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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Xi'an Haitian Antenna Technologies Co. Ltd, you should at once hand this circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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西安海天天线科技股份有限公司

XI'AN HAITIAN ANTENNA TECHNOLOGIES CO., LTD.*

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

(Stock Code: 8227)

MAJOR TRANSACTION
in respect of
the establishment of a sino-foreign equity joint venture

Financial Adviser



招银国际

CMB International Capital Corporation Limited

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CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE

GEM has been established as a market in Hong Kong 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 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.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the main board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. GEM-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 GEM-listed issuers.

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DEFINITIONS

In this circular, the following expressions have the meanings set out below unless the context requires otherwise:

“Company”	Xi’an Haitian Antenna Technologies Co. Ltd, a joint stock limited company incorporated in the PRC and the H shares of which are listed on GEM of the Stock Exchange
“Datang Mobile”	大唐移動通訊設備有限公司 (Datang Mobile Communication Equipment Co. Ltd.), established in the PRC in February 2002, is in possession of the core technology for TD-SCDMA development and is proposed to be engaged in the provision of 3G mobile communication equipment in the PRC. It is a core member of Datang Telecom
“Datang Telecom”	大唐電信科技產業集團 (Datang Telecom Technology and Industry Group), a large high-tech industry group of companies focusing on the research and development, production and sale of telecommunications equipment. Its members include Datang Mobile and 大唐電信科技股份有限公司 (Datang Telecom Technology Co., Ltd.), which is a limited liability company established in the PRC with its shares listed on the Shanghai Stock Exchange and whose principal business includes the development, production and sale of communications equipment and the provision of related technical services
“Director(s)”	the director(s) of the Company
“Domestic Shares”	ordinary shares in the share capital of the Company, with a nominal value of RMB0.10 each, which are subscribed for in Renminbi
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries
“H Shares”	overseas-listed foreign shares in the share capital of the Company, with a nominal value of RMB0.10 each, which are listed on GEM and subscribed for and traded in Hong Kong dollars
“Haitian HK”	XAHT Antenna (Hong Kong) Limited, a wholly owned subsidiary of the Company

DEFINITIONS

“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Parties”	third party independent of the Company and any connected person of the Company and not a connected person of the Company within the meaning of the GEM Listing Rules
“Intelligent Antenna Licence Agreement”	the Intelligent Antenna Licence Agreement to be entered into between the Joint Venture Company and the Company
“Jiefang”	西安解放集團股份有限公司 (Xi’an Jiefang Group Joint Stock Co., Ltd.), a limited liability company established in the PRC, a substantial shareholder of the Company interested in 100,000,000 Shares, representing approximately 15.45% of the Company’s issued share capital
“Joint Venture Agreement”	a sino-foreign equity joint venture agreement dated 15 November 2005 entered into between the Company, Haitian HK and Datang Mobile, pursuant to which the Company, Haitian HK and Datang Mobile agreed to establish the Joint Venture Company
“Joint Venture Company”	a limited liability company to be established in the PRC pursuant to the Joint Venture Agreement
“Latest Practicable Date”	5 December 2005, being the latest practicable date prior to the printing of this circular for ascertaining certain information referred to this circular
“Manufacture Agreement”	the Manufacture Agreement to be entered into between the Joint Venture Company and Datang Mobile, pursuant to which Datang Mobile will purchase and the Joint Venture Company will sell the TD-SCDMA mini-cellular base stations manufactured by the Joint Venture Company on an exclusive basis
“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	ordinary share(s) of RMB0.10 each in the share capital of the Company

DEFINITIONS

“Shareholders”	the Shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supervisor(s)”	the supervisor(s) of the Company
“TD-SCDMA”	Time Division Synchronous Code Division Multiple Access, one of the three recognized standards for 3G technology in the world
“TD-SCDMA Technology Licence Agreement”	the Technology Licence Agreement to be entered into between the Joint Venture Company and Datang Mobile, pursuant to which Datang Mobile will grant a non-exclusive licence to the Joint Venture Company for using its TD-SCDMA mini-cellular base station technology for manufacturing TD-SCDMA mini-cellular base stations
“Tian An”	西安天安投資有限公司 (Xi'an Tian An Investment Company Ltd.), a limited liability company established in the PRC, a substantial shareholder of the Company interested in 180,000,000 Shares, representing approximately 27.81% of the Company's issued share capital
“XITIC”	西安國際信託投資有限公司 (Xi'an International Trust & Investment Co., Ltd.), a limited liability company established in the PRC, a substantial Shareholder of the Company interested in 70,151,471 Shares, representing approximately 10.84% of the Company's issued share capital

In this circular, the exchange rate of HK\$1.00 to RMB1.04 has been used for reference only.

LETTER FROM THE BOARD



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)

Executive Directors:

Mr. Xiao Bing
Mr. Liang Zhijun

Non-executive Directors:

Mr. Wang Ke
Mr. Liu Yongqiang
Mr. Wang Quanfu
Ms. Wang Jing
Mr. Li Wenqi

Independent Non-executive Directors:

Mr. Gong Shuxi
Mr. Wang Pengcheng

Registered office:

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

Principal place of business in Hong Kong:

Unit 3103, 31/F.
Office Tower
Convention Plaza
1 Harbour Road
Wanchai, Hong Kong

7 December 2005

To the Shareholders,

Dear Sir or Madam,

MAJOR TRANSACTION
in respect of
the establishment of a sino-foreign equity joint venture

INTRODUCTION

On 16 November 2005, the Company announced that the Company, Haitian HK and Datang Mobile had entered into the Joint Venture Agreement, pursuant to which they have agreed to jointly establish the Joint Venture Company in the PRC.

The Joint Venture Agreement constitutes a major transaction for the Company under Rule 19.07 of the GEM Listing Rules and is subject to the approval of the Shareholders at an extraordinary general meeting or by means of the written approval of the Shareholders who together hold more than 50% in nominal value of the shares of Company giving the right to attend and vote at such extraordinary general meeting. In this regard, the Company

* For identification purpose only

LETTER FROM THE BOARD

has received the written approval from Tian An, Jiefang and XITIC which together hold approximately 54.10% in nominal value of the shares of Company and have no interest in the transaction save through their interests in the Company. Tian An is owned as to 60% and 40% by Mr. Xiao Bing and Ms. Yao Wenli respectively, who are considered as concert parties of Professor Xiao Liangyong, being the founder and one of the promoters of the Company. Jiefang and XITIC are fellow promoters of the Company. Tian An, Jiefang and XITIC are regarded as a closely allied group of shareholders of the Company under Rule 19.45 of the GEM Listing Rules. No Shareholder is required to abstain from voting on the relevant resolution should an extraordinary general meeting be held. Accordingly, no extraordinary general meeting will be required for the approval of the transaction.

The purpose of this circular is to provide Shareholders with further information on the Joint Venture Agreement and other information in compliance with the requirements of Chapter 19 of the GEM Listing Rules.

PRINCIPAL TERMS OF THE JOINT VENTURE AGREEMENT

Date

15 November 2005

Parties

- (1) the Company;
- (2) Haitian HK; and
- (3) Datang Mobile.

Haitian HK is a wholly owned subsidiary of the Company. The Directors confirm that to the best of their knowledge, information and belief having made all reasonable enquiries, Datang Mobile and its respective ultimate beneficial owners are Independent Third Parties.

Business scope of the Joint Venture Company

The Joint Venture Company would be engaged in research and development, manufacture, provision of consultancy and services in respect of TD-SCDMA systems and equipment, multi-media communication systems and wireless distribution systems.

Term of the Joint Venture Company

15 years from the date of issue of the business licence of the Joint Venture Company.

LETTER FROM THE BOARD

Registered capital and total investment

The registered capital and the total investment of the Joint Venture Company are RMB160,000,000 (approximately HK\$153,846,154) respectively. The parties will pay up their respective contributions to the registered capital of the Joint Venture Company in two phases as follows:

Party	Pay by	Phase 1 (RMB)	Phase 2 (RMB)	Total (RMB)	Equity Interest (%)
The Company	Cash	41,400,000	41,400,000	82,800,000	53
	Fixed assets [#]	2,000,000	–	2,000,000	
Haitian HK	Cash	9,600,000	9,600,000	19,200,000	12
Datang Mobile	Cash	28,000,000	28,000,000	56,000,000	35
		<u>81,000,000</u>	<u>79,000,000</u>	<u>160,000,000</u>	<u>100</u>

[#] Fixed assets include equipment and machineries of the Group

Subject to the fulfillment of the conditions precedent of the Joint Venture Agreement, the contributions in phase 1 shall be paid within 10 days after the establishment of the Joint Venture Company. The contributions in phase 2 shall be paid within 4 months after the expiry of the time-limit for payment in phase 1.

The registered capital and total investment of the Joint Venture Company as well as the proportions to be contributed by each of the parties were determined by negotiation between the parties on arm's length basis and on normal commercial terms, taking into account their financial resources and the development of the Joint Venture Company.

The Directors expect to finance the contributions of the Company and Haitian HK by the Group's internal resources. In addition to the bank balance and cash balance of approximately RMB85 million as disclosed in the Group's interim report for the six months ended 30 June 2005, the Group also has short-term trade receivables of approximately RMB32 million which are due within 0-60 days. The amount required to be contributed by the Group by cash in phase 1 is RMB51 million whilst the remaining balance of RMB51 million shall be paid within 4 months after the expiry of the time-limit for payment in phase 1. As such, the Directors consider that that the Group has sufficient internal resources to meet its obligation in respect of the capital contributions to the Joint Venture Company.

LETTER FROM THE BOARD

Conditions precedent for the payment obligations

The payment obligations of the parties are subject to the following conditions precedent:

- (1) the representations and warranties made by the parties in the Joint Venture Agreement are true and accurate;
- (2) the obtaining of the approvals from the relevant government authorities, including the approval certificate for sino-foreign equity joint venture and the business licence of the Joint Venture Company; and
- (3) the Joint Venture Company entered into the TD-SCDMA Technology Licence Agreement and the Manufacture Agreement with Datang Mobile.

Profit sharing

The profit of the Joint Venture Company will be shared between the Company, Haitian HK and Datang Telecom in proportion to their respective equity interests in the Joint Venture Company.

Board of directors

The board of directors of the Joint Venture Company will comprise 5 directors, of which 2 will be appointed by the Company, 1 will be appointed by Haitian HK and 2 will be appointed by Datang Mobile.

POSSIBLE TRANSACTIONS

Following the establishment of the Joint Venture Company, it will enter into the following agreements:

- (1) TD-SCDMA Technology Licence Agreement, pursuant to which Datang Mobile will grant a non-exclusive licence to the Joint Venture Company for using its TD-SCDMA mini-cellular base station technology for manufacturing TD-SCDMA mini-cellular base stations.
- (2) Intelligent Antenna Technology Licence Agreement, pursuant to which the Company will grant an exclusive licence to the Joint Venture Company for using its TD-SCDMA intelligent antenna technology for manufacturing TD-SCDMA intelligent antennas.
- (3) The Manufacture Agreement, pursuant to which Datang Mobile will purchase and the Joint Venture Company will sell the TD-SCDMA mini-cellular base stations manufactured by the Joint Venture Company on an exclusive basis.

LETTER FROM THE BOARD

Upon establishment of the Joint Venture Company, Datang Mobile will become a connected person of the Company within the meaning of the GEM Listing Rules. Depending on the size of transaction, the above agreements may constitute notifiable and/or non-exempt continuing connected transactions for the Company under Chapters 19 and 20 of the GEM Listing Rules which may or may not be approved by independent Shareholders if such approval is required. In the event that independent Shareholders' approval for agreements (1) and (3) above, if it is required under the GEM Listing Rules, cannot be obtained and such agreements cannot be entered into, the obligation of the parties to contribute to the registered capital of the Joint Venture Company will not arise and the Joint Venture Company will be dissolved. Since detailed terms of the above agreements are yet to be finalized, the Company will comply with the requirements under Chapters 19 and 20 of the GEM Listing Rules at appropriate time.

Upon establishment of the Joint Venture Company, the Joint Venture Company will not become a connected person of the Company as it will be a non-wholly owned subsidiary of the Company falling within the ambit of Rule 20.11(5) of the GEM Listing Rules.

INFORMATION OF THE PARTIES

The Group is a high-technology group of enterprises principally engaged in the research and development, manufacture and sale of base station antennas and related products. In connection with such principal business, the Group also provides technical support, system integration and installation services of base station antennas. The Group provides products and services to corporate clients comprising PRC's mobile communication network operators and mobile communication equipment vendors/system integrators.

Based on the information in its website, Datang Mobile, registered and established on 8 February 2002 in Beijing, the PRC, is one of the core members of Datang Telecom. Capitalizing on its research and development capability and regional advantage, Datang Mobile is mainly engaged in the production of TD-SCDMA infrastructure and terminal products and the development of relevant extended technologies and products. The flagship company of Datang Telecom is Datang Telecom Technology Co., Ltd., an enterprise established in the PRC with its shares listed on the Shanghai Stock Exchange and whose principal business includes the development, production and sale of communication equipment and the provision of related technical services in the PRC.

REASONS FOR THE ESTABLISHMENT OF THE JOINT VENTURE COMPANY

Cooperation between the Group and Datang Mobile can be traced back to October 2002, when a strategic alliance was formed between the Company and Datang Mobile pursuant to an agreement dated 15 October 2002 for the joint development of intelligent antenna arrays in TD-SCDMA mobile communication system.

LETTER FROM THE BOARD

The Directors believe that through the establishment of the Joint Venture Company with Datang Telecom, the Group's sales and distribution network for its mobile communication products will be strengthened, and at the same time, the range of its products, in particular, products relating to TD-SCDMA technology will be expanded. Furthermore, the establishment of the Joint Venture Company will allow the Group to further penetrate the mobile communication product market in the PRC and broaden its geographic scope.

Upon the establishment of the Joint Venture Company, it will be considered as an indirect non-wholly owned subsidiary of the Company. The results of the Joint Venture Company will therefore be consolidated into the Company's account. The Directors consider that the earning base of the Group will be enlarged when the Joint Venture Company commences to generate profits. The Directors do not expect the formation of the Joint Venture Company itself will have any significant impact on the assets and liabilities of the Group.

Having considered the above, the Directors (including the independent non-executive Directors) are of the view that the terms of the Joint Venture Agreement and the establishment of the Joint Venture Company are fair and reasonable and are in the interests of the Group and the Shareholders as a whole.

FINANCIAL AND TRADING PROSPECTS OF THE GROUP

As stated in the interim report for the period ended 30 June 2005, the Group recorded an unaudited turnover of approximately RMB41.7 million and RMB64.2 million for the three months and six months ended 30 June 2005 respectively, representing a decrease of approximately 28.4% and 30.5% compared with the unaudited turnover for the corresponding period in the year 2004. The decrease was mainly due to the uncertainty in the government policy on telecommunication industry, especially on the launching of 3G mobile communication services and the expected restructuring among telecommunication operators.

For the six months ended 30 June 2005, sales to China Telecom Group and China Netcom Group continue to increase while sales to other customers were also increased which further expanded the customer base of the Group. The Directors expect that the Group will continue to expand the overseas markets which help to provide a new income source to the Group. For the six months ended 30 June 2005, sales of indoor distribution system series had increased significantly. The Group expects that the sales of this product line will continue to increase before the launching of 3G mobile communication services and form a bigger portion in the Group's sales revenue. Since the Group had established an experienced research, development and production team in the past, it has successfully launched substitute products with higher added value as well as more cost effective production method which make the gross profit margin remain stable under a competitive environment. The Group will continue to launch new product and adopt cost control policy so as to ensure the profit and beneficial results of the Group will increase.

LETTER FROM THE BOARD

The establishment of the Joint Venture Company with Datang Mobile will enable the Group to enlarge its sales force, sales and distribution network as well as customer base.

GENERAL

As the amount of the registered capital of the Joint Venture Company to be contributed by the Company and Haitian HK in aggregate exceeds 25% but not more than 100% of the market capitalisation of the Company, the entering into of the Joint Venture Agreement constitutes a major transaction for the Company under Rule 19.07 of the GEM Listing Rules and is subject to the approval of the Shareholders at an extraordinary general meeting or by means of the written approval of the Shareholders who together hold more than 50% in nominal value of the shares of Company giving the right to attend and vote at such general meeting. In this regard, the Company has received the written approval from Tian An, Jiefang and XITIC which together hold approximately 54.10% in nominal value of the shares of Company and have no interest in the transaction save through their interests in the Company. No Shareholder is required to abstain from voting on the relevant resolution should an extraordinary general meeting be held. Accordingly, no extraordinary general meeting will be required for the approval of the transaction.

ADDITIONAL INFORMATION

Your attention is also drawn to the information set out in the Appendices I and II to this circular.

By Order of the Board
Xi'an Haitian Antenna Technologies Co., Ltd.*
Xiao Bing
Chairman

* For identification purpose only

FINANCIAL STATEMENTS

- (I) Set out below are the audited financial statements as extracted from the annual report of the Company for the year ended 31 December 2004, together with accompanying notes. Reference to page numbers in the audited financial statements is to the page numbers of the 2004 annual report of the Company.

Consolidated Income Statement*Year ended 31 December 2004*

	<i>Note</i>	2004 RMB	2003 RMB
TURNOVER	3	200,999,236	226,731,785
COST OF SALES		<u>(108,662,959)</u>	<u>(112,824,028)</u>
GROSS PROFIT		92,336,277	113,907,757
OTHER INCOME	3	2,634,495	2,987,098
DISTRIBUTION COSTS		(43,466,635)	(24,454,516)
ADMINISTRATIVE EXPENSES		(19,217,014)	(20,898,230)
OTHER OPERATING EXPENSES		<u>(8,730,755)</u>	<u>(13,060,712)</u>
PROFIT FROM OPERATIONS	5	23,556,368	58,481,397
FINANCE COSTS	8	<u>(6,459,762)</u>	<u>(4,954,481)</u>
PROFIT BEFORE TAXATION		17,096,606	53,526,916
INCOME TAX EXPENSES	9	<u>(2,079,248)</u>	<u>(10,518,081)</u>
PROFIT ATTRIBUTABLE TO SHAREHOLDERS	10	<u>15,017,358</u>	<u>43,008,835</u>
DIVIDENDS	11	<u>–</u>	<u>3,235,294</u>
EARNINGS PER SHARE – BASIC	12	<u>2.3 cents</u>	<u>8.2 cents</u>

Consolidated Balance Sheet

31 December 2004

	<i>Note</i>	2004 RMB	2003 RMB
NON-CURRENT ASSETS			
Land use right	13	11,874,270	12,133,359
Intangible assets	14	27,847,149	12,870,942
Property, plant and equipment	15	103,481,851	80,080,735
Club debenture		280,000	280,000
Deposits for acquisition of land use right/property, plant and equipment		28,940	526,980
Pledged bank deposits		623,579	270,496
		<u>144,135,789</u>	<u>106,162,512</u>
CURRENT ASSETS			
Inventories – at cost	17	25,554,557	27,059,721
Trade receivables	18	172,292,300	158,131,100
Bills receivables		7,373,378	200,000
Other receivables and prepayments		12,739,401	16,963,142
Pledged bank deposits		7,379,589	24,544,369
Bank balances and cash		107,614,032	113,588,038
		<u>332,953,257</u>	<u>340,486,370</u>
CURRENT LIABILITIES			
Trade payables	19	28,469,290	27,419,900
Bills payable		35,400,777	47,626,722
Other payables and accrued charges		11,060,755	28,672,359
Taxation		8,853,288	16,833,149
Bank and other borrowings – due within one year	20	90,000,000	54,673,880
		<u>173,784,110</u>	<u>175,226,010</u>
NET CURRENT ASSETS		<u>159,169,147</u>	<u>165,260,360</u>
		<u><u>303,304,936</u></u>	<u><u>271,422,872</u></u>
CAPITAL AND RESERVES			
Share capital	21	64,705,882	64,705,882
Reserves	22	167,999,054	156,216,990
		<u>232,704,936</u>	<u>220,922,872</u>
NON-CURRENT LIABILITIES			
Bank and other borrowings – due after one year	20	70,000,000	50,000,000
Deferred taxation	23	600,000	500,000
		<u>600,000</u>	<u>500,000</u>
		<u><u>303,304,936</u></u>	<u><u>271,422,872</u></u>

Balance Sheet*As at 31 December 2004*

	<i>Note</i>	2004 RMB	2003 RMB
NON-CURRENT ASSETS			
Land use right	13	11,874,270	12,133,359
Intangible assets	14	27,847,149	12,870,942
Property, plant and equipment	15	103,481,851	80,080,735
Interest in a subsidiary	16	1,597,500	–
Club debenture		280,000	280,000
Deposits for acquisition of land use right/property, plant and equipment		28,940	526,980
Pledged bank deposits		623,579	270,496
		145,733,289	106,162,512
CURRENT ASSETS			
Inventories - at cost	17	25,554,557	27,059,721
Trade receivables	18	172,292,300	158,131,100
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Other payables and accrued charges		12,650,811	28,672,359
Taxation		8,853,288	16,833,149
Bank and other borrowings – due within one year	20	90,000,000	54,673,880
		175,374,166	175,226,010
NET CURRENT ASSETS		157,579,091	165,260,360
		303,312,380	271,422,872
CAPITAL AND RESERVES			
Share capital	21	64,705,882	64,705,882
Reserves	22	168,006,498	156,216,990
		232,712,380	220,922,872
NON-CURRENT LIABILITIES			
Bank and other borrowings – due after one year	20	70,000,000	50,000,000
Deferred taxation	23	600,000	500,000
		303,312,380	271,422,872

Consolidated Statement of Changes in Equity*Year ended 31 December 2004*

	Share capital RMB (Note 21)	Share premium RMB	Statutory surplus reserve RMB (Note 22(a))	Statutory public welfare fund RMB (Note 22(b))	Retained profits RMB	Total RMB
At 1 January 2003	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
Dividend paid	–	–	–	–	(3,235,294)	(3,235,294)
Net profit for the year	–	–	–	–	15,017,358	15,017,358
Transfer	–	–	302,234	151,117	(453,351)	–
At 31 December 2004	<u>64,705,882</u>	<u>71,228,946</u>	<u>9,805,345</u>	<u>5,325,656</u>	<u>81,639,107</u>	<u>232,704,936</u>

Notes to the Financial Statements

Year ended 31 December 2004

1. REORGANISATION AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS

Xi'an Haitian Antenna Technologies Company Limited 西安海天天綫科技股份有限公司 (the "Company") was established in the People's Republic of China (the "Mainland China") on 11 October 2000 as a joint stock limited company as a result of reorganisation of predecessor of the Company, Xi'an Haitian Communication Equipment Company Limited 西安海天通訊設備有限公司 (the "Predecessor").

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

2. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (which includes all applicable Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. The financial statements are prepared under the historical cost. A summary of the significant accounting policies adopted by the Group is set out below.

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005.

The Group has not adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The Group has already assessed the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

a) Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiary made up to 31 December each year.

The result of subsidiary acquired or disposal of during the year is included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

b) Subsidiary

A subsidiary is a company in which the Company directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board.

The result of subsidiary is included in the Group's income statements to the extent of dividend received and receivable. The Group's interest in subsidiary is stated at cost less any impairment losses.

c) 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.

d) 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.

e) Technological Know-how

Technological know-how represents purchase cost for the technical knowledge and skill in development 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.

f) Property, Plant and Equipment

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

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

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

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

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

g) Club Debenture

Club debenture is stated at cost less identified impairment losses.

h) Impairment of Assets

At each balance sheet date, the Group 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.

i) 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.

j) 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.

k) 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.

l) 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.

For the purpose of preparing consolidated financial statements, the income statement of overseas subsidiary expressed in currencies other than Renminbi are translated into Renminbi at the average rates of exchange for the year. The balance sheets of overseas subsidiary expressed in currencies other than Renminbi are translated into Renminbi at the rates of exchange ruling on the balance sheet date. All exchange differences arising therefrom are dealt with in the currency translation reserve.

m) Government Grants

Government grants are recognized at their fair values when there is reasonable assurance that the grant will be received and all attached conditions are complied with. When the grant relates to an expense item, it is recognized as income over the periods necessary to match the grant, on a systematic basis, to the costs which it is intended to compensate. Where the grant relates to an asset, the fair value is deducted in arriving at the carrying amount of the related asset.

n) Operating Leases

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

o) 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 where the Group’s obligations under the scheme are equivalent to those arising in a defined contribution retirement benefit scheme.

3. TURNOVER AND REVENUE

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.

GROUP AND COMPANY	2004 RMB	2003 RMB
TURNOVER		
Sales of goods	196,596,466	220,949,748
Service income	4,402,770	5,782,037
	200,999,236	226,731,785
OTHER REVENUE		
Government grants	1,282,473	2,544,865
Interest income	572,684	143,230
Others	779,338	299,003
	2,634,495	2,987,098
TOTAL REVENUE	<u>203,633,731</u>	<u>229,718,883</u>

4. SEGMENT INFORMATION

As sale of telecommunication products is the only reportable business segment of the Group. Accordingly, no business segment information is presented.

Details of the segment information by geographical segment are as follows:

	Year ended 31 December			
	2004			2003
	Segment revenue RMB	Contribution to operating profit RMB	Segment revenue RMB	Contribution to operating profit RMB
Mainland China	169,598,499	19,939,518	220,901,225	57,320,234
Asia excluded Mainland China	26,079,360	2,981,774	3,143,832	518,455
Others	5,321,377	635,076	2,686,728	642,708
	<u>200,999,236</u>		<u>226,731,785</u>	
Profit from operations		<u>23,556,368</u>		<u>58,481,397</u>

No analysis of the Group's assets and capital expenditures by geographical locations is presented as the majority of the Group's assets and capital expenditures are located in Mainland China.

5. PROFIT FROM OPERATIONS

	2004 RMB	2003 RMB
Profit from operations has been arrived at after charging:		
Directors' and supervisors' remuneration (<i>note 6</i>)	1,734,138	2,052,450
Other staff costs	23,656,595	26,469,159
Retirement benefit scheme contributions (excluding those of directors and supervisors)	<u>1,049,859</u>	<u>531,276</u>
Total staff costs	<u>26,440,592</u>	<u>29,052,885</u>
Allowance for doubtful debts	3,263,979	1,696,472
Auditors' remuneration	461,100	500,000
Cost of inventories recognised in the income statement	97,923,148	95,360,425
Commission expenses	6,766,517	2,118,417
Repairs and after – sales service expenses	5,266,775	1,027,188
Depreciation of property, plant and equipment	8,860,487	6,470,668
Less: Depreciation included in research and development costs	(848,545)	(969,570)
Depreciation capitalised in development costs	<u>(3,398,039)</u>	<u>(1,519,798)</u>
	4,613,903	3,981,300
Amortisation of development cost	1,871,789	196,819
Amortisation of technological know-how	1,000,000	1,000,000
Amortisation of land use right	259,089	259,089
Loss on disposal of property, plant and equipment	301,402	19,495
Rentals of premises under operating leases	468,324	812,758
Less: Rentals of staff quarters included in staff costs	<u>(43,360)</u>	<u>(147,000)</u>
	<u>424,964</u>	<u>665,758</u>
Research and development costs	21,016,398	16,086,892
Less: Development costs capitalised	<u>(17,847,996)</u>	<u>(6,401,094)</u>
	<u>3,168,402</u>	<u>9,685,798</u>
and after crediting:		
Interest income	572,684	143,230
Allowance for inventories written back	<u>–</u>	<u>114,135</u>

6. DIRECTORS' AND SUPERVISORS' REMUNERATION

	2004 RMB	2003 RMB
Directors' fees	–	–
Other emoluments for:		
Executive directors		
– basic salaries and allowances	1,373,533	1,577,010
– bonus	–	135,000
– retirement benefits scheme contributions	6,226	5,803
	<u>1,379,759</u>	<u>1,717,813</u>
Non-executive directors	29,000	30,000
Independent non-executive directors	108,000	108,000
	<u>1,516,759</u>	<u>1,855,813</u>
Other emoluments for supervisors		
– basic salaries and allowances	211,153	159,219
– bonus	–	35,000
– retirement benefits scheme contributions	6,226	2,418
	<u>217,379</u>	<u>196,637</u>
	<u><u>1,734,138</u></u>	<u><u>2,052,450</u></u>

For the year ended 31 December 2004, the three executive directors received individual emoluments of approximately RMB677,000 (2003: RMB779,000), RMB334,000 (2003: RMB497,000) and RMB368,000 (2003: RMB441,000) respectively; the three non-executive directors each received allowance of RMB6,000 (2003: RMB6,000), two non-executive directors each received allowance of RMB1,500 (2003: RMB6,000) and the other two non-executive directors received allowance of RMB4,000 (2003: Nil); and two independent non-executive directors each received allowance of RMB36,000 (2003: RMB36,000), the other two independent non-executive directors each received allowance of RMB30,000 (2003: RMB36,000) and RMB6,000 (2003: Nil) respectively.

For each of the year ended 31 December 2004 and 2003, no emoluments were paid by the Company to any of the directors and supervisors of the Company as an inducement to join or upon joining the Company or as compensation for loss of office, and, none of the directors and supervisors of the Company has waived any emoluments.

For the year ended 31 December 2004, the five supervisors (2003: eight supervisors) received individual emoluments of approximately RMB81,000 (2003: RMB103,000), RMB45,000 (2003: RMB62,000), RMB42,000 (2003: RMB6,000), RMB42,000 (2003: RMB6,000), RMB7,000 (2003: RMB1,000) respectively; and remaining three supervisors for the year ended 31 December 2003 received allowance of RMB6,000 each.

7. EMPLOYEES' REMUNERATION

The aggregate emoluments of the five highest paid individuals included three (2003: three) executive directors of the Company, whose emoluments are included in note 6 above. The aggregate emoluments of the remaining two (2003: two) highest paid individuals are as follows:

	2004 RMB	2003 RMB
Basic salaries and allowances	866,980	607,477
Bonus	–	75,000
Retirement benefits scheme contributions	–	5,803
	<u>866,980</u>	<u>688,280</u>

The emoluments of each of the five highest paid individuals in 2004 and 2003 were below HK\$1,000,000 (equivalent to approximately RMB1,060,000).

8. FINANCE COSTS

	2004 RMB	2003 RMB
Interest on bank and other borrowings wholly repayable within five years	7,855,137	4,954,481
Less: amount capitalised in properties under construction*	<u>(1,395,375)</u>	<u>–</u>
	<u>6,459,762</u>	<u>4,954,481</u>

* During the year, interest of RMB1,395,375 (2003: Nil) was capitalised as construction expenditure at the rate on the related loan of approximately 5.49% per annum.

9. INCOME TAX EXPENSES

	2004 RMB	2003 RMB
Current tax	1,979,248	10,018,081
Deferred tax (note 23)	<u>100,000</u>	<u>500,000</u>
	<u>2,079,248</u>	<u>10,518,081</u>

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

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

	2004		2003	
	RMB	%	RMB	%
Profit before taxation	<u>17,096,606</u>		<u>53,526,916</u>	
Tax at domestic income tax rate of 15%	2,564,491	15.0	8,029,037	15.0
Tax effect of expenses that are not deductible in determining taxable profit	1,135,857	6.6	3,855,192	7.2
Tax effect on additional tax allowance in respect of domestic acquired machineries	-	-	(648,118)	(1.2)
Tax effect on additional tax allowance in respect of the research and development costs	(1,720,879)	(10.1)	(1,206,517)	(2.3)
Tax effect on additional tax allowance in respect of the government subsidy for export sales	(221)	-	(11,513)	-
Tax expenses and effective tax rate	<u>1,979,248</u>	<u>11.6</u>	<u>10,018,081</u>	<u>18.7</u>

The Company is regarded by the Xi'an Municipal Bureau of Science and Technology as a high technology enterprise located at the Xi'an National High-tech Industrial Development Zone and therefore subject to an income tax rate of 15%.

10. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

During the year ended 31 December 2004, the consolidated profit attributable to shareholders includes a profit of RMB15,024,802 (2003: RMB43,008,835) dealt with in the financial statements of the Company.

11. DIVIDENDS

The directors of the Company do not recommend the payment of final dividend in respect of the year ended 31 December 2004.

During the year ended 31 December 2003, the Company declared dividends of RMB3,235,294 and the amount was fully settled during the year ended 31 December 2004.

12. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the net profit for the year of RMB15,017,358 (2003: RMB43,008,835) and the weighted average number of 647,058,824 shares in issue during the year (2003: 522,965,351).

No diluted earnings per share has been for the years ended 31 December 2004 and 2003 presented because there were no diluted potential ordinary shares during either year.

13. LAND USE RIGHT

THE GROUP AND THE COMPANY

RMB

Cost

At 1 January 2004 and 31 December 2004

12,695,357

Amortisation

At 1 January 2004

561,998

Provided for the year

259,089

At 31 December 2004

821,087

Net book value

At 31 December 2004

11,874,270

At 31 December 2003

12,133,359

The cost of land use right is amortised over a period of 49 years on a straight line basis. As at 31 December 2004, land use right with carrying value of RMB11,874,270 (2003: RMB12,133,359) has been pledged.

14. INTANGIBLE ASSETS

THE GROUP AND THE COMPANY

	Development costs RMB	Technological know-how RMB	Total RMB
Cost			
At 1 January 2004	6,401,094	10,000,000	16,401,094
Addition	<u>17,847,996</u>	<u>–</u>	<u>17,847,996</u>
At 31 December 2004	<u>24,249,090</u>	<u>10,000,000</u>	<u>34,249,090</u>
Amortisation			
At 1 January 2004	196,819	3,333,333	3,530,152
Provided for the year	<u>1,871,789</u>	<u>1,000,000</u>	<u>2,871,789</u>
At 31 December 2004	<u>2,068,608</u>	<u>4,333,333</u>	<u>6,401,941</u>
Net book value			
At 31 December 2004	<u><u>22,180,482</u></u>	<u><u>5,666,667</u></u>	<u><u>27,847,149</u></u>
At 31 December 2003	<u><u>6,204,275</u></u>	<u><u>6,666,667</u></u>	<u><u>12,870,942</u></u>

The technological know-how represents the technological knowledge and skill used for developing and manufacturing 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

THE GROUP AND THE COMPANY

	Buildings RMB	Plant and machinery RMB	Furniture, fixtures and equipment RMB	Motor vehicles RMB	Properties under construction RMB	Total RMB
Cost						
At 1 January 2004	25,995,762	28,515,690	9,341,974	3,594,026	26,239,682	93,687,134
Additions	51,296	7,628,768	4,559,488	2,363,760	18,275,031	32,878,343
Transfer	-	418,115	-	-	(418,115)	-
Disposals	-	(707,316)	(100,023)	(932,826)	-	(1,740,165)
At 31 December 2004	<u>26,047,058</u>	<u>35,855,257</u>	<u>13,801,439</u>	<u>5,024,960</u>	<u>44,096,598</u>	<u>124,825,312</u>
Accumulated Depreciation						
At 1 January 2004	1,698,987	7,992,271	2,722,288	1,192,853	-	13,606,399
Provided for the year	823,876	5,299,173	2,223,037	514,401	-	8,860,487
Written back on disposals	-	(625,711)	(63,978)	(433,736)	-	(1,123,425)
At 31 December 2004	<u>2,522,863</u>	<u>12,665,733</u>	<u>4,881,347</u>	<u>1,273,518</u>	<u>-</u>	<u>21,343,461</u>
Net book value						
At 31 December 2004	<u>23,524,195</u>	<u>23,189,524</u>	<u>8,920,092</u>	<u>3,751,442</u>	<u>44,096,598</u>	<u>103,481,851</u>
At 31 December 2003	<u>24,296,775</u>	<u>20,523,419</u>	<u>6,619,686</u>	<u>2,401,173</u>	<u>26,239,682</u>	<u>80,080,735</u>

The buildings are situated on land held under medium-term land use right in Mainland China, and the amount of RMB23,524,195 (2003: RMB24,296,775) has been pledged.

16. INTEREST IN A SUBSIDIARY

	2004 RMB	2003 RMB
Unlisted shares	<u>1,597,500</u>	<u>–</u>

Particulars of the Company's subsidiary as at 31 December 2004 are as follows:

Name of subsidiary	Place of operation and incorporation	Issued and fully paid share capital	Percentage of equity interest held by the Company	Principal activities
XAHT Antenna Technologies (Hong Kong) Limited	Hong Kong	HK\$1,500,000	100%	Dormant

On 1 November 2004, the Company established the above subsidiary which has the share capital of 1,500,000 share at HK\$1 each credited as fully paid. The subsidiary has not commenced any business since its incorporation and is dormant during the year.

17. INVENTORIES – AT COST

THE GROUP AND THE COMPANY

	2004 RMB	2003 RMB
Raw materials	8,392,912	8,445,411
Work in progress	1,232,510	1,999,455
Finished goods	<u>15,929,135</u>	<u>16,614,855</u>
	<u>25,554,557</u>	<u>27,059,721</u>

As at 31 December 2004, none of the inventories are stated at net realizable value (2003: Nil).

18. TRADE RECEIVABLES

THE GROUP AND THE COMPANY

Generally, the Group 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:

	2004 RMB	2003 RMB
Aged:		
0 - 60 days	58,370,665	61,212,591
61 - 120 days	24,689,672	41,317,053
121 - 180 days	11,696,278	24,564,814
181 - 240 days	20,074,349	8,753,782
241 - 365 days	16,984,692	5,891,147
Over 365 days	51,046,003	23,697,093
	<hr/>	<hr/>
	182,861,659	165,436,480
Less: Allowance for doubtful debts	(10,569,359)	(7,305,380)
	<hr/>	<hr/>
	<u>172,292,300</u>	<u>158,131,100</u>

19. TRADE PAYABLES

THE GROUP AND THE COMPANY

The aged analysis of trade payables is as follows:

	2004 RMB	2003 RMB
Aged:		
0 - 60 days	16,915,287	24,961,590
61 - 120 days	6,944,106	1,303,863
121 - 365 days	4,489,695	782,865
Over 365 days	120,202	371,582
	<hr/>	<hr/>
	<u>28,469,290</u>	<u>27,419,900</u>

20. BANK AND OTHER BORROWINGS

THE GROUP AND THE COMPANY

	2004 RMB	2003 RMB
Bank loans		
Secured	70,000,000	100,000,000
Unsecured	90,000,000	4,673,880
	<hr/>	<hr/>
Total	<u>160,000,000</u>	<u>104,673,880</u>

	2004 RMB	2003 RMB
The bank and other borrowings are repayable as follows:		
Within one year	90,000,000	54,673,880
More than one year, but not exceeding two years	50,000,000	–
More than two years, but not exceeding five years	20,000,000	50,000,000
	<u>160,000,000</u>	<u>104,673,880</u>
Less: Amount repayable within one year shown under current liabilities	<u>(90,000,000)</u>	<u>(54,673,880)</u>
	<u><u>70,000,000</u></u>	<u><u>50,000,000</u></u>

As at 31 December 2004, the above bank loans bore interest at rates ranging from 5.04% to 5.49% per annum.

21. SHARE CAPITAL

Share of RMB0.10 each

	<i>Note</i>	Number of shares		Registered, issued and fully paid RMB
		Domestic shares	H shares	
At 1 January 2003		500,000,000	–	50,000,000
Issue of H shares upon listing on the GEM of the Stock Exchange	<i>(a)</i>	–	147,058,824	14,705,882
Conversion of certain state-owned domestic shares to H shares	<i>(a)</i>	<u>(14,705,882)</u>	<u>14,705,882</u>	–
At 31 December 2003 and 31 December 2004		<u><u>485,294,118</u></u>	<u><u>161,764,706</u></u>	<u><u>64,705,882</u></u>

- (a) Pursuant to the approval from the Ministry of Finance of Mainland China regarding the sale of the state-owned shares, the total number of H shares issued in 2003 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.

22. RESERVES

THE GROUP

	Share premium RMB	Statutory surplus reserve RMB (Note 22(a))	Statutory public welfare fund RMB (Note 22(b))	Retained profits RMB	Total RMB
At 1 January 2003	–	5,831,071	3,338,519	32,809,619	41,979,209
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	71,228,946	9,503,111	5,174,539	70,310,394	156,216,990
Dividend paid	–	–	–	(3,235,294)	(3,235,294)
Net profit for the year	–	–	–	15,017,358	15,017,358
Transfer	–	302,234	151,117	(453,351)	–
At 31 December 2004	<u>71,228,946</u>	<u>9,805,345</u>	<u>5,325,656</u>	<u>81,639,107</u>	<u>167,999,054</u>

THE COMPANY

	Share premium RMB	Statutory surplus reserve RMB (Note 22(a))	Statutory public welfare fund RMB (Note 22(b))	Retained profits RMB	Total RMB
At 1 January 2003	–	5,831,071	3,338,519	32,809,619	41,979,209
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	71,228,946	9,503,111	5,174,539	70,310,394	156,216,990
Dividend paid	–	–	–	(3,235,294)	(3,235,294)
Net profit for the year	–	–	–	15,024,802	15,024,802
Transfer	–	302,234	151,117	(453,351)	–
At 31 December 2004	<u>71,228,946</u>	<u>9,805,345</u>	<u>5,325,656</u>	<u>81,646,551</u>	<u>168,006,498</u>

(a) Statutory surplus reserve

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

(b) Statutory public welfare fund

Pursuant to Mainland China 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.

23. DEFERRED TAXATION

THE GROUP AND THE COMPANY

	2004 RMB	2003 RMB
At 1 January 2004	500,000	–
Deferred taxation charged for the year	<u>100,000</u>	<u>500,000</u>
At 31 December 2004	<u><u>600,000</u></u>	<u><u>500,000</u></u>

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

24. MAJOR NON-CASH TRANSACTION

Part of the development costs capitalised during the year comprised depreciation and amortisation of property, plant and equipment amounted to RMB3,398,039 (2003: RMB1,519,798).

25. OPERATING LEASE COMMITMENTS

THE GROUP AND THE COMPANY

The Group as lessee

Minimum lease payments paid under operating leases during the year in respect of office premises, warehouse and staff quarters amounted to RMB468,324 (2003: RMB812,758).

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

	2004 RMB	2003 RMB
Within one year	356,794	2,831,346
In the second to fifth year inclusive	<u>150,060</u>	<u>933,000</u>
	<u><u>506,854</u></u>	<u><u>3,764,346</u></u>

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

26. CAPITAL COMMITMENTS

THE GROUP AND THE COMPANY

	2004 RMB	2003 RMB
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	<u><u>4,446,686</u></u>	<u><u>6,346,567</u></u>

27. PLEDGE OF ASSETS

THE GROUP AND THE COMPANY

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

	2004 RMB	2003 RMB
Bank deposits	8,003,168	24,814,865
Buildings	23,524,195	24,296,775
Land use right	11,874,270	12,133,359
Trade receivables	49,846,701	10,868,716
	<u>93,248,334</u>	<u>72,113,715</u>

28. RETIREMENT BENEFITS SCHEME

The Group participates in a defined contribution retirement scheme organised by the relevant local government authority in Mainland China. Certain employees of the Group 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 Group 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 2003 and 2004, the Group had no significant obligation apart from the contribution as stated above.

29. GOVERNMENT GRANTS

During the year ended 31 December 2004, government grants of RMB837,000 (2003: RMB2,000,000), RMB444,000 (2003: RMB200,000) and RMB1,473 (2003: RMB344,865) have been received to subsidise interest expenditure incurred for obtaining external finance by the Group for the construction of property, plant and equipment, for upgrading existing production capacity and to encourage export sales in Mainland China, respectively. The amounts have been included in other operating income for the year.

During the year ended 31 December 2003 and the year ended 31 December 2004, the Group received government grants of RMB1,200,000 (2003: RMB1,200,000) and RMB2,100,000 (2003: Nil) research and development and industrialisation of antenna for the 3G and TD-SCDMA mobile communication respectively. The amounts received in respect of the government grants are 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 2003 and at 31 December 2004, the development and industrialisation of antenna for the 3G and TD-SCDMA mobile communication are not fully completed, the respective amounts of RMB683,000 (2003: RMB1,200,000) and RMB886,532 (2003: Nil) have not yet been recognised in the income statement and are included as other payables.

- (II) A summary of the consolidated income statement and the consolidated balance sheet of the group for the last three financial years extracted from the annual report of the Company for the year ended 31 December 2004 is set out below:

	Year ended 31 December		
	2002 RMB	2003 RMB	2004 RMB
RESULTS			
Turnover	<u>164,525,831</u>	<u>226,731,785</u>	<u>200,999,236</u>
Profit before taxation	44,561,815	53,526,916	17,096,606
Income tax expense	<u>(8,168,467)</u>	<u>(10,518,081)</u>	<u>(2,079,248)</u>
Net profit for the year	<u>36,393,348</u>	<u>43,008,835</u>	<u>15,017,358</u>
	As at 31 December		
	2002 RMB	2003 RMB	2004 RMB
ASSETS AND LIABILITIES			
Total assets	247,549,634	446,648,882	477,089,046
Total liabilities	<u>(155,570,425)</u>	<u>(225,726,010)</u>	<u>(244,384,110)</u>
Shareholders' funds	<u>91,979,209</u>	<u>220,922,872</u>	<u>232,704,936</u>

Note: The results for the year ended 31 December 2002, and the assets and liabilities as at 31 December 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 the year.

Condensed Consolidated Income Statements

	<i>Notes</i>	(Unaudited) For the three months ended 30 June		(Unaudited) For the six months ended 30 June	
		2005	2004	2005	2004
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	3	41,706	58,226	64,207	92,400
Cost of sales		(23,162)	(31,278)	(34,983)	(50,041)
Gross profit		18,544	26,948	29,224	42,359
Other operating income		68	458	267	534
Distribution costs		(8,798)	(10,067)	(18,703)	(20,991)
Administrative expenses		(4,375)	(4,356)	(9,435)	(9,207)
Other operating expenses		(2,209)	(2,426)	(6,431)	(4,289)
Profit (loss) from operations	5	3,230	10,557	(5,078)	8,406
Finance costs		(2,270)	(344)	(4,329)	(1,655)
Profit (loss) before taxation		960	10,213	(9,407)	6,751
Income tax expense	6	–	(1,355)	–	(1,355)
Profit (loss) before minority interests		960	8,858	(9,407)	5,396
Minority interests		(30)	–	(30)	–
Net profit (loss) for the period		<u>930</u>	<u>8,858</u>	<u>(9,437)</u>	<u>5,396</u>
Dividend	7	<u>9,706</u>	<u>–</u>	<u>9,706</u>	<u>–</u>
Basic earnings (loss) per share (in RMB)	8	<u>0.14 cents</u>	<u>1.36 cents</u>	<u>(1.46) cents</u>	<u>0.83 cents</u>

Condensed Consolidated Balance Sheet

		As at 30 June 2005	As at 31 December 2004
	<i>Notes</i>	<i>RMB'000</i> (unaudited)	<i>RMB'000</i> (audited)
NON-CURRENT ASSETS			
Land use right		11,745	11,874
Intangible assets		30,907	27,847
Property, plant and equipment	9	101,920	103,482
Club debenture		280	280
Deposits for acquisition of property, plant and equipment		372	29
Pledged bank deposits		1,144	624
		<u>146,368</u>	<u>144,136</u>
CURRENT ASSETS			
Inventories – at cost		31,314	25,555
Trade receivables	10	169,969	172,292
Bills receivable		2,480	7,373
Other receivables and prepayments		13,362	12,739
Pledged bank deposits		1,465	7,380
Bank balances and cash		85,487	107,614
		<u>304,077</u>	<u>332,953</u>
CURRENT LIABILITIES			
Trade payables	11	43,391	28,469
Bills payable		8,624	35,401
Other payables and accrued charges		12,373	11,061
Taxation		7,327	8,853
Dividend payable		–	–
Bank and other borrowings – due within one year		84,632	90,000
		<u>156,347</u>	<u>173,784</u>
NET CURRENT ASSETS		<u>147,730</u>	<u>159,169</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u><u>294,098</u></u>	<u><u>303,305</u></u>

	As at 30 June 2005 <i>RMB'000</i> (unaudited)	As at 31 December 2004 <i>RMB'000</i> (audited)
CAPITAL AND RESERVES		
Share capital	64,706	64,706
Reserves	158,562	167,999
	<u>223,268</u>	<u>232,705</u>
MINORITY INTERESTS		
	<u>230</u>	<u>–</u>
NON-CURRENT LIABILITIES		
Bank and other borrowings – due after one year	70,000	70,000
Deferred taxation	600	600
	<u>70,600</u>	<u>70,600</u>
	<u><u>294,098</u></u>	<u><u>303,305</u></u>

Condensed Consolidated Statement of Changes In Equity*For the six months ended 30 June 2005*

	Share capital RMB'000 (unaudited)	Share premium RMB'000 (unaudited)	Statutory surplus reserve RMB'000 (unaudited)	Statutory public welfare fund RMB'000 (unaudited)	Accumu- lated profits RMB'000 (unaudited)	Total RMB'000 (unaudited)
At 1 January 2004	64,706	71,229	9,503	5,174	70,311	220,923
Final dividend for the year 2003 declared	-	-	-	-	(3,235)	(3,235)
Net profit for the period	-	-	-	-	5,396	5,396
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>
At 1 January 2005	64,706	71,229	9,805	5,326	81,639	232,705
Net loss for the period	-	-	-	-	(9,437)	(9,437)
At 30 June 2005	<u><u>64,706</u></u>	<u><u>71,229</u></u>	<u><u>9,805</u></u>	<u><u>5,326</u></u>	<u><u>72,202</u></u>	<u><u>223,268</u></u>

Condensed Cash Flow Statement*For the six months ended 30 June*

	2005 RMB'000 (unaudited)	2004 RMB'000 (unaudited)
Net cash used in operating activities	<u>(13,493)</u>	<u>(66,727)</u>
Net cash used in investing activities:		
Proceeds from disposal of property, plant and equipment	89	164
Purchase of property, plant and equipment	(3,617)	(22,820)
Other investing cash flows	<u>62</u>	<u>12,087</u>
	<u>(3,466)</u>	<u>(10,569)</u>
Net cash (used in) from financing activities:		
New borrowings raised	–	100,000
Repayments of borrowings	(5,368)	(64,674)
Other financing cash flows	<u>200</u>	<u>–</u>
	<u>(5,168)</u>	<u>35,326</u>
Net decrease in cash and cash equivalents	(22,127)	(41,970)
Cash and cash equivalents at 1 January	<u>107,614</u>	<u>113,588</u>
Cash and cash equivalents at 30 June		
Represented by bank balances and cash	<u><u>85,487</u></u>	<u><u>71,618</u></u>

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2005

1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

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

This unaudited condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

The Group’s books and records are maintained in Renminbi (“RMB”), the currency in which the majority of the Group’s transactions is denominated.

2. ACCOUNTING POLICIES

The accounting policies used in the condensed consolidated financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2004 except that the Group has changed certain of its accounting policies following its adoption of new Hong Kong Financial Reporting Standards (“HKFRSs”) and HKASs and Interpretations (hereinafter collectively referred to as “new HKFRSs”) issued by HKICPA that are effective for accounting periods commencing on or after 1 January 2005.

The adoption of the new HKFRSs has had no material effect on how the results for the current or prior accounting periods are prepared and presented, and accordingly, no prior period adjustment has been required.

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 ended 30 June		For the six months ended 30 June	
	2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000
Sales of goods	40,724	55,652	61,387	89,826
Service income	982	2,574	2,820	2,574
	<u>41,706</u>	<u>58,226</u>	<u>64,207</u>	<u>92,400</u>

4. SEGMENT INFORMATION

As sale of telecommunication products is the only reportable business segment of the Group, accordingly, no business segment information is presented.

Details of the segment information by geographical segment are as follows:

	For the six months ended 30 June 2005			For the six months ended 30 June 2004		
	The People's Republic of China (the "PRC") RMB'000	Other countries RMB'000	Consolidated RMB'000	The PRC RMB'000	Other countries RMB'000	Consolidated RMB'000
	Revenue	57,257	6,950	64,207	81,485	10,915
Segment result	5,760	1,825	7,584	19,024	3,192	22,216
Unallocated corporate expenses			(12,870)			(14,108)
Interest income			208			298
Finance costs			(4,329)			(1,655)
Profit (loss) before taxation			(9,407)			6,751
Income tax expense			-			(1,355)
Profit (loss) before minority interests			<u>(9,407)</u>			<u>5,396</u>

Sales are allocated based on the places/countries in which customers are located.

No analysis of the Group's assets and liabilities and capital expenditures by geographical locations is presented as the majority of the Group's assets and liabilities and capital expenditures are located in the PRC.

5. PROFIT (LOSS) FROM OPERATIONS

	For the three months ended 30 June		For the six months ended 30 June	
	2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000
Profit from operations has been arrived at after charging:				
Directors' and supervisors' remuneration	277	537	716	1,089
Other staff costs	5,456	5,795	10,749	11,482
Retirement benefit scheme contributions (excluding those of directors and supervisors)	302	198	600	381
Total staff costs	6,035	6,530	12,065	12,952
Less: Staff costs included in research and development costs	(644)	(293)	(1,455)	(602)
Staff costs capitalised in development costs	(958)	(2,226)	(1,858)	(4,514)
	4,433	4,011	8,752	7,836
Auditors' remuneration	117	264	267	389
Cost of inventories recognised in the income statement	20,611	28,114	31,107	44,180
Depreciation and amortisation of property, plant and equipment	2,685	2,170	5,085	4,059
Less: Depreciation and amortisation included in research and development costs	(412)	(230)	(845)	(448)
Depreciation and amortisation capitalised in development costs	(591)	(770)	(1,026)	(1,343)
	1,682	1,170	3,214	2,268
Amortisation of development cost (included in other operating expenses)	735	351	1,429	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	65	130	130
Total depreciation and amortisation	2,732	1,836	5,273	3,570

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP**

	For the three months ended 30 June		For the six months ended 30 June	
	2005	2004	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000
Loss on disposal of property, plant and equipment	5	216	5	216
Rentals of premises under operating leases	444	161	721	192
Less: Rentals of staff quarters included in staff costs	(41)	(31)	(47)	(89)
	<u>403</u>	<u>130</u>	<u>674</u>	<u>103</u>
Research and development costs	4,453	6,018	9,174	11,462
Less: Development costs capitalised	(2,623)	(4,621)	(4,989)	(8,581)
	<u>1,830</u>	<u>1,397</u>	<u>4,185</u>	<u>2,881</u>
Interest expenses	2,270	1,933	4,329	3,239
Less: Interest expenses capitalised	-	(1,395)	-	(1,395)
	<u>2,270</u>	<u>538</u>	<u>4,329</u>	<u>1,844</u>
and after crediting:				
Interest income	<u>50</u>	<u>223</u>	<u>208</u>	<u>298</u>

6. INCOME TAX EXPENSE

	For the three months ended 30 June		For the six months ended 30 June	
	2005	2004	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000
PRC income tax	<u>-</u>	<u>1,355</u>	<u>-</u>	<u>1,355</u>

The amount represented provision for PRC Corporate Income Tax on the Group's estimated assessable profit for the six months ended 30 June 2004.

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, the PRC and therefore subject to the corporate income tax rate of 15%.

7. DIVIDEND

The Board recommends the payment of an interim dividend of RMB0.015 per share for the year ending 31 December 2005 (2004: nil) to the shareholders of the Company whose names appear in the register of members on 29 August 2005.

8. BASIC EARNINGS (LOSS) PER SHARE

The calculation of the basic earnings (loss) per share is based on the unaudited net profit of approximately RMB930,000 for the three months ended 30 June 2005 and net loss of approximately RMB9,437,000 for the six months ended 30 June 2005 (unaudited net profit for the three months and six months ended 30 June 2004: approximately RMB8,858,000 and RMB5,396,000 respectively) divided by the number of 647,058,824 shares in issue (2004: 647,058,824 shares).

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

9. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately RMB3.6 million (2004: RMB 11.2 million) on acquisition of property, plant and equipment.

10. TRADE RECEIVABLES

Payment terms with customers are mainly on credit. Invoices are normally payable within 90 days to 240 days from the date of issuance except for certain well established customers. The following is an ageing analysis of trade receivables at the reporting date:

	As at 30 June 2005 RMB'000	As at 31 December 2004 RMB'000
Age		
0 to 60 days	32,524	58,370
61 to 120 days	11,148	24,690
121 to 180 days	19,113	11,696
181 to 240 days	26,252	20,074
241 to 365 days	28,438	16,985
Over 365 days	63,063	51,046
	<hr/>	<hr/>
	180,538	182,861
Less: Allowance for doubtful debts	(10,569)	(10,569)
	<hr/>	<hr/>
	<u>169,969</u>	<u>172,292</u>

11. TRADE PAYABLES

The following is an ageing analysis of trade payables at the reporting date:

	As at 30 June 2005 RMB'000	As at 31 December 2004 RMB'000
Age		
0 to 60 days	24,107	16,915
61 to 120 days	8,221	6,944
121 to 365 days	10,753	4,490
Over 365 days	310	120
	<hr/>	<hr/>
	43,391	28,469
	<hr/>	<hr/>
	<u>43,391</u>	<u>28,469</u>

12. CAPITAL COMMITMENTS

	As at 30 June 2005 RMB'000	As at 31 December 2004 RMB'000
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	<hr/>	<hr/>
	2,002	4,447
	<hr/>	<hr/>
	<u>2,002</u>	<u>4,447</u>

INDEBTEDNESS**Borrowings**

As at the close of business on 31 October 2005, being the latest practicable date for the purpose of this indebtedness statement, the Group had total outstanding borrowings of approximately RMB162.4 million, comprising bank loans, bills payable and a loan from a director of approximately RMB141.8 million, RMB14 million, and RMB6.6 million respectively.

Contingent liabilities

As at 31 October 2005, the Group had no contingent liabilities.

Save as aforesaid or as otherwise disclosed herein and apart from intra-group liabilities, none of the companies in the Group had outstanding at the close of business on 31 October 2005 any bank overdrafts, loans or other similar indebtedness, mortgages, charges, guarantees or other material contingent liabilities.

The Directors have confirmed that, save as disclosed above, there has not been any material change in the indebtedness and contingent liabilities of the Group since 31 October 2005.

MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2004, being the date to which the latest published audited accounts of the Group were made up.

WORKING CAPITAL

The Directors are of the opinion that, following the completion of the Joint Venture Agreement, taking into account the financial resources available to the Group, including the internally generated funds and the present available banking facilities, the Group will have sufficient working capital for its present requirements.

RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information to the public with regard to the Group. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:

- (a) the information contained in this circular is accurate and complete in all material respects and not misleading;
- (b) there are no other matters the omission of which would make any statement in this circular misleading; and
- (c) all opinions expressed in this circular have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

DIRECTORS' SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at the Latest Practicable Date, the interests and short positions of the Directors, the Supervisors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, including interests and short positions which they are deemed or taken to have under such provisions of the SFO, or which are required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which are required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by directors to be notified to the Company and the Stock Exchange, were as follows:–

Long positions in the Shares

Name of Director	Type of interest	Capacity	Number of the Domestic Shares held in the Company	Approximate percentage in the total issued Domestic Shares of the Company	Approximate percentage in the total issued share capital of the Company
肖兵先生 Mr. Xiao Bing	Corporate	Held by controlled corporation (Note 1)	180,000,000	37.09%	27.81%

Note 1: The Domestic Shares were held by 西安天安投资有限公司 (Xi'an Tian An Investment Company Limited*) ("Tian An Investment"), which is beneficially owned as to 60% by Mr. Xiao Bing and 40% by Ms. Yao Wenli. By virtue of the SFO, Mr. Xiao Bing was deemed to be interested in the same 180,000,000 Domestic Shares held by Tian An Investment.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SECURITIES

As at the Latest Practicable Date, as far as is known to the Directors, the Supervisors and chief executives of the Company, the following persons or entities, other than the Director, the Supervisor or chief executive of the Company, had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 or Part XV of the SFO, or, who is expected, directly or indirectly, to be interested in 10 per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

(A) Substantial shareholders of the Company

Long position in the Shares

Name of substantial shareholder	Type of interest	Capacity	Number of the Domestic Shares held in the Company	Approximate percentage in the total issued Domestic Shares of the Company	Approximate percentage in the total issued share capital of the Company
Domestic Shares					
Tian An Investment	Corporate	Beneficial owner	180,000,000 (Note 1)	37.09%	27.81%
姚文俐女士 Ms. Yao Wenli	Corporate	Held by controlled corporation	180,000,000 (Note 1)	37.09%	27.81%
肖良勇教授 Professor Xiao Liangyong	Corporate	Parties acting in concert	180,000,000 (Note 2)	37.09%	27.81%

Name of substantial shareholder	Type of interest	Capacity	Number of the Domestic Shares held in the Company	Approximate percentage in the total issued Domestic Shares of the Company	Approximate percentage in the total issued share capital of the Company
Domestic Shares					
西安解放集團股份有限公司 (Xi'an Jiefang Group Joint Stock Co., Ltd*)	Corporate	Beneficial owner	100,000,000	20.60%	15.45%
西安國際信託投資有限公司 (Xi'an International Trust & Investment Co., Ltd.*) ("XITIC")	Corporate	Beneficial owner	70,151,471 (Note 3)	14.45%	10.84%
西安市財政局 (Xi'an Finance Bureau*)	Corporate	Held by controlled corporation	70,151,471 (Note 3)	14.45%	10.84%
陝西保升國際投資有限責任公司 (Shaanxi Baosheng International Investment Company Limited*)	Corporate	Held by controlled corporation	70,151,471 (Note 3)	14.45%	10.84%

* for identification purpose only

Notes:

- The Domestic Shares were held by Tian An Investment, which is beneficially owned as to 60% by Mr. Xiao Bing and 40% by Ms. Yao Wenli. By virtue of the SFO, Ms. Yao Wenli was deemed to be interested in the same 180,000,000 Domestic Shares held by Tian An Investment.
- Professor Xiao Liangyong is the father of Mr. Xiao Bing and a person acting in concert with Mr. Xiao Bing and Ms. Yao Wenli. By virtue of the SFO, he was deemed to be interested in the same 180,000,000 Domestic Shares held by Tian An Investment.
- The Domestic Shares were held by 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 Domestic Shares held by XITIC.

(B) Other persons who are required to disclose their interests pursuant to Divisions 2 and 3 of Part XV of the SFO*Long position in the Shares*

Name of shareholder	Type of interest	Capacity	Number of the Domestic Shares held in the Company	Approximate percentage in the total issued Domestic Shares of the Company	Approximate percentage in the total issued share capital of the Company
Domestic Shares					
北京京泰投資管理中心 (Beijing Holdings Investment Management Co., Ltd.*, "Beijing Holdings")	Corporate	Beneficial owner	54,077,941 (Note 1)	11.14%	8.35%
京泰實業(集團)有限公司 (Beijing Holdings (Group) Limited*)	Corporate	Held by controlled corporation	54,077,941 (Note 1)	11.14%	8.35%
陝西省絲綢進出口公司 (Shaanxi Silk Import & Export Corporation*, "Shaanxi Silk")	Corporate	Beneficial owner	45,064,706 (Note 2)	9.28%	6.96%
陝西省財政廳 (Shaanxi Finance Bureau*)	Corporate	Held by controlled corporation	45,064,706 (Note 2)	9.28%	6.96%

Name of shareholder	Type of interest	Capacity	Number of the H Shares held in the Company	Approximate percentage in the total issued H Shares of the Company	Approximate percentage in the total issued share capital of the Company
H Shares					
Atlantis Investment Management Limited	Corporate	Investment manager	14,736,000 (Note 3)	9.10%	2.27%
Taicom Capital Ltd.	Corporate	Investment manager	13,004,000 (Note 3)	8.03%	2.00%
Carlson Fund Equity Asian Small Cap	Corporate	Investment manager	10,520,000 (Note 3)	6.50%	1.62%
Ms. Song Ying	Personal	Beneficial owner	8,800,000	5.43%	1.35%

* for identification purpose only

Notes:

1. The Domestic Shares were held by Beijing Holdings. By virtue of the SFO, Beijing Holdings (Group) Limited, which holds more than one third of voting rights of Beijing Holdings, was deemed to be interested in the same 54,077,941 Domestic Shares held by Beijing Holdings.
2. The Domestic Shares were held by Shaanxi Silk. By virtue of the SFO, Shaanxi Finance Bureau, which holds more than one third of voting rights of Shaanxi Silk, was deemed to be interested in the same 45,064,706 Domestic Shares held by Shaanxi Silk.
3. The details of these shareholders of the Company were based on information as set out in the website of the Stock Exchange. The Company has not been notified by the relevant shareholders and has not received any Corporate Substantial Shareholder Notice from the relevant shareholders.

SERVICE CONTRACTS

Each of the Directors and the Supervisors has entered into a service contract with the Company for a term valid until 19 May 2007 subject to renewal upon approval by the Shareholders for one or more consecutive terms of three years.

Details of the annual emoluments of the Directors as set out in their respective service contract with the Company are as follows:

Director	Annual emoluments (RMB)
Mr. Xiao Bing	Nil*
Mr. Liang Zhijun	Nil*
Mr. Wang Ke	36,000
Mr. Liu Yongqiang	36,000
Mr. Wang Quanfu	36,000
Mr. Li Wenqi	36,000
Ms. Wang Jing	36,000
Professor Gong Shuxi,	6,000
Mr. Wang Pengcheng	6,000

* Mr. Xiao Bing and Mr. Liang Zhijun do not receive any emoluments for serving as the executive Directors of the Company.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with the Company or any of its subsidiaries (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

DIRECTORS' INTEREST IN ASSETS AND CONTRACTS

- (a) As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have been acquired or disposed of by or leased to any member of the Group since 31 December 2004, being the date to which the latest published audited accounts of the Company were made up.
- (b) As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date and which is significant to the business of the Group.

COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or the management shareholders of the Company and their respective associates has an interest in a business, apart from the business of the Group, which competes or may compete, either directly or indirectly, with the business of the Group or has any other conflict of interest with the Group.

LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and there was no litigation or claim of material importance known by the Directors to be pending or threatened against any member of the Group.

PARTICULARS OF THE DIRECTORS

Name	Address
Mr. Xiao Bing	Building 30-2-8 No. 2 Taibai South Road Yanta District Xi'an, Shaanxi Province PRC
Mr. Liang Zhijun	No. 202 Building 2 Unit 3 Qinjingyuan Keji Road Xi'an Xi'an, Shaanxi Province PRC
Mr. Wang Ke	No. 4035 Unit 2 Building 6 No. 6 Wenyi South Road Beilin District Xi'an, Shaanxi Province PRC
Mr. Liu Yongqiang	No. 18, Shangde Road Xincheng District Xi'an, Shaanxi Province PRC
Mr. Wang Quanfu	No. 87 Dongguan Zhengjie Beilin District Xi'an, Shaanxi Province PRC
Mr. Wang Jing	No. 512 Building 1 Yard 23 Chegangzhuang West Road Haidian District Beijing PRC

Name	Address
Mr. Li Wengqi	No. D6-2 Daxue East Road Beilin District Xi'an, Shaanxi Province PRC
Mr. Gong Shuixi	Building 46-4-13 No. 2 South Yard Taibai South Road Yanta District Xi'an, Shaanxi Province PRC
Mr. Wang Pengcheng	No. 402 Unit 3 Building 2 Yard 3 Taibai North Road Lianbu District Xi'an, Shaanxi Province PRC

Executive Directors

肖兵先生 (Mr. XIAO Bing), aged 40, is an executive Director. He is a son of Professor Xiao Liangyong, the founder of the Group. Mr. XIAO Bing studied in the college of continuous education of 西安電子科技大學 ("Xidian University"). He worked in 西安石油勘探儀器總廠 (Xi'an General Factory of Oil Instruments) from 1988 to 1991 and was the deputy general manager of 西安海天通訊設備有限公司 (Xi'an Haitian Communications Equipment Company Limited) ("Xi'an Haitian Communications") from 1999 to 2000. He joined the Group as an executive Director and first assumed the post of the president of the Company since October 2000. Mr. XIAO Bing was elected the chairman of the Board in August 2004.

梁志軍先生 (Mr. LIANG Zhijun), aged 41, graduated from 陝西機械學院 (Shaanxi Institute of Mechanical Engineering, now known as 西安理工大學 (Xi'an University of Technology)) in 1985 and was a lecturer in Xidian University from 1985 to 1993. Mr. LIANG worked in 中國電子進出口總公司海南公司 (China National Electronics Import & Export Corporation, Hainan Branch) from 1988 to 1989 and 西安大唐電信有限公司 (Xi'an Datang Telecom Company Limited) from 1993 to 2000. He joined the Group in July 2000. He was appointed as the secretary of the Board since October 2000 and was appointed as the vice president of the Company in April 2004. Mr. LIANG is responsible for the secretarial work of the Board. Mr. LIANG has been nominated by the Board as an executive Director and an authorised representative of the Company on 29 March 2005 and the appointment has taken effect in April 2005.

Non-executive Directors

王科先生 (Mr. WANG Ke), aged 59, is a non-executive Director. He graduated from 黑龍江商學院 (Helongjiang Commerce College) in December 1968 and obtained the qualification of senior economist in July 1989. He joined the Group as a non-executive Director since May 2004. Mr. WANG Ke has been the chairman of the board of directors of 西安解放集團股份有限公司 (Xi'an Jiefang Group Co. Ltd., "Xi'an Jiefang Group"), a substantial Shareholder of the Company and a listed company with its domestic A shares trading on the Shenzhen Stock Exchange, since January 1995.

劉永強先生 (Mr. LIU Yongqiang), aged 66, is a non-executive Director. He graduated from the 西北新聞刊授學院 (Northwest Journalism Institute) in 1987 and 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., "XITIC"), a substantial Shareholder, in 1999 and joined the Company as a non-executive Director since October 2000.

王全福先生 (Mr. WANG Quanfu), aged 42, is a non-executive Director. He graduated from 中共陝西省委黨校 (Party School of the Shaanxi Provincial Committee of the Chinese Communist Party) 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 non-executive Director since October 2000.

李文琦先生 (Mr. LI Wenqi), aged 40, is a non-executive Director. He graduated from 陝西財經學院 (Shaanxi College of Finance and Economics, now known as 西安交通大學 (Xi'an Jiaotong University)). He worked for 陝西絲綢進出口公司 (Shaanxi Silk Import & Export Corporation, one of the substantial Shareholders, "Shaanxi Silk") as the deputy chief and manager of Planning and Finance Department from October 1987 to April 1994 and from April 1994 to October 1997 respectively and the assistant to general manager and manager of Planning and Finance Department from October 1997 to May 2001. He is an accountant and the chief accountant and manager of Planning and Finance Department of Shaanxi Silk since May 2001. He joined the Company as a non-executive Director since October 2000.

王京女士 (Ms. WANG Jing), aged 34, is a non-executive Director. She graduated from 北京財貿學院 (Beijing Finance and Trade College) in September 1988. Ms. Wang was the vice general manager of 北京京泰投資管理中心 (Beijing Holdings Investment Management Co., Ltd.), one of the Shareholders, since February 2004 and was elected as a non-executive Director since May 2004.

Independent non-executive Directors

龔書喜教授 (Professor GONG Shuxi), aged 48, is an independent non-executive Director. He graduated from 西北電訊工程學院 (Northwest Institute of Communications Engineering, now known as Xidian University) with a bachelor degree, and from Xi'an Jiaotong University with master and doctorate degrees in electromagnetic and microwave technology and is a professor. Professor 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.

王鵬程先生 (Mr. WANG Pengcheng), aged 38, is an independent non-executive Director. He graduated from 陝西財經學院 (Shaanxi Finance College) in December 1988 with a certificate of tertiary education majored in accountancy and obtained a master degree in business administration from the Open University of Hong Kong in December 2000. Mr. WANG joined the 西安財政局 (Xi'an Finance Bureau, a shareholder of XITIC which in turn is a substantial Shareholder of the Company). He then joined 西安西格瑪有限責任會計師事務所 (Xi'an Zigma Accountants, LLC) as the vice chief executive of the firm until present. He was elected as an independent non-executive Director since 30 September 2004.

MATERIAL CONTRACTS

Save as the Joint Venture Agreement, there are no contracts (other than contracts entered into in the ordinary course of business) that have been entered into by any member of the Group within the two years immediately preceding the date of this circular which are or may be material.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours from the date of this circular up to and including 22 December 2005 at the principal place of business of the Company at Unit 3103, 31/F., Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong:

- (a) the Articles of Association of the Company;
- (b) the annual reports of the Company for each of the two financial years ended 31 December 2004;
- (c) the interim report of the Company for the six months ended 30 June 2005;
- (d) the Joint Venture Agreement; and
- (e) this circular.

PROCEDURES FOR DEMANDING A POLL BY SHAREHOLDERS

Pursuant to the Articles of Association of the Company, a resolution put to the vote of the general meeting shall be decided on a show of hands unless a poll is (before or after any vote by show of hands) demanded:

- (a) by chairman of the meeting;
- (b) by at least two shareholders present in person or by proxy for the time being entitled to vote at the meeting; or

- (c) by any shareholder or shareholders (including proxy) who, alone or together, representing one-tenth or more of the total voting rights of all shareholders having the right to vote at the meeting.

MISCELLANEOUS

- (i) The registered office of the Company is situated at No.36 Gao Xin Liu Road, Xi'an National Hi-tech Industrial Development Zone, Xi'an, Shaanxi Province, the PRC.
- (ii) The principal place of business of the Company in Hong Kong is at Unit 3103, 31/F., Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong.
- (iii) The Hong Kong share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (iv) The company secretary and qualified accountant of the Company appointed under Rule 5.15 of the GEM Listing Rules is Ms. Chow Yuk Lan. She is an associate member of both Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants.
- (v) The compliance officer of the Company is Mr. Xiao Bing.
- (vi) The Company has established an audit committee on 4 April 2003 with written terms of reference in compliance with the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control systems of the Group. As at the Latest Practicable Date, the audit committee comprised Mr. Wang Pencheng and Professor Gong Shuxi, independent non-executive Directors, and Mr. Li Wenqi, a non-executive Director.
- (vii) The authorised representatives of the Company are Mr. Xiao Bing and Mr. Liang Zhijun.
- (viii) The English text of this circular shall prevail over the Chinese text.