to attend and, in the event of a poll, vote on their behalves. A proxy need not be a member of the Company.

3. A proxy form for the meeting is hereinwith enclosed. In order to be valid, the proxy form must be deposited by hand or post, for holders of H Shares of the Company, to the H shares registrar of the Company at Computershare Hong Kong Investor Services Limited at Room 1901-5, 19th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong and, for holders of domestic shares of the Company, to the registered address of the Company not less than 24 hours before the time for holding the meeting or not less than 24 hours before the time appointed for taking the poll. If the proxy form is signed by a person under a power of attorney or other authority, a notarially certified copy of that power of attorney or authority shall be deposited at the same time as mentioned in the proxy form.

4. Shareholders or their proxies shall produce their identity documents when attending the meeting.

5. Shareholders who intend to attend the meeting should complete and return the enclosed reply slip and return it by hand or post to the share registrar of the Company (for holders of H shares) or to the registered office address of the Company (for holders of domestic shares) before 4:00 p.m. Friday, 30 April 2004.

6. The meeting is expected to take half a day. Shareholders attending the meeting shall be responsible for their own travel and accommodation expenses.

7. The registered office address of the Company and the details of the secretarial office of the Board are as follows:

   No. 36
   Gao Xin Liu Road
   Xi'an National Hi-tech Industrial Development Zone
   Xi'an, Shaanxi Province
   The People's Republic of China
   Tel: 86-29-87660000
   Fax: 86-29-87660188
   Post Code: 710075

8. The profiles of the non-executive directors to be elected in the meeting are as follows:

   王科先生(Mr. Wang Ke or Mr Wang)

   Wang Ke, aged 58, graduated from Helongjiang Commerce College (黑龍江商學院) in December 1968 and obtained the qualification of senior economist in July 1989. Mr. Wang has been the chairman of the board of directors of Xi'an Jiefang Group Co. Ltd. (西安解放集團股份有限公司) since January 1995.

   王京小姐(Ms Wang Jing or Ms Wang)

   Ms Wang Jing, aged 33, graduated from Beijing Finance and Trade College (北京財貿學院) in September 1988. Ms Wang has been the vice general manager of Beijing Holdings Investment Management Co., Ltd. (北京京泰投資管理中心) since February 2004.