



**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)*  
**(Stock Code: 8227)**

**INTERIM RESULTS ANNOUNCEMENT**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2004**

**CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (THE "GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")**

The 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 the 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 the 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 the GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on the GEM, there is a risk that securities traded on the GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on the GEM. The principal means of information dissemination on the 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 in order to obtain up-to-date information on the GEM-listed issuers.

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*This announcement, 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 the GEM (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this announcement is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

\* for identification purpose only

## HIGHLIGHTS

- The Company's turnover fluctuates due to market environment. Expenses including distribution costs, administrative expenses, other operation expenses and finance costs are incurred in a relatively even manner between quarters. While turnover for the three months ended 30 June 2004 increased comparing with the first quarter of the year 2004, percentage of aforesaid expenses to turnover decreased. As a result, the Company's financial performance which is reflected by net profit for the three months ended 30 June 2004 was better than the one for the first quarter of the year 2004.
- The Company achieved an unaudited turnover of approximately RMB58.2 million and RMB92.4 million respectively for the three months and the six months ended 30 June 2004, representing an increase of approximately 7.9% and a decrease of approximately 0.3% respectively as compared with the unaudited turnover for the corresponding periods in the year 2003. The Company's turnover for the six months ended 30 June 2004 was approximate to the figure of the corresponding period in the year 2003. However, composite of turnover has been changed significantly. Percentage of sales of WLL/PHS base station antenna series in turnover decreased from approximately 61% of the corresponding period in the year 2003 to approximately 25% for the six months ended 30 June 2004; while the percentage of sales of GSM/CDMA antenna series increased from approximately 30% of the corresponding period in the year 2003 to approximately 63% for the six months ended 30 June 2004. At the same time, export sales for the six months ended 30 June 2004 increased significantly with an amount of approximately RMB10.9 million, representing an increase of approximately RMB7.9 million or approximately 263% comparing with the corresponding period in the year 2003.
- For the six months ended 30 June 2004, unaudited gross profit amounted to approximately RMB42.4 million. Gross profit margin was approximately 45.8%, decreased for approximately 4 percentage points comparing with the gross profit margin of 49.8% for the corresponding period in the year 2003. The decrease was mainly because, due to the high level of competition in the market. Accordingly, the Company continued to lower the selling prices of existing product models to compete with other manufacturers. It resulted in the lowering of the Company's gross margin for WLL/PHS base station antenna series and GSM/CDMA antenna series. The Company has successfully maintained and expanded its market share by using the strategy of lowering selling prices of existing product models, as well as using the strategy of changing composite of sale revenue in terms of product line and major customer.
- Further, distribution costs for the six months ended 30 June 2004 amounted to approximately RMB21.0 million, representing an increase of approximately RMB8.6 million or approximately 68.8% comparing with the figure of the corresponding period in the year 2003. The main reason for the increase was that, in order to increase marketing effort of the Company's new products and to enhance the Company's business relation with customers including China Telecom Group and China Netcom Group, the Company employed more salespersons and used more agency services to stimulate sales and provided continuous after-sale service, and increased salespersons' payroll expenses, agency fee and installation expenses as a result. Approximately RMB5.8 million of the increase in distribution costs were recorded in the first quarter of the year 2004. Administrative expenses increased by approximately RMB1.0 million or 11.6% comparing with the figure of the corresponding period in the year 2003, amounting to approximately RMB9.2 million. Increase of

administrative expenses was mainly due to the increase of social insurance expenses and the increase of professional fees because more professionals were engaged to reinforce regularity of the Company's operation. Other operating expenses amounted to approximately RMB4.3 million. Due to the capitalisation of product research and development costs of approximately RMB8.6 million (2003: nil) during the period, other operating expenses in aggregate decreased for approximately RMB4.6 million, or 51.7%, comparing with the corresponding period in the year 2003. Finance costs decreased for approximately RMB1.2 million or 42.5% comparing with the figure of the corresponding period in the year 2003, amounting to approximately RMB1.7 million. The Company has repaid part of the loans advanced for financing working capital and advanced loans to finance the construction of building for the testing centre and interests paid for the loans amounted to approximately RMB1.4 million (2003: nil) were capitalized in the cost of the building. Therefore, interest expenses decreased even total amount of bank borrowings increased.

- The Company recorded an unaudited net profit of approximately RMB8.9 million and RMB5.4 million respectively for the three months and the six months ended 30 June 2004, representing an increase of approximately 31.8% and a decrease of approximately 51.9% respectively as compared with the unaudited net profit for the corresponding periods in the year 2003. The Company recorded an unaudited net loss for the first quarter of the year 2004 of approximately RMB3.5 million, with an amount of approximately RMB8.0 million lower than the unaudited net profit for the first quarter of the year 2003. The Company recorded an unaudited net profit for the second quarter of the year 2004 of approximately RMB8.9 million, with an amount of approximately RMB2.1 million higher than the unaudited net profit for the second quarter of the year 2003.
- The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2004.

## INTERIM RESULT FOR THE SIX MONTHS ENDED 30 JUNE 2004

The board of Directors (the “Board”) hereby submits the unaudited operating results of the Company for the three months and six months ended 30 June 2004, together with the unaudited comparative figures for the corresponding period in the year 2003 as follows:

### Income Statements

|                                    | <i>Notes</i> | <b>(Unaudited)</b><br><b>For the three months</b><br><b>ended 30 June</b> |                               | <b>(Unaudited)</b><br><b>For the six months</b><br><b>ended 30 June</b> |                               |
|------------------------------------|--------------|---------------------------------------------------------------------------|-------------------------------|-------------------------------------------------------------------------|-------------------------------|
|                                    |              | <b>2004</b><br><b>RMB'000</b>                                             | <b>2003</b><br><b>RMB'000</b> | <b>2004</b><br><b>RMB'000</b>                                           | <b>2003</b><br><b>RMB'000</b> |
| Turnover                           | 3            | <b>58,226</b>                                                             | 53,947                        | <b>92,400</b>                                                           | 92,702                        |
| Cost of sales                      |              | <b>(31,278)</b>                                                           | (27,533)                      | <b>(50,041)</b>                                                         | (46,577)                      |
| Gross profit                       |              | <b>26,948</b>                                                             | 26,414                        | <b>42,359</b>                                                           | 46,125                        |
| Other operating income             |              | <b>458</b>                                                                | 386                           | <b>534</b>                                                              | 436                           |
| Distribution costs                 |              | <b>(10,067)</b>                                                           | (7,316)                       | <b>(20,991)</b>                                                         | (12,436)                      |
| Administrative expenses            |              | <b>(4,356)</b>                                                            | (4,317)                       | <b>(9,207)</b>                                                          | (8,248)                       |
| Other operating expenses           |              | <b>(2,426)</b>                                                            | (4,719)                       | <b>(4,289)</b>                                                          | (8,880)                       |
| Profit from operations             | 4            | <b>10,557</b>                                                             | 10,448                        | <b>8,406</b>                                                            | 16,997                        |
| Finance costs                      |              | <b>(344)</b>                                                              | (1,913)                       | <b>(1,655)</b>                                                          | (2,879)                       |
| Profit before taxation             |              | <b>10,213</b>                                                             | 8,535                         | <b>6,751</b>                                                            | 14,118                        |
| Income tax expenses                | 5            | <b>(1,355)</b>                                                            | (1,812)                       | <b>(1,355)</b>                                                          | (2,900)                       |
| Net profit for the period          |              | <b><u>8,858</u></b>                                                       | <u>6,723</u>                  | <b><u>5,396</u></b>                                                     | <u>11,218</u>                 |
| Earnings per share – Basic,<br>RMB | 7            | <b><u>1.4 cents</u></b>                                                   | <u>1.3 cents</u>              | <b><u>0.8 cents</u></b>                                                 | <u>2.2 cents</u>              |

## Balance Sheet

|                                                                              | As at<br>30 June<br>2004<br>RMB'000<br>(unaudited) | As at<br>31 December<br>2003<br>RMB'000<br>(audited) |
|------------------------------------------------------------------------------|----------------------------------------------------|------------------------------------------------------|
| <b>NON-CURRENT ASSETS</b>                                                    |                                                    |                                                      |
| Land use right                                                               | 12,004                                             | 12,133                                               |
| Intangible assets                                                            | 20,280                                             | 12,871                                               |
| Property, plant and equipment                                                | 98,461                                             | 80,081                                               |
| Club debenture                                                               | 280                                                | 280                                                  |
| Deposits for acquisition of land use right/<br>property, plant and equipment | 640                                                | 527                                                  |
| Pledged bank deposits                                                        | 353                                                | 271                                                  |
|                                                                              | <u>132,018</u>                                     | <u>106,163</u>                                       |
| <b>CURRENT ASSETS</b>                                                        |                                                    |                                                      |
| Inventories – at cost                                                        | 37,612                                             | 27,060                                               |
| Trade receivables                                                            | 192,169                                            | 158,131                                              |
| Bills receivable                                                             | 3,999                                              | 200                                                  |
| Other receivables and prepayments                                            | 19,007                                             | 16,963                                               |
| Pledged bank deposits                                                        | 3,682                                              | 24,544                                               |
| Bank balances and cash                                                       | 71,618                                             | 113,588                                              |
|                                                                              | <u>328,087</u>                                     | <u>340,486</u>                                       |
| <b>CURRENT LIABILITIES</b>                                                   |                                                    |                                                      |
| Trade payables                                                               | 34,541                                             | 27,420                                               |
| Bills payable                                                                | 19,745                                             | 47,627                                               |
| Other payables and accrued charges                                           | 30,770                                             | 28,672                                               |
| Taxation                                                                     | 8,230                                              | 16,833                                               |
| Dividend payable                                                             | 3,235                                              | –                                                    |
| Bank and other borrowings – due within one year                              | 90,000                                             | 54,674                                               |
|                                                                              | <u>186,521</u>                                     | <u>175,226</u>                                       |
| <b>NET CURRENT ASSETS</b>                                                    | <u>141,566</u>                                     | <u>165,260</u>                                       |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>                                 | <u><b>273,584</b></u>                              | <u><b>271,423</b></u>                                |
| <b>CAPITAL AND RESERVES</b>                                                  |                                                    |                                                      |
| Share capital                                                                | 64,706                                             | 64,706                                               |
| Reserves                                                                     | 158,378                                            | 156,217                                              |
|                                                                              | <u>223,084</u>                                     | <u>220,923</u>                                       |
| <b>NON-CURRENT LIABILITY</b>                                                 |                                                    |                                                      |
| Bank and other borrowings – due after one year                               | 50,000                                             | 50,000                                               |
| Deferred taxation                                                            | 500                                                | 500                                                  |
|                                                                              | <u>273,584</u>                                     | <u>271,423</u>                                       |

## NOTES TO THE FINANCIAL STATEMENT

For the six months ended 30 June 2004

### 1. TRANSFORMATION AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The predecessor of the Company, 西安海天通訊設備有限公司 (Xi'an Haitian Communications Equipment Company Limited\*) (the "Predecessor"), was established on 13 October 1999 as a limited liability company in the People's Republic of China (the "PRC") and was transformed into the Company, a joint stock company with limited liability incorporated 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 antenna 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 approval obtained from the China Securities Regulatory Commission on 22 April 2003, the Company's overseas-listed foreign shares ("H Shares") were listed on the the GEM 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. ACCOUNTING POLICIES

The interim financial statements of the Company have been prepared under the historical cost convention and the accounting policies adopted by the Company are consistent with those followed in the preparation of the annual financial statements for the year ended 31 December 2003.

### 3. 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:

Turnover breakdown by nature of revenue:

|                | For the three months<br>ended 30 June |                 | For the six months<br>ended 30 June |                 |
|----------------|---------------------------------------|-----------------|-------------------------------------|-----------------|
|                | 2004<br>RMB'000                       | 2003<br>RMB'000 | 2004<br>RMB'000                     | 2003<br>RMB'000 |
| Sales of goods | 55,652                                | 52,250          | 89,826                              | 91,004          |
| Service income | 2,574                                 | 1,697           | 2,574                               | 1,698           |
|                | <u>58,226</u>                         | <u>53,947</u>   | <u>92,400</u>                       | <u>92,702</u>   |

Turnover breakdown by geographical locations:

|          | For the three months<br>ended 30 June |                 | For the six months<br>ended 30 June |                 |
|----------|---------------------------------------|-----------------|-------------------------------------|-----------------|
|          | 2004<br>RMB'000                       | 2003<br>RMB'000 | 2004<br>RMB'000                     | 2003<br>RMB'000 |
| PRC      | 50,689                                | 51,305          | 81,485                              | 89,697          |
| Overseas | 7,537                                 | 2,642           | 10,915                              | 3,005           |
|          | <u>58,226</u>                         | <u>53,947</u>   | <u>92,400</u>                       | <u>92,702</u>   |

\* For identification purpose only

#### 4. PROFIT FROM OPERATIONS

|                                                                                           | For the three months<br>ended 30 June |                 | For the six months<br>ended 30 June |                 |
|-------------------------------------------------------------------------------------------|---------------------------------------|-----------------|-------------------------------------|-----------------|
|                                                                                           | 2004<br>RMB'000                       | 2003<br>RMB'000 | 2004<br>RMB'000                     | 2003<br>RMB'000 |
| Profit from operations has been arrived at after charging:                                |                                       |                 |                                     |                 |
| Directors' and supervisors' remuneration                                                  | 537                                   | 529             | 1,089                               | 1,047           |
| Other staff costs                                                                         | 5,795                                 | 5,089           | 11,482                              | 10,493          |
| Retirement benefit scheme contributions<br>(excluding those of directors and supervisors) | 198                                   | 88              | 381                                 | 168             |
| Total staff costs                                                                         | 6,530                                 | 5,706           | 12,952                              | 11,708          |
| Less: Staff costs included in research and development costs                              | (293)                                 | (1,726)         | (602)                               | (3,475)         |
| Staff costs capitalised in development costs                                              | (2,226)                               | –               | (4,514)                             | –               |
|                                                                                           | 4,011                                 | 3,980           | 7,836                               | 8,233           |
| Allowance for doubtful debts                                                              | –                                     | 1,696           | –                                   | 1,696           |
| Auditors' remuneration                                                                    | 264                                   | 100             | 389                                 | 200             |
| Cost of inventories recognised in the income statement                                    | 28,114                                | 24,761          | 44,180                              | 41,108          |
| Depreciation and amortisation of property, plant and equipment                            | 2,170                                 | 1,517           | 4,059                               | 3,000           |
| Less: Depreciation and amortisation included in research and development costs            | (230)                                 | (443)           | (448)                               | (1,100)         |
| Depreciation and amortisation capitalised in development costs                            | (770)                                 | –               | (1,343)                             | –               |
|                                                                                           | 1,170                                 | 1,074           | 2,268                               | 1,900           |
| Amortisation of development cost (included in other operating expenses)                   | 351                                   | –               | 672                                 | –               |
| Amortisation of technological know-how (included in other operating expenses)             | 250                                   | 250             | 500                                 | 500             |
| Amortisation of land use right (included in administrative expenses)                      | 65                                    | 66              | 130                                 | 129             |
| Total depreciation and amortisation                                                       | 1,836                                 | 1,390           | 3,570                               | 2,529           |
| Loss on disposal of property, plant and equipment                                         | 216                                   | 2               | 216                                 | 18              |
| Rentals of premises under operating leases                                                | 161                                   | 251             | 192                                 | 498             |
| Less: Rentals of staff quarters included in staff costs                                   | (31)                                  | (101)           | (89)                                | (154)           |
|                                                                                           | 130                                   | 150             | 103                                 | 344             |
| Research and development costs                                                            | 6,018                                 | 3,445           | 11,462                              | 6,602           |
| Less: Development costs capitalised                                                       | (4,621)                               | –               | (8,581)                             | –               |
|                                                                                           | 1,397                                 | 3,445           | 2,881                               | 6,602           |
| Interest expenses                                                                         | 1,933                                 | 1,135           | 3,239                               | 2,035           |
| Less: Interest expenses capitalised                                                       | (1,395)                               | –               | (1,395)                             | –               |
|                                                                                           | 538                                   | 1,135           | 1,844                               | 2,035           |
| and after crediting:                                                                      |                                       |                 |                                     |                 |
| Interest income                                                                           | 223                                   | 51              | 298                                 | 67              |



## 5. INCOME TAX EXPENSES

|                | For the three months<br>ended 30 June |                | For the six months<br>ended 30 June |                |
|----------------|---------------------------------------|----------------|-------------------------------------|----------------|
|                | 2004                                  | 2003           | 2004                                | 2003           |
|                | <i>RMB'000</i>                        | <i>RMB'000</i> | <i>RMB'000</i>                      | <i>RMB'000</i> |
| PRC income tax | <u>1,355</u>                          | <u>1,812</u>   | <u>1,355</u>                        | <u>2,900</u>   |

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

## 6. DIVIDEND

The Board does not recommend the payment of any interim dividend in respect of the six months ended 30 June 2004 (2003: nil).

## 7. EARNINGS PER SHARE – BASIC

The calculation of the basic earning per share is based on the unaudited net profit for the three months and six months ended 30 June 2004 of approximately RMB8,858,000 and RMB5,395,000 respectively (2003: approximately RMB6,723,000 and RMB11,218,000 respectively) divided by the number of 647,058,824 shares in issue (2003: 500,000,000).

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

## 8. EQUITY

|                                                                    | Registered/<br>Share<br>Capital<br><i>RMB'000</i><br>(unaudited) | Share<br>premium<br><i>RMB'000</i><br>(unaudited) | Statutory<br>surplus<br>reserve<br><i>RMB'000</i><br>(unaudited) | Statutory<br>public<br>welfare fund<br><i>RMB'000</i><br>(unaudited) | Accumulated<br>profits<br><i>RMB'000</i><br>(unaudited) | Total<br><i>RMB'000</i><br>(unaudited) |
|--------------------------------------------------------------------|------------------------------------------------------------------|---------------------------------------------------|------------------------------------------------------------------|----------------------------------------------------------------------|---------------------------------------------------------|----------------------------------------|
| At 1 January 2003                                                  | 50,000                                                           | –                                                 | 5,831                                                            | 3,338                                                                | 32,810                                                  | 91,979                                 |
| Net profit for the period                                          | <u>–</u>                                                         | <u>–</u>                                          | <u>–</u>                                                         | <u>–</u>                                                             | <u>11,218</u>                                           | <u>11,218</u>                          |
| At 30 June 2003                                                    | 50,000                                                           | –                                                 | 5,831                                                            | 3,338                                                                | 44,028                                                  | 103,197                                |
| Issue of H shares upon listing<br>on the GEM of the Stock Exchange | 16,176                                                           | –                                                 | –                                                                | –                                                                    | –                                                       | 16,176                                 |
| Conversion of certain state-owned<br>domestic shares to H shares   | (1,470)                                                          | –                                                 | –                                                                | –                                                                    | –                                                       | (1,470)                                |
| Premium arising on issue of shares                                 | –                                                                | 93,925                                            | –                                                                | –                                                                    | –                                                       | 93,925                                 |
| Expenses incurred in connection<br>with the issue of shares        | –                                                                | (22,696)                                          | –                                                                | –                                                                    | –                                                       | (22,696)                               |
| Net profit for the period                                          | <u>–</u>                                                         | <u>–</u>                                          | <u>–</u>                                                         | <u>–</u>                                                             | <u>31,791</u>                                           | <u>31,791</u>                          |
| Transfer                                                           | <u>–</u>                                                         | <u>–</u>                                          | <u>3,672</u>                                                     | <u>1,836</u>                                                         | <u>(5,508)</u>                                          | <u>–</u>                               |
| At 31 December 2003                                                | 64,706                                                           | 71,229                                            | 9,503                                                            | 5,174                                                                | 70,311                                                  | 220,923                                |
| Final dividend for the<br>year 2003 declared                       | <u>–</u>                                                         | <u>–</u>                                          | <u>–</u>                                                         | <u>–</u>                                                             | <u>(3,235)</u>                                          | <u>(3,235)</u>                         |
| Net profit for the period                                          | <u>–</u>                                                         | <u>–</u>                                          | <u>–</u>                                                         | <u>–</u>                                                             | <u>5,396</u>                                            | <u>5,396</u>                           |
| At 30 June 2004                                                    | <u>64,706</u>                                                    | <u>71,229</u>                                     | <u>9,503</u>                                                     | <u>5,174</u>                                                         | <u>72,472</u>                                           | <u>223,084</u>                         |



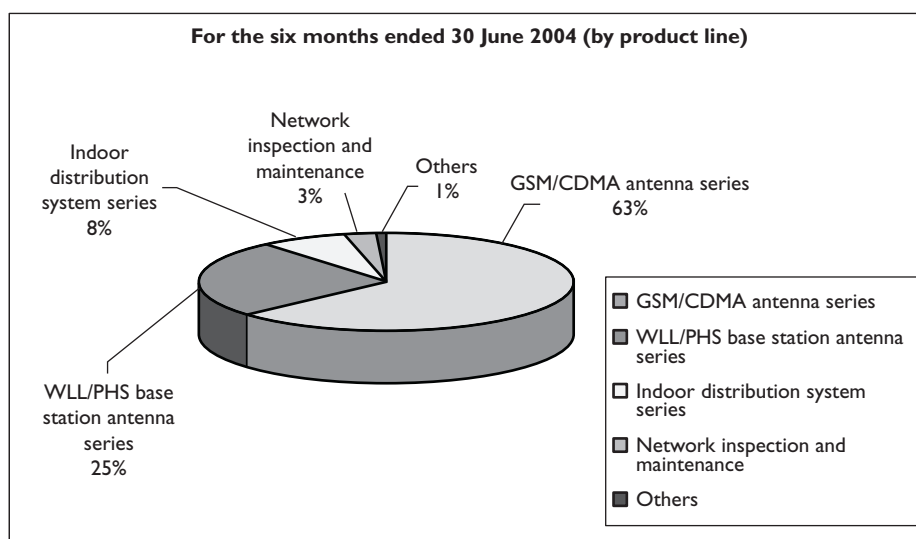
## MANAGEMENT DISCUSSION AND ANALYSIS

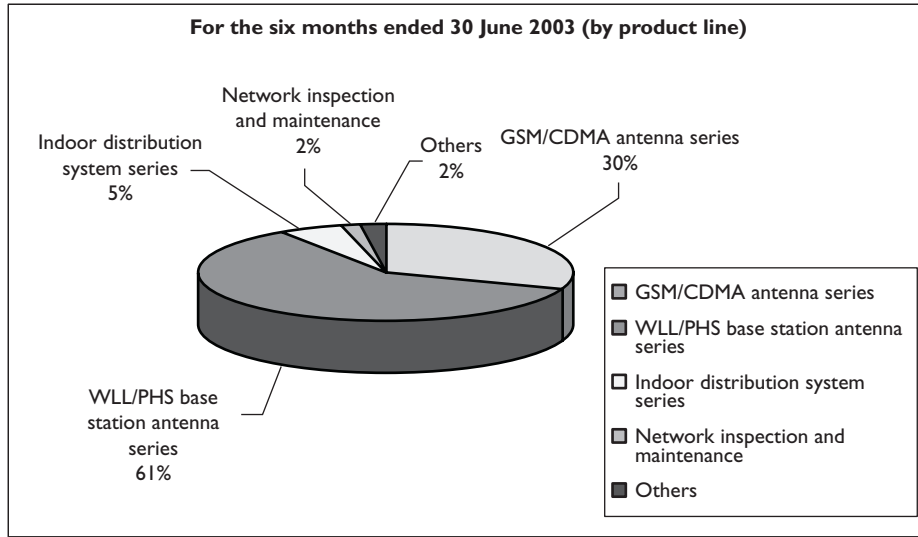
### Business Review

The Company's turnover fluctuates due to market environment. Expenses including distribution costs, administrative expenses, other operation expenses and finance costs are incurred in a relatively even manner between quarters. While turnover for the three months ended 30 June 2004 increased comparing with the first quarter of the year 2004, percentage of aforesaid expenses to turnover decreased. As a result, the Company's financial performance which is reflected by net profit for the three months ended 30 June 2004 was better than the one for the first quarter of the year 2004.

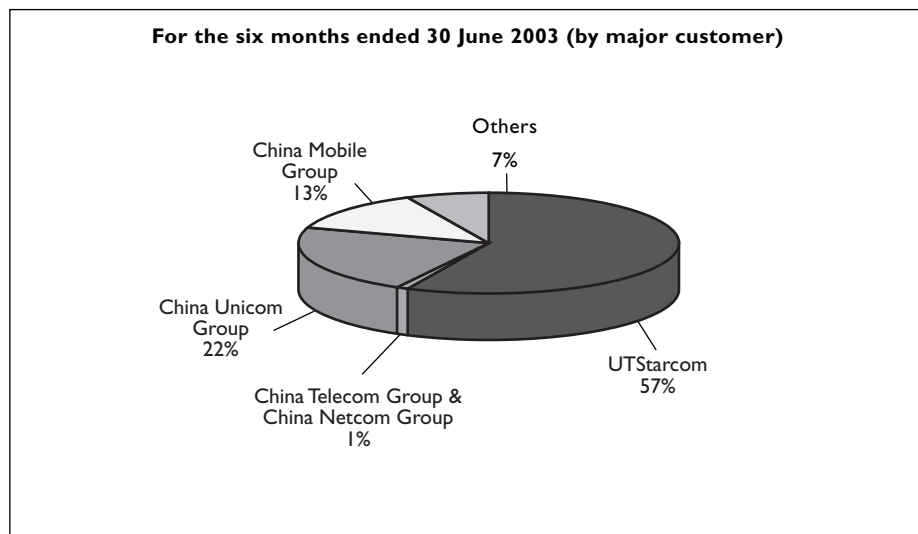
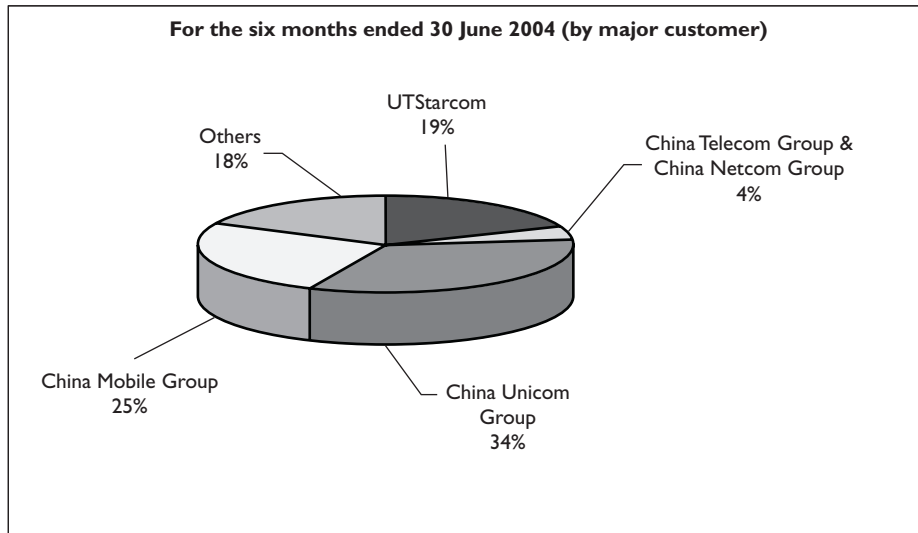
The Company recorded an unaudited turnover of approximately RMB58.2 million and RMB92.4 million respectively for the three months and the six months ended 30 June 2004, representing an increase of approximately 7.9% and a decrease of approximately 0.3% respectively as compared with the unaudited turnover for the corresponding periods in the year 2003. However, composite of turnover has been changed significantly. Percentage of sales of WLL/PHS base station antenna series in turnover decreased from approximately 61% of the corresponding period in the year 2003 to approximately 25% for the six months ended 30 June 2004; while the percentage of sales of GSM/CDMA antenna series increased from approximately 30% of the corresponding period in the year 2003 to approximately 63% for the six months ended 30 June 2004. At the same time, export sales for the six months ended 30 June 2004 increased significantly with an amount of approximately RMB10.9 million, representing an increase of approximately RMB7.9 million or approximately 263% comparing with the corresponding period in the year 2003.

Composite of turnover by product line for the six months ended 30 June 2004, together with the comparative figures for the corresponding period in the year 2003, is provided as follows:





Composite of turnover by major customer for the six months ended 30 June 2004, together with the comparative figures for the corresponding period in the year 2003, is provided as follows:



Legend:

UTStarcom: UT 斯達康通訊有限公司 (UTStarcom Telecom Co., Ltd. (“UTStarcom”))

China Telecom Group & China Netcom Group: 中國電信集團公司 (China Telecommunications Corporation) and its subsidiaries and branch companies (collectively “China Telecom Group”) and 中國網絡通信有限公司 (China Netcom Corporation Limited) and its subsidiaries and branch companies (collectively “China Netcom Group”)

China Unicom Group: 中國聯合通信有限公司 (China United Telecommunications Corporation) and its subsidiaries and branch companies (collectively “China Unicom Group”)

China Mobile Group: 中國移動通信集團公司 (China Mobile Communications Corporation) and its subsidiaries and branch companies (collectively “China Mobile Group”)

For the six months ended 30 June 2004, unaudited gross profit amounted to approximately RMB42.4 million. Gross profit margin was approximately 45.8%, decreased for approximately 4 percentage point comparing with the gross profit margin of 49.8% for the corresponding period in the year 2003. The decrease was mainly due to the high level of competition in the market. Accordingly, the Company continued to lower the selling prices of existing product models to compete with other manufacturers. It resulted in the lowering of the Company’s gross margin for WLL/PHS base station antenna series and GSM/CDMA antenna series. The Company has successfully maintained and expanded its market share by using the strategy of lowering selling prices of existing product models, as well as using the strategy of changing composite of sale revenue in terms of product line and major customer.

Further, distribution costs for the six months ended 30 June 2004 amounted to approximately RMB21.0 million, representing an increase of approximately RMB8.6 million or approximately 68.8% comparing with the figure of the corresponding period in the year 2003. The main reason for the increase was that, in order to increase marketing effort of the Company’s new products and to enhance the Company’s business relation with customers including China Telecom Group and China Netcom Group, the Company employed more salespersons and used more agency services to stimulate sales and provided continuous after-sale service, and increased salespersons’ payroll expenses, agency fee and installation expenses as a result. Approximately RMB5.8 million of the increase in distribution costs were recorded in the first quarter of the year 2004. Administrative expenses increased by approximately RMB1.0 million or 11.6% comparing with the figure of the corresponding period in the year 2003, amounting to approximately RMB9.2 million. Increase of administrative expenses was mainly due to the increase of social insurance expenses and the increase of professional fees because more professionals were engaged to reinforce regularity of the Company’s operation. Other operating expenses amounted to approximately RMB4.3 million. Due to the capitalisation of product research and development costs of approximately RMB8.6 million (2003: nil) during the period, other operating expenses in aggregate decreased for approximately RMB4.6 million, or 51.7%, comparing with the corresponding period in the year 2003. Finance costs decreased for approximately RMB1.2 million or 42.5% comparing with the figure of the corresponding period in the year 2003, amounting to approximately RMB1.7 million. The Company has repaid part of the loans advanced for financing working capital and advanced loans to finance the construction of building for the testing centre and interests paid for the loans amounted to approximately RMB1.4 million (2003: nil) were capitalized in the cost of the building. Therefore, interest expenses decreased even total amount of bank borrowings increased.

As the result, the Company recorded an unaudited net profit of approximately RMB8.9 million and RMB5.4 million respectively for the three months and the six months ended 30 June 2004, representing an increase of approximately 31.8% and a decrease of approximately 51.9% respectively as compared with the unaudited net profit for the corresponding periods in the year 2003. The Company recorded an unaudited net loss for the first quarter of the year 2004 of approximately RMB3.5 million, with an amount of approximately RMB8.0 million lower than the unaudited net profit for the first quarter of the year 2003. The Company recorded an unaudited net profit for the second quarter of the year 2004 of approximately RMB8.9 million, with an amount of approximately RMB2.1 million higher than the unaudited net profit for the second quarter of the year 2003.

## **PROSPECTS**

For the six months ended 30 June 2004, while sales to China Mobile Group and China Unicom Group continued to increase, sales to China Telecom Group and China Netcom Group also increased. Although gross profit margin decreased on average and distribution costs increased, the Company achieved an increase in sales to telecommunication network operators. The Directors believe sales to telecommunication network operators are still increasing. It not only means the Company's market share is increasing, but also would help the Company's new products getting a bigger market.

For the six months ended 30 June 2004, the Company's export sales increased significantly and cooperation with global telecommunication equipment vendors/integrators was strengthened at the same time. Repayment of export sales is quicker and selling price is relatively more stable than sales in the PRC. The Directors believe the trend of export sales increase will continue and diversify the Company's market to the global market.

For the six months ended 30 June 2004, the Company's sales of indoor distribution system series resumed growth. The Directors expect this sales of this product line will continue to increase and form a bigger portion in the Company's sales revenue.

The Company on one hand will continue to lower selling prices of existing product models to maintain and expand its market share and on the other will continue to improve gross profit margin or at least reduce the rate of decrease of gross profit margin by measures of launching new products and increasing the proportion of sales of products of higher profit margin in the total turnover.

The Directors have identified areas of improvement in management and will take measures to solve the problems. Measures to be taken including improving procedures of credit sales to control trade receivables and restructuring the Company's organization to cut expenses.

## **LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE**

During the period, the Company was mainly financed by cash from operations and banking facilities.

From 1 January 2004 to 30 June 2004, short-term borrowings increased from approximately RMB54.7 million to approximately RMB90.0 million and long term borrowings remained unchanged as approximately RMB50.0 million. Total borrowings amounted to RMB140.0 million as at 30 June 2004. These borrowings were mainly used for the Company's daily operation and acquisition of fixed assets.

As at 30 June 2004, all of the Company's borrowings bear interest of a fixed rate ranging from 5.04% to 5.49%. Since all the borrowings were denominated in RMB, exposure to foreign exchange risk was minimal.

The Company's borrowings are repayable as follows:

|                                              | <i>RMB million</i> |
|----------------------------------------------|--------------------|
| Within 1 year                                | 90.0               |
| More than 1 year, but not exceeding 2 years  | –                  |
| More than 2 years, but not exceeding 5 years | 50.0               |
|                                              | <hr/>              |
|                                              | 140.0              |
|                                              | <hr/> <hr/>        |

Over the period, the Company's gearing ratio increased to 62.8% (as at 31 December 2003: 47.4%), which is calculated based on total bank and other borrowings of approximately RMB140.0 million over total shareholders' funds of approximately RMB223.1 million. Cash and cash equivalents decreased from approximately RMB113.6 million to RMB71.6 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 30 June 2004, the Company pledged bank deposits with a total amount of approximately RMB4.0 million, buildings of net book value of approximately RMB23.9 million, land use right of net book value of approximately RMB12.0 million and trade receivables of approximately RMB14.4 million for banking facilities.

## **CONTINGENT LIABILITIES**

As at 30 June 2004, the Company did not have any material contingent liabilities.

## **FOREIGN EXCHANGE EXPOSURE**

Since most of the transactions of the Company are denominated in Renminbi ("RMB"), 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 period 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 30 June 2004, the Company had approximately 600 full-time employees. Total staff costs for the six months ended 30 June 2004 amounting to approximately RMB13.0 million (2003: RMB11.7 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 six months ended 30 June 2004 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 30 June 2004, 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 RMB6.0 million (as at 31 December 2003: RMB6.3 million). Save as disclosed herein and the business objectives set out in the Prospectus, the Company did not have other plans for material investment.

## **MATERIAL ACQUISITIONS AND DISPOSALS**

During the six months ended 30 June 2004, the Company did not have any material acquisitions and disposals of subsidiaries and affiliated companies.

## **DIRECTORS', SUPERVISORS', AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES**

As at 30 June 2004, save for those shares as set out below, none of the Directors, members of the supervisory committee ("Supervisors") and chief executives of the Company and their associates had any personal, family, corporate or other interests 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 Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by directors.

The beneficial interests of the Directors, Supervisors and chief executives in the share capital of the Company are as follows:

### **Long positions in the shares of the Company**

| <b>Name of Director</b>                        | <b>Type of interest</b> | <b>Capacity</b>  | <b>Number of the issued domestic shares of RMB0.10 each held</b> | <b>Approximate percentage in the issued share capital of the Company</b> |
|------------------------------------------------|-------------------------|------------------|------------------------------------------------------------------|--------------------------------------------------------------------------|
| Professor Xiao Liangyong<br>("Professor Xiao") | Personal                | Beneficial owner | 180,000,000                                                      | 27.8%                                                                    |

Other than as disclosed above, none of the Directors, Supervisors and chief executive nor their associates had any interests or short positions in any shares of the Company or any of its associated corporations as at 30 June 2004.

## DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' RIGHTS TO ACQUIRE SHARES

So far as was known to any Directors, Supervisors or chief executives of the Company, as at 30 June 2004, none of the Directors, Supervisors or chief executives or any of their spouses and children under 18 years of age had any interest in, or had been granted, or exercised, any rights to subscribe for shares (or warrants or debentures, if applicable) or to acquire shares of the Company or any other body corporate.

## SUBSTANTIAL SHAREHOLDERS AND DISCLOSURE UNDER SFO

As at 30 June 2004, in accordance with the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO, the following persons or companies (not being a Director, a Supervisor or a chief executive of the Company) had notified the Company that they had equity interests or short positions in the shares of the Company ("Shares") or underlying Shares which would fall to be disclosed under Divisions 2 and 3 or Part XV of the SFO or who were deemed to be directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Company were as follows:

### Long positions in the shares of the Company

| Name of Substantial Shareholder                                              | Type of interest | Capacity                       | Number of the issued Shares of RMB0.10 each held | Approximate percentage in the issued share capital of the Company |
|------------------------------------------------------------------------------|------------------|--------------------------------|--------------------------------------------------|-------------------------------------------------------------------|
| <b>Domestic Shares</b>                                                       |                  |                                |                                                  |                                                                   |
| Professor Xiao                                                               | Personal         | Beneficial owner               | 180,000,000                                      | 27.8%                                                             |
| 西安解放集團股份有限公司<br>Xi'an Jiefang Group Co., Ltd.*                               | Corporate        | Beneficial owner               | 100,000,000                                      | 15.5%                                                             |
| 西安國際信託投資有限公司<br>Xi'an International Trust & Investment Co., Ltd.*            | Corporate        | Beneficial owner               | 70,151,471                                       | 10.8%                                                             |
| 西安市財政局<br>Xi'an Finance Bureau*                                              | Corporate        | Held by controlled corporation | 70,151,471<br>(Note 1)                           | 10.8%                                                             |
| 陝西保升國際投資有限責任公司<br>Shaanxi Baosheng International Investment Company Limited* | Corporate        | Held by controlled corporation | 70,151,471<br>(Note 1)                           | 10.8%                                                             |



| Name of Substantial Shareholder                                              | Type of interest | Capacity                          | Number of the issued Shares of RMB0.10 each held | Approximate percentage in the issued share capital of the Company |
|------------------------------------------------------------------------------|------------------|-----------------------------------|--------------------------------------------------|-------------------------------------------------------------------|
| 北京京泰投資<br>管理中心<br>Beijing Holdings<br>Investment<br>Management<br>Co., Ltd.* | Corporate        | Beneficial owner                  | 54,077,941                                       | 8.4%                                                              |
| 京泰實業(集團)<br>有限公司<br>Beijing Holdings<br>(Group) Limited*                     | Corporate        | Held by controlled<br>corporation | 54,077,941<br>(Note 2)                           | 8.4%                                                              |
| 陝西絲綢進出口<br>公司<br>Shaanxi Silk Import<br>& Export<br>Corporation*             | Corporate        | Beneficial owner                  | 45,064,706                                       | 7.0%                                                              |
| 陝西省財政廳<br>Shaanxi Finance<br>Bureau*                                         | Corporate        | Held by controlled<br>corporation | 45,064,706<br>(Note 3)                           | 7.0%                                                              |
| <b>H Shares</b>                                                              |                  |                                   |                                                  |                                                                   |
| Sinopac Capital<br>Limited                                                   | Corporate        | Beneficial owner                  | 11,448,000                                       | 1.8% (Note 4)                                                     |
| Commonwealth Bank<br>of Australia                                            | Corporate        | Beneficial owner                  | 9,388,000                                        | 1.5% (Note 5)                                                     |
| Ms. Song Ying                                                                | Personal         | Beneficial Owner                  | 8,800,000                                        | 1.4% (Note 6)                                                     |

*Notes:*

- The Shares were held by Xi'an International Trust & Investment Co., Ltd.\* ("XITIC"). By virtue of the SFO, Xi'an Finance Bureau and Shaanxi Baosheng International Investment Company Limited which respectively holds more than one third of voting right of XITIC were deemed to be interested in the same 70,151,471 shares held by XITIC.
- The Shares were held by Beijing Holdings Investment Management Co., Ltd.\* ("BJ Holdings"). By virtue of the SFO, Beijing Holdings (Group) Limited which holds more than one third of voting right of BJ Holdings was deemed to be interested in the same 54,077,941 shares held by BJ Holdings.
- The Shares were held by Shaanxi Silk Import & Export Corporation\* ("Shaanxi Silk"). By virtue of the SFO, Shaanxi Finance Bureau which holds more than one third of voting right of Shaanxi Silk was deemed to be interested in the same 45,064,706 shares held by Shaanxi Silk.
- The Shares were equivalent to approximately 7.1% of H Shares in issued.
- The Shares were equivalent to approximately 5.8% of H Shares in issued.
- The Shares were equivalent to approximately 5.4% of H Shares in issued.

\* for identification purpose only

Save as disclosed above, as at 30 June 2004, the Directors were not aware of any person, other than Directors, Supervisors and chief executives of the Company, who had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provision of Division 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 5% or more of the nominal value of any class of Share capital, or options in respect of such capital, carrying rights to vote in all circumstances at general meetings of the Company.

## **COMPETING INTERESTS**

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

## **DISCLOSURE UNDER CHAPTER 17 OF THE GEM LISTING RULES**

As at 30 June 2004, trade receivables due from members of China Unicom Group (in aggregate), members of China Mobile Group (in aggregate) and other trade customers (in aggregate) amounted to approximately RMB114.9 million, RMB40.4 million and RMB44.2 million respectively. Such trade receivables in an aggregate amount of approximately RMB199.5 million were owed by 50 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 the two customers and no interest is charged on such balances. The balances due from China Unicom Group (in aggregate) and China Mobile Group (in aggregate) as at 30 June 2004 represented approximately 25.7% and 9.0%, exceeding 8%, of the Company's total assets as per the latest audited financial statements as at 31 December 2003. This constitutes a disclosure obligation on the part of the Company pursuant to Rules 17.15 and 17.17 of the GEM Listing Rules.

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 and China Mobile Group. In addition, the Directors believe that with the strong backing of these customers, the Company is able to further expand its business as one of the leading providers of the base station antennas and related products in the PRC.

Save for the above, as at 30 June 2004, so far as was known to the Directors, there is no other advance which would give rise to disclosure obligation under Rule 17.15 and Rule 17.17 of the GEM Listing Rules.

## **SPONSOR'S INTEREST**

As notified and updated by Core Pacific-Yamaichi Capital Limited ("CPY Capital"), the Company's sponsor, pursuant to Rules 6.36 and 18.63 of the GEM Listing Rules, as at 30 June 2004, the spouse of a director of Core Pacific-Yamaichi International (H.K.) Limited, an associate (as referred to in Note 3 to the Rule 6.35 of the GEM Listing Rules) of CPY Capital, held 100,000 H Shares in the Company. Save as disclosed herein, neither CPY Capital nor its directors or employees or associates had any interests in share capital of the Company. Pursuant to an 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 periods from 5 November 2003 up to 31 December 2004 and from 1 January 2005 up to 31 December 2005 or until the Agreement is terminated upon the terms and conditions set out therein respectively.

## AUDIT COMMITTEE

An audit committee was established on 4 April 2003 with terms of reference in compliance with the GEM Listing Rules. Mr. Deng Yuanming and Mr. Gong Shuxi, independent non-executive Directors, and Mr. Li Wenqi, a non-executive Director, have been appointed as members of the audit committee. Mr. Deng Yuanming, was appointed as the Chairman of the audit committee. The Company's unaudited interim results for the six months ended 30 June 2004 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standard and requirements and that adequate disclosures have been made.

## CORPORATE GOVERNANCE

The Company has complied with the GEM Listing Rules in relation to board practices and procedures for the period from 1 January 2004 to 30 June 2004.

## PURCHASE, SALE OR REDEMPTION OF SECURITIES

The Company has not purchased, sold or redeemed any listed securities of the Company during the period from 1 January 2004 to 30 June 2004.

By Order of the Board  
**Xiao Bing**  
Chairman

12 August 2004  
Xi'an, the PRC

*As at the date of this announcement, the Board comprises 肖兵先生 (Mr. Xiao Bing), 肖良勇教授 (Professor Xiao Liangyong) and 郭渭盛教授 (Professor Guo Weisheng) being executive Directors; 王科先生 (Mr. Wang Ke), 劉永強先生 (Mr. Liu Yongqiang), 王京女士 (Ms. Wang Jing), 王全福先生 (Mr. Wang Quanfu), and 李文琦先生 (Mr. Li Wenqi) being non-executive Directors; and 周天游先生 (Mr. Zhou Tianyou), 龔書喜先生 (Mr. Gong Shuxi) and 鄧元明先生 (Mr. Deng Yuanming) being independent non-executive Directors.*

*This announcement will remain on the THE GEM website at <http://www.hkthe GEM.com> on the "Latest Company Announcements" page for at least 7 days from the date of its posting.*