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)

ANNUAL REPORT 2005

* For identification purposes only

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

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

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 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. 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 GEM website in order to obtain up-to-date information on GEM-listed issuers.

This report, for which the directors (the "Directors") of Xi'an Haitian Antenna Technologies Co., Ltd.* (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the requirements of the Rules Governing the Listing of Securities on GEM (the "GEM Listing Rules") of the Stock Exchange for the purpose of giving information with regard to the Company. The Directors having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on the bases and assumptions that are fair and reasonable.

* *For identification purpose only*

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Corporate Information

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

No. 36 Gao Xin Liu Road
Xi'an National Hi-tech Industrial Development Zone
Xi'an, Shaanxi Province
The People's Republic of China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

GEM STOCK CODE

8227

WEBSITE

www.xaht.com
www.htantenna.com

LEGAL ADVISERS AS TO HONG KONG LAW

Tsun and Partners

AUDITORS

CCIF CPA Limited

COMPANY SECRETARY

Ms. Chow Yuk Lan (周玉蘭小姐), AHKICPA, ACCA

COMPLIANCE OFFICER

Mr. Xiao Bing (肖兵先生)

QUALIFIED ACCOUNTANT

Ms. Chow Yuk Lan (周玉蘭小姐), AHKICPA, ACCA

MEMBERS OF AUDIT COMMITTEE

Mr. Wang Pengcheng (王鵬程先生), (Chairman)
Professor Gong Shuxi (龔書喜教授)
Mr. Li Wenqi (李文琦先生)

MEMBERS OF REMUNERATION COMMITTEE

Mr. Qiang Wenyu (強文郁先生), (Chairman)
Mr. Wang Pengcheng (王鵬程先生)
Mr. Wang Ke (王科)

MEMBERS OF NOMINATION COMMITTEE

Professor Gong Shuxi (龔書喜教授), (Chairman)
Mr. Qiang Wenyu (強文郁先生)
Mr. Liu Yongqiang (劉永強先生)

AUTHORISED REPRESENTATIVES

Mr. Xiao Bing (肖兵先生)
Mr. Liang Zhijun (梁志軍先生)

AUTHORISED PERSON TO ACCEPT SERVICE OF PROCESS AND NOTICE

Ms. Chow Yuk Lan (周玉蘭小姐), AHKICPA, ACCA

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shop 1712–16, 17th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

China Construction Bank
No. 42 Gao Xin Road
Xi'an National Hi-tech Industrial Development Zone
Xi'an, Shaanxi Province
The PRC

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

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

Chairman's Statement

Dear Shareholders:

On behalf of the Board of Directors (the "Board"), I am pleased to present the annual report of Xian Haitian Antenna Technologies Co., Ltd. together with its subsidiaries (the "Group") for the year ended 31 December 2005.

The year of 2005 was a challenging and difficult year for the Group. The wireless telecommunications industry in PRC was matured with conservative atmosphere and intense competition. Despite pressure on product selling price, fluctuating raw material cost, uncertainty over the timing of issuance of 3G licence and the possible restructuring among telecommunications operators, the Group still maintained stable gross profit margin. Profit attributable to equity holders of the Company reached RMB15.5 million for the year 2005, representing an increase of 3.3% comparing with the year 2004 while net profit margin was 8.8% compared to 7.5% in last year.

The Board is optimistic about the prospects of the development of the 3G telecommunications markets in the PRC. In December 2005, the Group has established a joint venture company with Datang Mobile Communications Equipment Co. Ltd. (大唐移動通訊設備有限公司) ("Datang Mobile") for the research and development of TD-SCDMA systems and equipment. Further efforts and investments are needed to grasp the coming opportunities. The Board is confident that the Group is well prepared and well positioned to face the challenges that 3G will bring.

Looking forward, in order to remain competitive in the market and to achieve long term growth, the Group will continue to implement stringent cost control policy, increase resources on research and development of new products and expand overseas markets to broaden customer base. The Group will continuously utilize its greatest endeavor to maximize the shareholder's return.

In the year 2005, the Board recommended payment of an interim dividend of RMB0.015 per share. In view of the opportunities and challenges in the year ahead and having considered the Group's requirement to retain sufficient financial flexibility for future business growth, the Board resolved not to declare any final dividend for the year ended 31 December 2005.

On behalf of the Board, I would like to extend gratitude to our shareholders, suppliers and customers for their continual support and I also take this opportunity to express my sincere thanks to our employees for their efforts and contributions to the Group during the year.

Xiao Bing
Chairman

Xi'an, the PRC
14 March 2006

Comparison between Business Objectives and Actual Business Progress

From 1 January 2005 to 31 December 2005

Business Objectives set out in the prospectus of the Company dated 24 October 2003 (the "Prospectus")	Actual business progress
RESEARCH AND DEVELOPMENT OF THE COMPANY'S PRODUCTS	
PHS intelligent base station antennas commercialisation	PHS intelligent base station antennas reached production stage and launched to the market
Preliminary research on 3G time division repeaters	WCDMA distribution station was launched
Preliminary research on 3G time division module RF	Accumulated technique was completed
TD-SCDMA intelligent antenna commercialisation	TD-SCDMA intelligent antenna had been given trial and recognized by system integrators and the products had qualified for commercialisation
FURTHER EMPOWERING OF THE COMPANY'S RESEARCH AND DEVELOPMENT	
Fine tune testing project	Fine tune trial finished and application for state laboratory is in progress
INCREASE OF PRODUCTION CAPACITY	
Purchase of auxiliary equipment	Auxiliary equipment have been purchased to improve production capacity
EXPANSION OF SALES AND MARKETING NETWORK	
Fine tune information systems for sales and marketing in the PRC	Fine tune finished
Set up sales and marketing system in the PRC with support sales, service and technology	Relevant sales and marketing system was set up in the PRC
COLLABORATING WITH BUSINESS PARTNERS AND ESTABLISHING STRATEGIC ALLIANCES	
Participate in cooperation/alliance with mobile communications equipment vendors/system integrators in the PRC and overseas	As an industrialised allied member, the Company continued to co-operate with Datang Mobile Communications Equipment Co. Ltd. in the development and commerialisation of TD-SCDMA mobile communications intelligent antenna The Company continued to co-operate with global communications equipment providers to finalise the recognition process of the Company as their designated provider
Set up strategic alliance and related investment	In December 2005, the Group has established a joint venture company with Datang Mobile Communications Equipment Co. Ltd. for the research and development of TD-SCDMA systems and equipment

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

Business objectives	Planned uses of proceeds as set out in the Prospectus *HK$ million*	Actual amount of proceeds used up to 31 December 2005 *HK$ million*
Research and development of the Company's antennas and related products	25.0	33.5
Further empowering of the Company's research and development capabilities	14.0	11.6
Increase of production capacity	5.0	2.0
Expansion of sales and marketing network	5.0	3.0
Collaborating with business partners and establishing strategic alliance	3.0	1.9
Total	52.0	52.0

BUSINESS REVIEW

Turnover

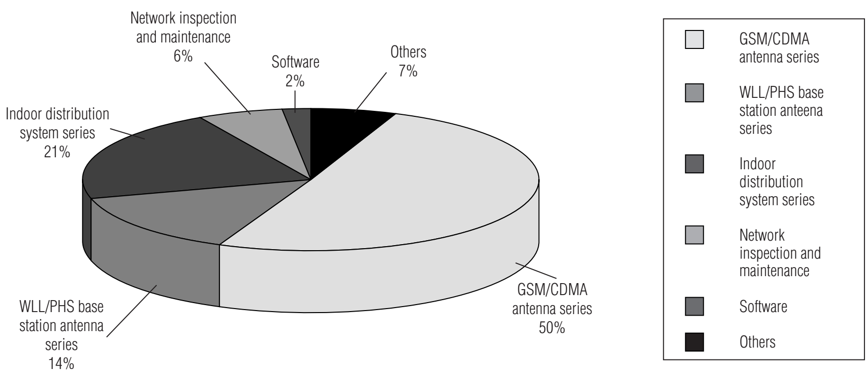
The Group recorded a turnover of approximately RMB176.9 million for the year ended 31 December 2005, representing a decrease of approximately 12.0% from the previous year. The percentage of total sales of GSM/CDMA antenna series products and that of WLL/PHS base station antenna series products for this year was 50% and 14% respectively, compared to 57% and 20% respectively in the year 2004.

The decrease in total sales and sales from the above product lines was mainly due to the conservative atmosphere surrounding the wireless telecommunications industry which was resulting from the uncertainty on the timing of issuance of 3G licence by the PRC government and the possible restructuring among telecommunications operators. The adoption of the wait-and-see attitude by the telecommunications operators adversely affected the progress of network construction over the past year.

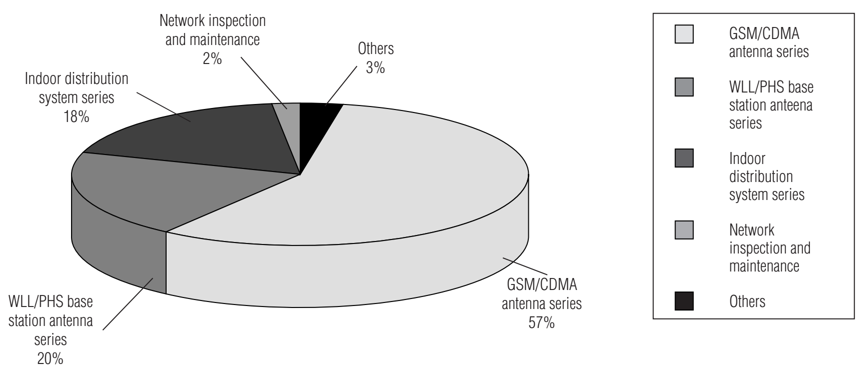
Facing with this challenge, the Group devoted more resources in developing the market of indoor distribution systems and network optimization projects, which effectively sustained steady growth in the year 2005. At the same time, the Group actively developed and launched new product items during the year including software sales and domestic short-wave communication antenna in order to expand our product base.

Composite of turnover by product lines for the year ended 31 December 2005, together with the comparative figures for the year ended 31 December 2004, are provided as follows:

For the year ended 31 December 2005 (by product lines)

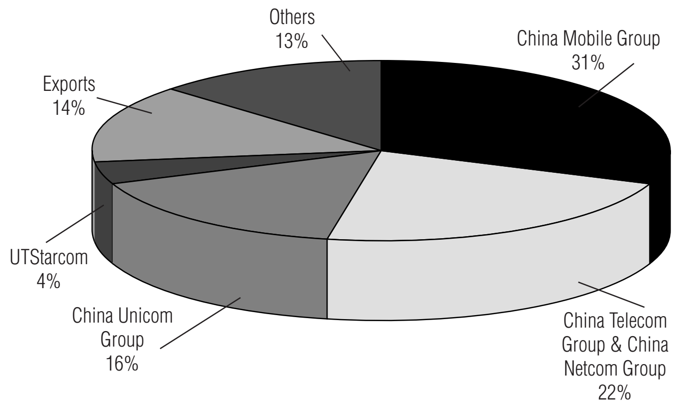


For the year ended 31 December 2004 (by product lines)

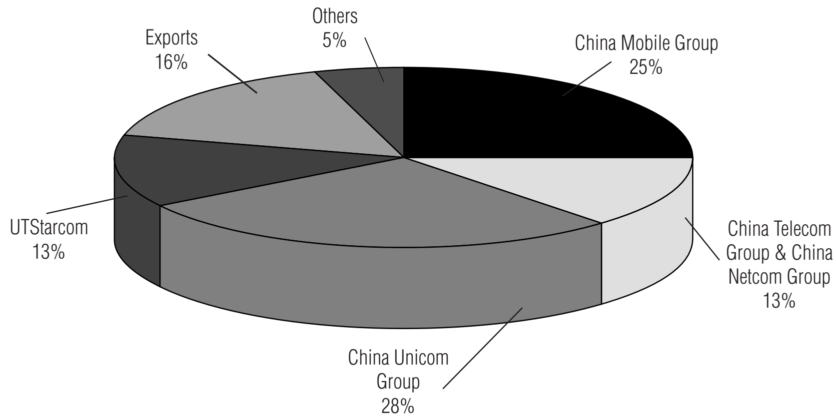


Composite of turnover by major customers for the year ended 31 December 2005, together with the comparative figures for the year ended 31 December 2004, are provided as follows:

For the year ended 31 December 2005 (by major customers)



For the year ended 31 December 2004 (by major customers)



Legend:

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

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

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

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

Gross Profit

The Group's gross profit for the year 2005 amounted to approximately RMB79.5 million. Gross profit margin was 44.9%, represented a slight decrease comparing to 45.9% for the year 2004. The decrease was mainly due to (1) intense competition within the market which exerted pressure on pricing of products, and (2) rising material prices including copper and oil which all constituted a difficult operating environment. Despite these challenges, the Group could still maintain comparable gross profit margin in the year 2005.

Operating Costs and Expenses

Distribution costs for the year 2005 amounted to approximately RMB31.9 million, representing a decrease of approximately RMB11.6 million or approximately 26.7% comparing with the year 2004. The sharp decrease was mainly due to a series of stringent cost control measures exercised by the Group including streamlining operation of sales and marketing division and more focused marketing effort on selected product lines, namely the indoor distribution system series and network optimization, which proved to be effective.

Administrative expenses of the Group were approximately RMB21.6 million for the year 2005, representing an increase of approximately 12.5% comparing with the year 2004. The increase was mainly attributable to increase in depreciation for the newly established research building and machineries acquired for improving production capacity during the year.

Other operating expenses of the Group amounted to approximately RMB4.6 million for the year 2005, representing a decrease of approximately 47.1% from last year. The amount mainly represented amortization of capitalized research and development cost and amortization of intangible assets. The decrease was attributable to the fact that research and development cost of approximately RMB6.2 million was net off against government grant for subsiding 3G and TD-SCDMA development activities during the year.

Net profit

Net profit for the year ended 31 December 2005 was approximately RMB15.5 million, representing an increase of 3.3% comparing with the year 2004. Net profit margin was 8.8% compared to 7.5% in last year.

Trade receivables

Trade receivables, before impairment losses for bad and doubtful debts, as at 31 December 2005 amounted to approximately RMB186.4 million, increased by approximately RMB3.5 million or 1.9% from the balance as at 31 December 2004. As sales to major customers including China Mobile Group, China Unicom Group, China Telecom Group and China Netcom Group were mainly occurred during the second half of the year, and longer credit periods were granted to these customers mainly based on mutually agreed instalment terms, therefore, trade receivables balance as at year end is usually higher than that at other month ends.

Furthermore, according to the contract terms with the abovementioned customers, 10% retention monies will only be released after successful completion of final testing for the antenna products. As condition for release of retention monies had not yet been fulfilled as at year end, long aged trade receivables due from these customers increased.

Taking into consideration that China Unicom Group, China Mobile Group, China Telecom Group and China Netcom Group are well-financed listed companies or companies affiliated to listed companies and that repayment history was all satisfactory, the Directors consider that the current level of impairment losses for bad doubtful debts is sufficient and the Group will continue to exercise tight control over granting of credit period and closely monitor the repayment progress from these major customers.

PROSPECTS

3G network infrastructure

The PRC government has yet to issue 3G licenses to local telecommunications operators, however, the Directors remain optimistic about the tremendous opportunities that 3G will bring to the business development of the Group and the Group is well prepared financially, technically and operationally in order to face the challenges and opportunities that 3G will bring.

Taking the advantages of pioneering status of Datang Mobile in TD-SCDMA technology development, the Group has established a joint venture company with Datang Mobile in December 2005 for the 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.

The Directors believe that through the establishment of the joint venture company with Datang Mobile, which has research and development capability and regional advantage, 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.

Network optimization

Major telecommunications operators including China Mobile Group and China Telecom Group expressed their plans for improving their network operating quality and supporting capabilities in response to the growing demand in voice usage volume in the PRC. Facing with this opportunity, the Directors anticipate that revenue generated from indoor distribution system and network optimization will sustain a favorable growth trend in the coming year.

International markets

The Group continuously explores the overseas markets over the past few years and the Directors strongly believe there is an enormous potential in developing the global markets to broaden the Group's customer base. The Group has restructured the sales and marketing team which is now lead by expert in international business and will continue its focus on developing this market segment. It is expected that export sales will form a potential income stream for the Group in the coming years.

Research and development of new products

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 products and explore new business opportunities, including the domestic short-wave communication antenna market and terminal antenna market, and also adopt more stringent cost control policy so as to ensure the profit and beneficial results of the Group will increase.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

During the year, the Group was mainly financed by cash from operations and banking facilities.

As at 31 December 2005, the Group's bank loans decreased from approximately RMB90.0 million as at 31 December 2004 to approximately RMB51.6 million, and long-term bank loans remained at the same level as at 31 December 2004 of RMB70.0 million. These bank loans were mainly used for the Group's daily operation and acquisition of fixed assets.

As at 31 December 2005, all of the Group's bank loans bear fixed interest rates ranging from 5.22% to 5.76%. Since all the bank loans were denominated in RMB, the Directors consider that the exposure to foreign exchange risk was minimal.

The Group's bank loans are repayable as follows:

	RMB million
Within 1 year	51.6
More than 1 year, but not exceeding 2 years	50.0
More than 2 years, but not exceeding 5 years	20.0
	121.6

As at 31 December 2005, the Group's gearing ratio decreased to 51.0% (2004: 68.8%), which is calculated based on total bank loans of approximately RMB121.6 million and total shareholders' funds of approximately RMB238.6 million. Cash and cash equivalents decreased from approximately RMB107.6 million to RMB91.2 million. Most of the Group's bank deposits were deposited with banks as short-term deposits and were denominated in either Hong Kong dollars or RMB, which are directly related to the Group's businesses in the areas of the currencies concerned.

CHARGES ON GROUP ASSETS

As at 31 December 2005, the Group pledged bank deposits of approximately RMB3.0 million, buildings of carrying value of approximately RMB51.3 million, land lease premium held for own used of carrying value of approximately RMB11.6 million and trade receivables of approximately RMB21.6 million for banking facilities.

CONTINGENT LIABILITIES

As at 31 December 2005, the Group did not have any material contingent liabilities.

FOREIGN EXCHANGE EXPOSURE

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

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2005, the Group had approximately 566 full-time employees. Total staff costs for the year 2005 amounted to approximately RMB22.2 million (2004: RMB26.4 million), including remuneration of the Directors and members of the supervisory committee (the "Supervisors"). The Group reviews employee remuneration from time to time and increases in remuneration are normally granted annually or by special adjustment depending on length of service and performance when warranted. In addition to salaries, the Group provides employee benefits including medical insurance and retirement benefits scheme. Bonuses are also available to employees of the Group at the discretion of the Directors and depending upon the financial performance of the Group. The Group has not granted any share options to the Directors and its employees.

SIGNIFICANT INVESTMENT HELD AND PERFORMANCE

During the year ended 31 December 2005, the Group incorporated three subsidiaries in PRC, namely 西安海天通信系統工程公司 (Xi'an Haitian Communication System Engineering Co., Ltd), which was mainly engaged in indoor distribution system and network optimization, 西安海泰科通訊軟件公司 (Xian Hi-Tech Communication Software Co., Ltd), which was mainly engaged in software agency and related products, and 嘉載通信設備有限公司 (the joint venture company established with Datang Mobile), which 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. Save as disclosed herein, during the year ended 31 December 2005 and as at the balance sheet date, the Group did not hold other investment in equity interest in any company.

FUTURE PLANS FOR MATERIAL INVESTMENTS

As at 31 December 2005, the Group had capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment amounted to approximately RMB1.9 million (2004: RMB4.4 million).

Save as disclosed herein the Group did not have other plans for material investment.

MATERIAL ACQUISITIONS AND DISPOSALS

Save as disclosed in the paragraph headed "Significant Investment Held and Performance" above, the Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies during the year ended 31 December 2005.

DISCLOSURE UNDER CHAPTER 17 OF THE GEM LISTING RULES

As at 31 December 2005, trade receivables due from China Unicom Group, China Mobile Group, China Telecom Group and China Netcom Group and other trade customers (in aggregate) amounted to approximately RMB69.4 million, RMB47.6 million, RMB39.8 million and RMB29.6 million respectively. Such trade receivables in an aggregate amount of approximately RMB186.4 million were owed by 50 trade customers which are independent third parties not connected with the Directors, the Supervisors, the chief executives or substantial shareholders of the Company.

All of the above trade receivables are unsecured and repayable in accordance with terms specified in the contracts governing the relevant transactions. No collateral is required to be made by these customers and no interest is charged on such balances. The balances due from China Unicom Group, China Mobile Group, China Telecom Group and China Netcom Group as at 31 December 2005 represented approximately 14.8%, 10.1% and 8.5% respectively, exceeding 8% of the Group's total assets as at 31 December 2005 or representing approximately 34.4%, 23.6% and 19.7% respectively, exceeding 8% of the Group's market capitalization as at 31 December 2005. These balances give rise to disclosure obligations on the part of the Group pursuant to Rule 17.15 of the GEM Listing Rules.

According to the Directors, the Group has not encountered any negative impact to its operations or business despite the Group's significant financial exposure to China Unicom Group, China Mobile Group, China Telecom Group and China Netcom Group. In addition, the Directors believe that with the strong backing of these customers, the Group is able to further expand its business as one of the leading providers of the base station antennas and related products in the PRC.

Save for the above, as at 31 December 2005, so far as is known to the Directors, there is no other advance which would give rise to disclosure obligations of Group under Rules 17.15 and 17.17 of the GEM Listing Rules.

TOP FIVE SUPPLIERS AND CUSTOMERS

For the year ended 31 December 2005, sales to the top five customers and the largest customer accounted for approximately 73.5% (2004: 84.0%) and 31.2% (2004: 27.9%) respectively of the Group's total turnover.

For the year ended 31 December 2005, purchases from the top five suppliers and the largest supplier accounted for approximately 44.4% (2004: 58.9%) and 16.6% (2004: 21.0%) respectively of the Group's total purchases.

Each of the top five customers and the top five suppliers is independent of and not connected with any of the Directors, chief executives or any shareholders of the Company which, to the best knowledge of the Directors, own more than 5% of the Shares of the Company, or any of their respective associates.

ORDERS RECEIVED AND PROSPECTS FOR NEW BUSINESS

The Group's customers give short delivery period to the Group when orders are placed. Therefore, there was no material order received as at 31 December 2005.

The Group will continue to engage in research and development, manufacturing and sale of base station antennas and related telecommunications equipment products. The Group plans to expand its product lines into other products and services related to telecommunication base station antennas and equipment, especially provision of software adhesive to antenna and base station and network optimization services.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Board, the Company has complied with the code provisions in the Code on Corporate Governance Practice (the "Code") as set out in Appendix 15 of the GEM Listing Rules throughout the financial year ended 31 December 2005 subject to the deviations disclosed hereof.

THE BOARD OF DIRECTORS

Composition and function

The Board is responsible for overseeing the preparation of accounts of each financial period, which shall give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. It is also responsible for formulating the Group's long-term strategy and supervising the management to ensure thorough implementation of the Group's policies and effective performance of their duties. As at 31 December 2005, the Board comprised eleven Directors, including the Chairman, two executive Directors, three independent non-executive Directors and five non-executive Directors. Biographies of the Directors are set out in the Directors' Report.

Members of the Board comprise experts from diverse business and professional backgrounds who have served relevant PRC government organizations, listed companies, multinational or other organizations. All of the members of the Board have many years of experience in investment, business operation, financial management and corporate administration.

The current composition of the Board is considered to be a reasonable balance between executive and non-executive directors, and be able to provide adequate checks for safeguarding the interests of shareholders of the Company.

All non-executive Directors are engaged by a service contract for a term valid until 19 May 2007. All Directors appointed to fill a casual vacancy are subject to re-election by shareholders at the first annual general meeting following their appointment and all Directors are subject to re-appointment or re-election at least once every three years.

Composition of the Board, by category of Directors, including names of the Chairman, executive Directors, independent non-executive Directors and non-executive Directors, has been disclosed in all corporate communications.

Number of independent non-executive Director

On 16 September 2005, Mr. Zhou Tianyou resigned from the office of independent non-executive Director due to the change of his position in the Company by accepting the appointment as the Chief Executive Officer of the Company. As a result of the resignation of Mr. Zhou Tianyou, the number of independent non-executive Directors reduced from three to two, which fell short of the minimum requirement of three independent non-executive directors under Rules 5.05(1) of the GEM Listing Rules. It was not until 21 December 2005 that Mr. Qiang Wenyu was appointed as an independent non-executive Director who filled the vacancy resulting from the resignation of Mr. Zhou.

Board Meetings

The Board meets at least quarterly and additional Board meetings are held as and when required. Between scheduled meetings, the Directors are provided with information on the activities and development in the businesses of the Group in a timely manner to keep them abreast of the Group's latest developments.

Details of Directors' attendance records in 2005:

	Number of meetings attended/Total
Executive Directors	
Mr. Xiao Bing (Chairman)	8/8
Mr. Zhou Tianyou (appointed on 21 December 2005)	6/8
Mr. Liang Zhijun (appointed on 29 March 2005)	6/8
Professor Xiao Liangyong (resigned on 29 March 2005)	1/8
Professor Guo Weisheng (resigned on 29 March 2005)	1/8
Mr. Fang Xi (appointed on 29 March 2005, resigned on 16 September 2005)	2/8
Non-Executive Directors	
Mr. Wang Ke	7/8
Mr. Liu Yongqiang	8/8
Mr. Wang Quanfu	8/8
Mr. Li Wenqi	8/8
Ms. Wang Jing	8/8
Independent Non-Executive Directors	
Professor Gong Shuxi	7/8
Mr. Wang Pengcheng	8/8
Mr. Qiang Wenyu (appointed on 21 December 2005)	0/8
Mr. Zhou Tianyou (resigned on 16 September 2005)	6/8

Chairman and Chief Executive Officer

Under the code provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The roles of chairman and chief executive officer of the Company were only segregated since September 2005. Before then, the chairman and chief executive officer of the Company were Mr. Xiao Bing. Since September 2005, Mr. Xiao Bing has remained as the Chairman and Mr. Zhou Tianyou has served as the Chief Executive Officer. The Chairman focuses on group strategic and Board issues to ensure the Board acts in the best interests of the Group, while the Chief Executive Officer is responsible for running the Group's business and assuming full accountability to the Board for achieving the overall commercial objectives.

DIRECTORS' SECURITIES TRANSACTIONS

The Company adopted a code of conduct regarding securities transactions by Directors on terms which are same as the required standard of dealings as referred to in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company has made specific enquiries of all the Directors and the Company was not aware of any non-compliance with the required standard of dealings and the code of conduct regarding securities transactions by the Directors.

REMUNERATION COMMITTEE

Under the code provision B.1.1, a listed issuer should establish a remuneration committee with specific written terms of reference which deal clearly with its authority and duties. It was not until December, 2005 that the Company established a remuneration committee as required under the code provision B.1.1.

The Remuneration Committee currently consists of three members, majority of which being independent non-executive directors. The chairman of the committee is Mr. Qiang Wenyu, an independent non-executive Director, and other members include Mr. Wang Pengcheng and Mr. Wang Ke.

The responsibility of Remuneration Committee is to make recommendations to the Board related to remuneration policy for Directors and senior management. Prior to the establishment of the Remuneration Committee in 2005, a detailed review of the remuneration policy relating to Directors and senior executives was carried out in 2003, their remuneration was determined with reference to their respective management functions and to the performance and profitability of the Group as well as prevailing market conditions. During the year, no meeting was held by the Remuneration Committee. However, a Board meeting was held in December 2005 to determine the remuneration package of the Chief Executive Officer and reviewed the remuneration package of all Directors. No Director or any of their respective associates was involved in deciding their respective remuneration.

The specific terms of reference of the Remuneration Committee is posted on the Company's website.

NOMINATION COMMITTEE

The Nomination Committee was established in December 2005 and consists of three members, majority of which being independent non-executive directors. The chairman of the committee is Professor Gong Shuxi, an independent non-executive Director, and other members include Mr. Qiang Wenyu and Mr. Liu Yongqiang.

The Nomination Committee is responsible for formulating nomination policy, reviewing the structure, size and composition of the Board on a regular basis and making recommendations to the Board on selection and appointment of Board members. No meeting has been held by the Nomination Committee after its establishment. However, during the year, two meetings were held by the Board for the selection and recommendation of candidates for directorship having regard to the relevance of skills and experience appropriate to the Group's business.

The specific terms of reference of the Nomination Committee is posted on the Company's website.

AUDIT COMMITTEE

The Audit Committee, established in April 2003, is currently chaired by Mr. Wang Pengcheng, an independent non-executive Director, and the other members are Professor Gong Shuxi and Mr. Li Wenqi, with the majority being independent non-executive Directors.

The Audit Committee is responsible for reviewing accounting policies and practices adopted by the Group. It also reviews and discusses matters related to financial reporting, internal control, audit and performs other duties as assigned by the Board, and reports its work, findings and recommendations to the Board after each meeting in respect of the above matters as well as to the operating risks faced by the Group. The Audit Committee has reviewed the audited financial results of the Group for the year ended 31 December 2005.

The terms of reference of the Audit Committee is published on the Company's website.

The Audit Committee held four meetings in 2005 discussing the Group's annual results for 2004, quarterly results for 2005, and reviewing internal control matters. The individual attendance record of each member is as follows:

	Number of meetings attended/Total
Non-Executive Director	
Mr. Li Wenqi	4/4
Independent Non-Executive Directors	
Professor Gong Shuxi	4/4
Mr. Wang Pengcheng (Chairman)	4/4

AUDITORS' REMUNERATION

During 2005, the fees paid to external auditors for audit and non-audit services amounted to HKD406,071 and HKD75,735 respectively. Non-audit service fee mainly related to the issuance of comfort letters regarding indebtedness and sufficiency of working capital of the Group.

INTERNAL CONTROL

The Board has overall responsibility for the Group's system of internal control and for reviewing its effectiveness. The Board will conduct regular review regarding internal control systems of the Group. During the year under review, the Board has reviewed the operational and financial reports, budgets and business plans provided by management. Besides, the Audit Committee and the Board also performed quarter review on the Group's performance and internal control system in order to ensure effective measures are in place to protect material assets and identify business risks of the Group.

Directors, Supervisors and Senior Management

DIRECTORS

Executive Directors

Mr. Xiao Bing (肖兵先生), aged 40, he is a son of Professor Xiao Liangyong, the founder of the Company. Mr. Xiao 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 since August 2004.

Mr. Liang Zhijun (梁志軍先生), aged 41, graduated from 陝西机械學院(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 had been nominated by the Board as an executive Director and an authorized representative of the Company effective in April 2005.

Mr. Zhou Tianyou (周天游先生), aged 43, graduated from the Electronics and Computer Science Department of Shanghai Jiaotong University (上海交通大學) with a bachelor degree in automatic control engineering in 1983 and is an engineer. He has over 20 years experience in telecommunications field, having previously served in various senior positions including marketing manager of Beijing Digipro Information Technology Co. Ltd. (北京長信嘉信息技術有限公司), business development manager of Rockwell International (Overseas) Co., Ltd., Beijing Representative Office (羅克書爾國際(海外)有限公司北京代表處) and chief representative of Altitude Software, Beijing Representative Office (荷蘭翺天軟件國際控股公司北京代表處). Mr. Zhou had been an independent non-executive Director from October 2000 to September 2005, and became the chief executive officer of the Company in September 2005 and had been nominated as an executive Director in December 2005.

Non-executive Directors

Mr. Wang Ke (王科先生), aged 59, 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 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.

Mr. Liu Yongqiang (劉永強先生), aged 66, 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 西安國際信托投托有限公司 (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.

Mr. Wang Quanfu (王全福先生), aged 42, 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.

Mr. Li Wenqi (李文琦先生), aged 40, 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.

Ms. Wang Jing (王京女士), aged 34, 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., "**Beijing Holdings**"), one of the substantial shareholders, since February 2004 and was elected as a non-executive Director since May 2004.

Independent non-executive Directors

Professor Gong Shuxi (龔書喜教授), aged 48, 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 Jiantong 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.

Mr. Wang Pengcheng (王鵬程先生), aged 38, 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.

Mr. Qiang Wenyu (強文郁先生), aged 32, graduated from the School of Management and Economics of Beijing Institute of Technology (北京理工大學) in 1994 and joined the service of China North Industries Corporation (中國北方工業公司) in 1995. In 1998, he served as general manager of NIC Sports Inc. In 2003, Mr. Qiang assumed office as the deputy general manager of Silver City International (Holdings) Limited and the general manager of Throne Star International Limited. Mr. Qiang is a non-executive director of Raymond Industrial Ltd., a company listed on the main board of the Stock Exchange. He was elected as an independent non-executive Director since December 2005.

SUPERVISORS

Mr. Hu Hui (胡暉先生), aged 38, graduated from 長沙鐵道學院 (Changsha Railway College, now know as 中南大學 (Central South University)) major in mechanical engineering in 1989 and is an engineer. Mr. Hu was employed by 株州齒輪股份有限公司 (Zhuzhou Gear Co., Ltd.) from 1989 to December 2001. He joined the Group in May 2002, and then became the manager of the corporate planning department and a Supervisor in July 2002.

Ms. Sun Guilian (孫桂蓮小姐), aged 41, graduated from the 中南財經政法大學 (Zhongnan University of Economics and Law) majoring in business administration in 2002. She was employed by the No. 704 factory of the State and worked in the enterprise statistics department from 1984 to 2000. Ms. Sun joined the Group in September 2000 and was elected as a Supervisor in July 2002.

Mr. Liu Jiyang (劉激揚先生), aged 38, graduated from Xi'an Jiaotong University with a bachelor degree in management engineering in 1989 and a master degree in economic laws in 1993. Mr. Liu was employed by 西安大唐電信有限公司 (Xi'an Datang Telecom Company Limited) as the enterprise legal adviser and deputy general manager of 西安山脈科技發展有限公司 from April 2001 to February 2002. From March 2002 till now, he has been working as the general manager of 西安協聖科技有限責任公司 and was elected as a Supervisor in October 2002.

Professor Shi Ping (師萍教授), aged 56, holds a doctorate degree. Professor Shi has started working as a professor, tutor of doctorate students, deputy manager of the Institute of Economics and Management in 西北大學 (Northwest University) since December 1985. Currently, she is an independent non-executive director of Xi'an Jiefang Group. She was elected as a Supervisor in October 2002.

Mr. Gu Linqiang (谷林強先生), aged 39, graduated from 山東大學 (Shandong University) in 1989 with a bachelor degree in management science. In 1994, Mr. Gu worked in the credit department of XITIC. In 1997, he was posted to the investment banking division of XITIC and assumed the posts of deputy manager. Mr. Gu was elected as a Supervisor in October 2002.

SENIOR MANAGEMENT

Mr. Fang Xi (方曦先生), aged 35, graduated from the agricultural finance department of 中南財經政法大學 (Zhongnan University of Economics and Law) in 1993 and worked as head of finance department and deputy chief accountant of 國營黃河機器制造廠 (State-owned Huanghe Machinery Plant) from 1993 to 2001. Currently, he is responsible for the finance function of the Group. Mr. FANG was nominated by the Board as an executive Director effective in April 2005 and had resigned from the post of executive Director in September 2005.

Mr. Liu Peng (劉鵬先生), aged 38, graduated from the Changsha Railway College in 1989, and has finished the master of business administration courses in 北方交通大學 (Northern Jiaotong University) in 2000 and is an engineer. He worked in the equipment factory of 中國有色二十三治二公司工業設備廠 (China Nonferrous Metal 23 Metallurgy Corporation Second Branch) from July 1989 to March 1997. From April 1997 to February 2001, he worked as the assistant to president of 湖南金正方企業集團 (Hunan Gold Zhengfang Enterprise Group) as well as the general manager of 華麗服裝批發大市場 (Huali Garment Wholesale Market). He joined the Group in April 2001 and was appointed as a vice president of the Company in May 2002. Mr. Liu is responsible for human resource management and administration of the Company.

Dr. Zong Ruiliang (宗瑞良博士), aged 41, graduated from the 西北工業大學 (Northwestern Polytechnical University) in July 1986 with a bachelor of engineering degree major in applied electronic techniques, in September 1993 with a master of engineering degree major in control theory and engineering and in February 2000 with a doctor of philosophy degree major in signal and information processing. Dr. Zong worked for faculty of marine engineering of Northwestern Polytechnical University as lecturer and associate professor during September 1993 to May 2000 and for Xi'an research institute, division of technology development, 深圳市中興通訊股份有限公司 (Shenzhen ZTE Corporation) as project manager, director of R & D department and as second level chief engineer during May 2000 to September 2003. Dr. Zong joined the Group in July 2003 and currently is the general manager for research and development division of the Company.

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Ms. Chow Yuk Lan (周玉蘭小姐), aged 31, holds a bachelor (Honour) degree in Accountancy from the Hong Kong Polytechnic University. She is an associate member of both the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. Ms. Chow has over eight years of experience in areas of auditing, accounting, taxation, company secretarial and financial management. Before joining the Company in July 2005, Ms. Chow worked as a manager in an international accounting firm.

Report of the Supervisory Committee

To the Shareholders,

During the year ended 31 December 2005, the Supervisory Committee of the Company (the "Committee" or the "Supervisors") thoroughly performed its duties faithfully in accordance with the provisions of the Company Laws, Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules") and the articles of association (the "Articles") of the Company. Adhering to the principles of safeguarding interests of the Shareholders and benefits of the staff of the Company, the Supervisors attended Board meetings, acquiring first-hand information of the Board's decision on marking important issues and effectively monitoring the Board and senior management of the Company in performing their duties, and providing reasonable recommendation and advice on the operations and development plans of the Company.

The Supervisory Committee considers that:

1. The Company's operation for the year 2005 complied with the relevant laws and regulations of the state and local governments of the PRC and the Articles.

2. The Directors and managers of the Company performed their duties in strict compliance of the relevant rules and regulations for the development of the Company. They carried out their work diligently without violating any laws and regulations or the Articles and had not conducted any activities which were against the interests of the Company;

3. The connected transactions of the Company, which have fully complied with the relevant provisions of the GEM Listing Rules, were fair and reasonable. We have not discovered any act that prejudiced the interests of the Company;

4. The Committee's role in monitoring the management was strengthened by attending Board meetings, participating in the decision-making process of the management and reviewing regularly the Company's financial statements and accounts. The Supervisors believe that the financial management of the Company was performed in strict accordance with the relevant accounting principles, that the financial statements and accounts were prepared timely and properly and that no improper disclosures were identified; and

5. The Supervisory Committee has verified the financial information such as the financial and performance reports and was satisfied with the report of the Board, the audited financial statements to be submitted to the forthcoming Annual General Meeting by the Board of Directors. We are of the opinion that the audited financial statements for the year ended 31 December 2005 have reflected truly and fairly the conditions of the operating results and the assets of the Company and of the Group.

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

By order of the Supervisory Committee

Hu Hui
Chairman

Xi'an, the PRC
14 March 2006

The Directors have pleasure in presenting their report for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES

The Group is principally engaged in the research and development, manufacturing and sales of base station antennas and related products.

The principal activities of its subsidiaries are set out in note 16 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2005 are set out in the income statement on page 29 of this annual report.

The Directors do not recommend the payment of any final dividend for the year ended 31 December 2005.

DISTRIBUTABLE RESERVES

In accordance with the Articles of Association of the Company, the reserve available for distribution is the lower of amount determined under accounting principles generally accepted in the PRC and the amount determined under the accounting principles generally accepted in Hong Kong. Based on the financial statements of the Company prepared in accordance with the relevant accounting principles and financial regulations applicable to companies established in the PRC, the Company's reserves available for distribution to shareholders at 31 December 2005 were RMB53,863,513 (2004: RMB64,938,808).

FINANCIAL SUMMARY

A summary of the results of the Group for each of the five years ended 31 December 2005 is set out on page 66 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group spent approximately RMB3.5 million on plant and equipment and approximately RMB1.9 million on properties under construction to expand and upgrade its production capacity.

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

DIRECTORS AND SUPERVISORS

The Directors and Supervisors during the year and up to the date of this report were:

Executive directors:

Mr. Xiao Bing *(Chairman)*
Professor Xiao Liangyong (resigned on 29 March 2005)
Professor Guo Weisheng (resigned on 29 March 2005)
Mr. Fang Xi (appointed on 29 March 2005, resigned on 16 September 2005)
Mr. Liang Zhijun (appointed on 29 March 2005)
Mr. Zhou Tianyou (appointed on 21 December 2005)

Non-executive directors:

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

Independent non-executive directors:

Professor Gong Shuxi
Mr. Wang Pengcheng
Mr. Zhou Tianyou (resigned on 16 September 2005)
Mr. Qiang Wenyu (appointed on 21 December 2005)

Supervisors:

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

In accordance with Article 102 of the Company's Article of Association, Messrs. Zhou Tianyou and Qiang Wenyu will retire at the forthcoming annual general meeting and , being eligible, offer themselves for re-election.

1. Directors' and Supervisors' 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.

In accordance with the provisions of the Articles, the term of office of the Directors shall be three years commencing from the date of appointment or re-election and renewable upon re-appointment or re-election. In accordance with the provisions of the PRC Company Laws, the term of office of the Supervisors shall also be three years and renewable upon re-appointment or re-election. During the year, none of the Directors' and Supervisors' terms of office expired, and save as disclosed herein, all of the Directors and Supervisors continue in office.

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

2. Independent non-executive Directors

The Board confirmed that the Company has received from each of the independent non-executive Directors an annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company considers that the independent non-executive Directors to be independent.

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND THE ASSOCIATED CORPORATIONS

As at 31 December 2005, the interests and short positions of the Directors, Supervisors (as if the requirements applicable to the Directors under the Securities and Futures Ordinance ("SFO") (Chapter 571 of the Laws of Hong Kong) had applied to the Supervisors) and chief executives of the Company, including their respective associates, in the shares (the "Shares"), underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise required, pursuant to Rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Long positions in the Domestic Shares of the Company

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
Mr. Xiao Bing (肖兵先生)	Personal	Held by controlled corporation *(Note 1)*	180,000,000	37.09%	27.81%

Note 1: The Domestic Shares were held by 西安天安投資有限公司 (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.

Other than as disclosed above, none of the Directors, Supervisors and chief executive of the Company nor their associates had any interests or short positions in any Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as at 31 December 2005 as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise required, pursuant to Rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

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

As at 31 December 2005, so far as is known to the Directors, Supervisors and chief executives of the Company, none of the Directors, Supervisors or chief executives of the Company or any of their respective associates including spouses and children under 18 years of age had any interest in, or has been granted, or exercised, any rights to subscribe for H Shares (or warrants or debentures, if applicable) or to acquire H Shares.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2005, the following persons or entities (other than the Directors, Supervisors and chief executives of the Company) had interests or short positions in the Shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO:

(A) Substantial shareholders of the Company

Long positions in the Domestic Shares of the Company

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%
Ms. Yao Wenli (姚文俐女士)	Personal	Held by controlled corporation	180,000,000 *(Note 1)*	37.09%	27.81%
Professor Xiao Liangyong (肖良勇教授)	Personal	Parties acting in concert	180,000,000 *(Note 2)*	37.09%	27.81%
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:

1. 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.

2. Professor Xiao Liangyong is the father of Mr. Xiao Bing and a person acting in concert with Mr. Xiao Bing. By virtue of the SFO, he was deemed to be interested in the same 180,000,000 Domestic Shares held by Tian An Investment.

3. 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 rights 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 positions in the Domestic Shares of the Company

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
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%

Long positions in the H Shares of the Company

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
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.

Save as disclosed above, as at 31 December 2005, the Directors, Supervisors and chief executives of the Company were not aware of any person (other than the Directors, Supervisors and chief executives of the Company) who had an interest or a short position in the Shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

ARRANGEMENTS TO PURCHASE SHARES

At no time during the year was the Company, or any of its subsidiaries, a party to any arrangements to enable the Directors and Supervisors to acquire benefits by means of the acquisition of Shares in the Company or any other body corporate, and neither the Directors nor Supervisors, nor chief executives of the Company, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

DIRECTORS' AND SUPERVISORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

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

COMPETING INTEREST

None of the Directors or the management shareholders (as defined in GEM Listing Rules) of the Company have any interest in any business which competes or may compete, directly or indirectly, with the business of the Group nor any conflicts of interest which has or may have with the Group.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CONTINGENT LIABILITIES

The Group did not have any material contingent liability as at 31 December 2005.

EMPLOYEE RETIREMENT BENEFITS

Details of the employee retirement benefits of the Group are set out in note 28 to the financial statements.

CORPORATE GOVERNANCE

A report on the principal corporate governance practices adopted by the Company is set out on pages 13 to 16 of the annual report.

PRE-EMPTIVE RIGHTS

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

INTERESTS OF THE COMPLIANCE ADVISER

As notified and updated by Core Pacific-Yamaichi Capital Limited ("**CPY Capital**"), the Company's compliance adviser, pursuant to Rules 6.36 and 18.63 of GEM Listing Rules, as at 31 December 2005, neither CPY Capital nor its directors or employees or associates had any interests in share capital of the Company.

Pursuant to an agreement dated 24 October 2003 (the "**Agreement**") entered into between CPY Capital and the Company, CPY Capital received and will receive fees for acting as the Company's compliance adviser for the period up to 31 December 2005 or until the Agreement is terminated upon the terms and conditions set out therein.

AUDITORS

A resolution will be submitted to the annual general meeting of the Company to re-appoint CCIF CPA Limited as auditors of the Company.

On behalf of the Board

Mr. Xiao Bing
Chairman

Xi'an, the PRC
14 March 2006

CCIF

CCIF CPA LIMITED
37/F Hennessy Centre
500 Hennessy Road
Causeway Bay Hong Kong

AUDITORS' REPORT TO THE SHAREHOLDERS OF
XI'AN HAITIAN ANTENNA TECHNOLOGIES CO., LTD.
西安海天天綫科技股份有限公司
(Established as a joint stock limited company in The People's Republic of China with limited liability)

We have audited the financial statements on pages 29 to 65 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

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

BASIS OF OPINION

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

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

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2005 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

CCIF CPA Limited
Certified Public Accountants
Hong Kong, 14 March 2006

Delores Teh
Practising Certificate Number P03207

Consolidated Income Statement

For the year ended 31 December 2005

	Note	2005 RMB	2004 RMB
TURNOVER	4	**176,889,046**	200,999,236
COST OF SALES		**(97,416,207)**	(108,662,959)
GROSS PROFIT		**79,472,839**	92,336,277
OTHER REVENUE	4	**2,484,566**	2,634,495
DISTRIBUTION COSTS		**(31,909,604)**	(43,466,635)
ADMINISTRATIVE EXPENSES		**(21,567,603)**	(19,217,014)
OTHER OPERATING EXPENSES		**(4,636,370)**	(8,730,755)
PROFIT FROM OPERATIONS		**23,843,828**	23,556,368
FINANCE COSTS	6 a	**(7,839,762)**	(6,459,762)
PROFIT BEFORE TAXATION	6	**16,004,066**	17,096,606
INCOME TAX EXPENSES	9	**(611,391)**	(2,079,248)
PROFIT FOR THE YEAR		**15,392,675**	15,017,358
ATTRIBUTABLE TO			
Equity shareholders of the Company	10	**15,463,137**	15,017,358
Minority interests		**(70,462)**	–
PROFIT FOR THE YEAR		**15,392,675**	15,017,358
DIVIDENDS	11	**9,705,882**	–
EARNINGS PER SHARE – BASIC	12	**2.4 cents**	2.3 cents

The notes on pages 37 to 65 form an integral part of these financial statements.

Consolidated Balance Sheet

As at 31 December 2005

	Note	2005 RMB	2004 RMB
NON-CURRENT ASSETS			
Interests in leasehold land held for own use under operating leases	13	**11,615,250**	11,874,270
Intangible assets	14	**35,266,359**	27,847,149
Property, plant and equipment	15	**97,979,542**	103,481,851
Other financial assets		**280,000**	280,000
Pledged bank deposits		**796,219**	623,579
		145,937,370	144,106,849
CURRENT ASSETS			
Inventories	17	**35,696,685**	25,554,557
Trade receivables	18	**175,872,533**	172,292,300
Bills receivable		**1,120,378**	7,373,378
Other receivables and prepayments		**12,128,923**	11,766,429
Amounts due from directors	19	**1,862,240**	706,912
Amounts due from related parties	20	**3,235,720**	295,000
Pledged bank deposits		**2,189,007**	7,379,589
Bank balances and cash		**91,248,697**	107,614,032
		323,354,183	332,982,197
CURRENT LIABILITIES			
Trade payables	21	**69,929,958**	28,469,290
Bills payable		**10,631,626**	35,400,777
Other payables and accrued charges		**17,531,017**	11,060,755
Dividend payables		**3,003,140**	–
Taxation		**7,438,623**	8,853,288
Bank loans – due within one year	22	**51,565,460**	90,000,000
		160,099,824	173,784,110
NET CURRENT ASSETS		**163,254,359**	159,198,087
TOTAL ASSETS LESS CURRENT LIABILITIES		**309,191,729**	303,304,936
NON-CURRENT LIABILITIES			
Bank loans - due after one year	22	**70,000,000**	70,000,000
Deferred taxation	23	**600,000**	600,000
		70,600,000	70,600,000
NET ASSETS		**238,591,729**	232,704,936

	Note	2005 RMB	2004 RMB
CAPITAL AND RESERVES			
Share capital	24	**64,705,882**	64,705,882
Reserves	25	**173,756,309**	167,999,054
TOTAL EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY		**238,462,191**	232,704,936
MINORITY INTERESTS		**129,538**	–
TOTAL EQUITY		**238,591,729**	232,704,936

Approved and authorised for issue by the Board of Directors on 14 March 2006.

On behalf of the Board

Mr. Xiao Bing
Director

Mr. Zhou Tianyou
Director

The notes on pages 37 to 65 form an integral part of these financial statements.

Balance Sheet

As at 31 December 2005

	Note	2005 RMB	2004 RMB
NON-CURRENT ASSETS			
Interests in leasehold land held for own use under operating leases	13	**11,615,250**	11,874,270
Intangible assets	14	**35,266,359**	27,847,149
Property, plant and equipment	15	**94,705,255**	103,481,851
Investments in subsidiaries	16	**7,897,500**	1,597,500
Other financial assets		**280,000**	280,000
Pledged bank deposits		**796,219**	623,579
		150,560,583	145,704,349
CURRENT ASSETS			
Inventories	17	**32,385,553**	25,554,557
Trade receivables	18	**171,225,803**	172,292,300
Bills receivable		**1,120,378**	7,373,378
Other receivables and prepayments		**10,227,032**	11,766,429
Amounts due from directors	19	**1,862,240**	706,912
Amounts due from related parties	20	**2,429,964**	295,000
Amounts due from subsidiaries		**6,309,970**	–
Pledged bank deposits		**2,189,007**	7,379,589
Bank balances and cash		**88,713,427**	107,614,032
		316,463,374	332,982,197
CURRENT LIABILITIES			
Trade payables	21	**69,838,175**	28,469,290
Bills payable		**10,631,626**	35,400,777
Other payables and accrued charges		**15,753,731**	12,650,811
Dividend payable		**3,003,140**	–
Taxation		**7,352,443**	8,853,288
Bank loans – due within one year	22	**51,565,460**	90,000,000
		158,144,575	175,374,166
NET CURRENT ASSETS		**158,318,799**	157,608,031
TOTAL ASSETS LESS CURRENT LIABILITIES		**308,879,382**	303,312,380
NON-CURRENT LIABILITIES			
Bank loans – due after one year	22	**70,000,000**	70,000,000
Deferred taxation	23	**600,000**	600,000
		70,600,000	70,600,000
NET ASSETS		**238,279,382**	232,712,380

	Note	2005 RMB	2004 RMB
CAPITAL AND RESERVES			
Share capital	*24*	**64,705,882**	64,705,882
Reserves	*25*	**173,573,500**	168,006,498
TOTAL EQUITY		**238,279,382**	232,712,380

Approved and authorised for issue by the Board of Directors on 14 March 2006.

On behalf of the Board

Mr. Xiao Bing
Director

Mr. Zhou Tianyou
Director

The notes on pages 37 to 65 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2005

	Share capital	Share premium	Statutory surplus reserve	Statutory public welfare fund	Retained profits	Total	Minority interests	Total equity
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
	(Note 24)		*(Note 25(a))*	*(Note 25(b))*				
At 31 December 2003	64,705,882	71,228,946	9,503,111	5,174,539	70,310,394	220,922,872	–	220,922,872
Dividends	–	–	–	–	(3,235,294)	(3,235,294)	–	(3,235,294)
Net profit for the year	–	–	–	–	15,017,358	15,017,358	–	15,017,358
Transfer	–	–	302,234	151,117	(453,351)	–	–	–
At 31 December 2004	64,705,882	71,228,946	9,805,345	5,325,656	81,639,107	232,704,936	–	232,704,936
Dividends	–	–	–	–	(9,705,882)	(9,705,882)	–	(9,705,882)
Minority interests	–	–	–	–	–	–	200,000	200,000
Net profit for the year	–	–	–	–	15,463,137	15,463,137	(70,462)	15,392,675
Transfer	–	–	407,595	203,797	(611,392)	–	–	–
At 31 December 2005	64,705,882	71,228,946	10,212,940	5,529,453	86,784,970	238,462,191	129,538	238,591,729

Consolidated Cash Flow Statement

For the year ended 31 December 2005

	2005	2004
	RMB	*RMB*
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	**16,004,066**	17,096,606
Adjustments for:		
Depreciation of property, plant and equipment	**10,608,958**	5,462,448
Amortisation of land lease premium held for own use	**259,020**	259,089
Amortisation of development costs	**3,116,075**	1,871,789
Amortisation of technological know-how	**1,000,000**	1,000,000
Loss on disposal of property, plant and equipment	**162,114**	301,402
Impairment losses on trade receivables	**–**	3,263,979
Finance costs	**7,839,762**	6,459,762
Interest income	**(724,025)**	(572,684)
OPERATING PROFIT BEFORE CHANGES IN WORKING CAPITAL	**38,265,970**	35,142,391
(Increase)/decrease in inventories	**(10,142,128)**	1,505,164
Decrease/(increase) in trade and bills receivable	**2,672,767**	(24,598,557)
(Increase)/decrease in other receivables and repayments	**(362,494)**	5,723,693
Increase in amounts due from directors	**(1,155,328)**	(706,912)
Increase in amounts due from related parties	**(2,940,720)**	(295,000)
Increase/(decrease) in trade and bills payables	**16,691,517**	(11,176,555)
Increase/(decrease) in other payables and accrued charges	**6,470,262**	(17,611,604)
CASH GENERATED FROM/(USED IN) OPERATIONS	**49,499,846**	(12,017,380)
Mainland China taxation paid	**(2,026,056)**	(9,959,109)
NET CASH GENERATED FROM/(USED IN) OPERATING ACTIVITIES	**47,473,790**	(21,976,489)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	**724,025**	572,684
Proceeds from disposal of property, plant and equipment	**60,141**	315,338
Purchase of property, plant and equipment	**(5,328,904)**	(32,878,343)
Decrease in pledged bank deposits	**5,017,942**	16,811,697
Expenditure on product development	**(11,535,285)**	(13,054,582)
NET CASH USED IN INVESTING ACTIVITIES	**(11,062,081)**	(28,233,206)

	2005	2004
	RMB	*RMB*
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from share capital contributed by minority shareholders	**200,000**	–
New bank loans raised	**51,565,460**	110,000,000
Repayment of bank loans	**(90,000,000)**	(54,673,880)
Interest paid	**(7,839,762)**	(7,855,137)
Dividends paid to equity shareholders of the Company	**(6,702,742)**	(3,235,294)
NET CASH (USED IN)/GENERATED FROM FINANCING ACTIVITIES	**(52,777,044)**	44,235,689
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(16,365,335)**	(5,974,006)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**107,614,032**	113,588,038
CASH AND CASH EQUIVALENTS AT END OF YEAR	**91,248,697**	107,614,032
ANALYSIS OF BALANCE OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**91,248,697**	107,614,032

The notes on pages 37 to 65 form an integral part of these financial statements.

1. ORGANISATION AND OPERATIONS

Xi'an Haitian Antenna Technologies Co., Ltd. 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 the 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 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.

On 20 January 2005, following the consent from Ministry of Commerce of the People's Republic of China, the Company changed to a foreign investment joint stock limited company.

The principal activities of the subsidiaries are set out in note 16 to the financial statements.

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

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the GEM of the Stock Exchange.

The HKICPA has issued a number of new and revised HKFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005.

a) Basis of Preparation

The consolidated financial statements have been prepared in accordance with HKFRSs. The consolidated financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRSs requires certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies.

The following new and revised HKFRSs are relevant to the Group's financial statements and are adopted for the preparation of the current year's financial statements.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

a) Basis of Preparation *(continued)*

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 20	Accounting for Government Grants and Disclosure of Government Assistance
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings Per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS-Int 12	Scope of HKAS-Int 12 Consolidation - Special Purpose Entities
HKAS-Int 15	Operating Leases - Incentives
HKAS-Int 21	Income Taxes - Recovery of Revalued Non-Depreciable Assets

The adoption of the above new HKFRSs has the following impacts on the Group's accounting policies:

– HKAS 1 has affected the presentation and disclosure of the financial statements;

– HKASs 8, 27 and 33 have affected the disclosure of the financial statements;

– HKASs 2, 7, 10, 12, 14, 16, 17, 18, 19, 20, 21, 23, 32, 37, 39, HKAS-Int 12, HKAS-Int 15 and HKAS-Int 21 have no material effect on the Group's accounting policies; and

– HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The Group has reassessed the needs for impairment test and the useful lives of its intangible assets in accordance with the provisions of HKAS 36 and HKAS 38 respectively. No adjustment resulted from this assessment.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

b) Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries 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.

c) Subsidiaries

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. Subsidiaries are considered to be controlled if the company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

An investment in a controlled subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

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

d) Minority Interests

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet and statement of changes in equity within equity, separately from equity attributable to the equity shareholders of the company. Minority interests in the results of the group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the company.

e) Interests in leasehold land held for own use under operating leases

Interests in leasehold land held for own use under operating leases is stated at cost less accumulated amortisation and identified impairment losses. The land lease premium held for own use is amortised on a straight-line basis over the period of the right.

f) Property, Plant and Equipment

The following items of property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 2(k)):

– buildings held for own use which are situated on leasehold land, where the fair value of the building could be measured separately from the fair value of the leasehold land at the inception of the lease; and

– other items of plant and equipment.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

f) Property, Plant and Equipment *(continued)*

Changes arising on the revaluation of properties held for own use are generally dealt with in reserves. The only exceptions are as follows:

– when a deficit arises on revaluation, it will be charged to profit or loss to the extent that it exceeds the amount held in the reserve in respect of that same asset immediately prior to the revaluation; and

– when a surplus arises on revaluation, it will be credited to profit or loss to the extent that a deficit on revaluation in respect of that same asset had previously been charged to profit or loss.

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 2(u)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the items and are recognised in profit or loss on the date of retirement or disposal. Any related revaluation surplus is transferred from the revaluation reserve to retained profits.

Depreciation is calculated to write off the cost or valuation of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

– Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more that 50 years after the date of completion.

– Plant and machinery	3-10 years
– Furniture, fixtures and equipment	5 years
– Motor vehicles	8 years
– Leasehold improvement	Over the lease period

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

g) Other Financial Assets

Other financial assets are classified as available-for-sale financial assets and are initially recognised at fair value plus transaction costs. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised directly in equity, except for impairment losses (see note 2(k)) .

Investments are recognised/derecognised on the date the group and/or the company commits to purchase/sell the investments or they expire.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

h) Research and Development Costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour and an appropriate proportion of overheads. Capitalised development costs are stated at cost less accumulated amortisation and impairment losses. Other development expenditure is recognised as an expense in the period in which it is incurred.

Amortisation of intangible assets is charged to income statement on a straight-line basis over the assets' estimated useful lives at 5 years.

Both the period and method of amortisation and any conclusion that the useful life of development cost is indefinite are reviewed annually.

i) 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 10 years.

Both the period and method of amortisation and any conclusion that the useful life of technological know-how is indefinite are reviewed annually.

j) Operating Leases

Where the group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term (see note 2(e)).

k) Impairment of Assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment (other than properties carried at revalued amounts);

– intangible assets; and

– investments in subsidiaries.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

k) Impairment of Assets *(continued)*

If any such indication exists, the asset's recoverable amount is estimated. In addition, for intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value is use, if determinable.

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

l) 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.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

m) Trade and Other Receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts.

n) Interest-bearing Borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in income statement over the period of the borrowings using the effective interest method.

o) Trade and Other Payables

Trade and other payables are initially recognised as fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

p) 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.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

q) Provisions and Contingent Liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the group or the company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

r) Revenue Recognition

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

Service income is recognised when services are provided.

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

s) Government Grants

Government grants are recognised in the balance sheet initially as deferred income when there is reasonable assurance that they will be received and that the group will comply with the conditions attaching to them. Grants that compensate the group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the group for the cost of an asset are recognised in profit or loss as revenue on a systematic basis over the useful life of the asset.

t) Foreign Currencies

Transactions in currencies other than the functional currency, 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 subsidiaries expressed in currencies other than RMB are translated into RMB at the average rates of exchange for the year. The balance sheets of overseas subsidiary expressed in currencies other than RMB are translated into RMB at the rates of exchange ruling on the balance sheet date. All exchange differences arising therefrom are recognised as a separate component of equity.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

u) Borrowing Costs

Borrowing costs are expensed in profit or loss in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

v) Related Parties

For the purposes of these financial statements, parties are considered to be related to the group if the group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the group or of any entity that is a related party of the group.

w) Employee benefits

Salaries, annual bonuses, paid annual leave, and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

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.

x) Segment reporting

A segment is a distinguishable component of the group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the group's internal financial reporting system, the group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets, and liabilities are determined before Intra-group balances and intra-group transactions are eliminated as part of the consolidated process, except to the extent that such intra-group balances and transactions are between group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financing expenses.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

y) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

3. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign exchange risk, credit risk, liquidity risk and cash flow interest-rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

a) Foreign Exchange Risk

Most of the Group's monetary assets and liabilities are denominated in RMB, and the Group conducted its business transactions principally in RMB. The exchange rate risk of the Group is not significant.

b) Credit Risks

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

c) Liquidity Risk

The Group's objective is to maintain a balance between the continuity of funding and the flexibility through the use of bank overdrafts and bank loans.

d) Cash Flow and Fair Value Interest Rate Risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest-rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest-rate risk. Borrowings issued at fixed rates expose the Group to fair value interest-rate risk.

4. 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.

	2005 ***RMB***	2004 *RMB*
Turnover		
Sales of goods	**166,339,137**	196,596,466
Service income	**10,549,909**	4,402,770
	176,889,046	200,999,236
Other revenue		
Government grants	**1,644,786**	1,282,473
Interest income	**724,025**	572,684
Others	**115,755**	779,338
	2,484,566	2,634,495
Total revenue	**179,373,612**	203,633,731

5. 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			
	2005		2004	
	Segment revenue	**Contribution to operating profit**	Segment revenue	Contribution to operating profit
	RMB	***RMB***	*RMB*	*RMB*
Mainland China	**152,851,870**	**13,331,720**	169,598,499	19,939,518
Asia excluded Mainland China	**15,430,393**	**6,643,033**	26,079,360	2,981,774
Others	**8,606,783**	**3,869,075**	5,321,377	635,076
	176,889,046		200,999,236	
Profit from operations		**23,843,828**		23,556,368

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.

6. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

a) Finance costs

	2005	2004
	RMB	*RMB*
Interest on bank loans wholly repayable within five years	**7,839,762**	7,855,137
Less: amount capitalized in properties under construction *	**–**	(1,395,375)
	7,839,762	6,459,762

* *During the year 2004, interest of RMB1,395,375 was capitalised as construction expenditure at the rate on the related loan of approximately 5.49% per annum.*

6. PROFIT BEFORE TAXATION *(continued)*

b) Staff costs

	2005	2004
	RMB	*RMB*
Directors' and supervisors' remuneration *(note 7)*	**1,241,579**	1,734,138
Salaries, wages and other benefits	**19,429,525**	23,656,595
Retirement benefit scheme contributions (excluding directors and supervisors)	**1,493,605**	1,049,859
	22,164,709	26,440,592

c) Other items

	2005	2004
	RMB	*RMB*
Impairment losses on trade receivables	**–**	3,263,979
Auditors' remuneration		
– audit services	**430,435**	461,100
– other services	**80,279**	–
Cost of inventories	**86,362,996**	97,923,148
Depreciation of property, plant and equipment	**10,608,958**	5,462,448
Amortisation of development costs	**3,116,075**	1,871,789
Amortisation of technological know-how	**1,000,000**	1,000,000
Amortisation of land lease premium held for own use	**259,020**	259,089
Loss on disposal of property, plant and equipment	**162,114**	301,402
Operating lease charges:		
Minimum lease payments	**651,122**	468,324
Less: Rental of staff quarters included in staff costs	**–**	(43,360)
	651,122	424,964
Research and development costs	**–**	21,016,398
Interest income	**(724,025)**	(572,684)

7. DIRECTORS' AND SUPERVISORS' REMUNERATION

a) Directors' and supervisors' remuneration

Directors' and supervisors' remuneration disclosed pursuant to Section 161 of the Companies Ordinance as follows:

	Fees		Salaries, allowances and benefits in kind		Retirement scheme contributions		Total	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004
	RMB	*RMB*	***RMB***	*RMB*	***RMB***	*RMB*	***RMB***	*RMB*
Executive directors								
Professor Xiao Liangyong	**–**	–	**169,620**	677,094	**–**	–	**169,620**	677,094
Xiao Bing	**–**	–	**288,859**	327,779	**10,741**	6,226	**299,600**	334,005
Professor Guo Weisheng	**–**	–	**91,950**	368,660	**–**	–	**91,950**	368,660
Fang Xi	**–**	–	**157,898**	–	**10,741**	–	**168,639**	–
Liang Xhijun	**–**	–	**157,286**	–	**–**	–	**157,286**	–
Zhou Tianyou	**–**	–	**95,400**	36,000	**–**	–	**95,400**	36,000
Non-executive directors								
Luo Maosheng	**–**	–	**–**	1,500	**–**	–	**–**	1,500
Wang Ke	**–**	–	**6,000**	4,000	**–**	–	**6,000**	4,000
Mi Yunping	–	–	**–**	1,500	**–**	–	**–**	1,500
Wang Jing	**–**	–	**6,000**	4,000	**–**	–	**6,000**	4,000
Wang quanfu	–	–	**6,000**	6,000	**–**	–	**6,000**	6,000
Liu Yongqiang	**–**	–	**6,000**	6,000	**–**	–	**6,000**	6,000
Li Wenqi	**–**	–	**6,000**	6,000	**–**	–	**6,000**	6,000
Independent non-executive directors								
Professor Gong Shuxi	**–**	–	**36,000**	36,000	**–**	–	**36,000**	36,000
Wang Pengcheng	**–**	–	**36,000**	6,000	**–**	–	**36,000**	6,000
Deng Yuanming	**–**	–	**–**	30,000	**–**	–	**–**	30,000
Qiang Wenyu	**–**	–	**–**	–	**–**	–	**–**	–
Supervisors								
Hu Hui	**–**	–	**26,976**	74,991	**4,410**	6,226	**31,386**	81,217
Sun Guilian	**–**	–	**47,698**	45,162	**–**	–	**47,698**	45,162
Gu Linqiang	**–**	–	**6,000**	7,000	**–**	–	**6,000**	7,000
Liu Jiyang	**–**	–	**36,000**	42,000	**–**	–	**36,000**	42,000
Professor Shi Ping	**–**	–	**36,000**	42,000	**–**	–	**36,000**	42,000
Total	**–**	–	**1,215,687**	1,721,686	**25,892**	12,452	**1,241,579**	1,734,138

8. INDIVIDUALS WITH HIGHEST PAID

The five highest paid employees during the year included three directors (2004: three), details of whose remuneration are set out in note 7.

The details of the remaining two (2004: two) individuals are disclosed as follows:

	2005	2004
	RMB	*RMB*
Salaries, allowances and benefits in kind	**482,060**	866,980
Retirement benefit scheme contributions	**3,100**	–
	485,160	866,980

The remuneration falls within the following band:

	Number of individuals	
	2005	2004
HK$ Nil (equivalent to RMB Nil) - HK$ 1,000,000 (equivalent to RMB1,040,000)	**2**	2

9. INCOME TAX EXPENSES

	2005	2004
	RMB	*RMB*
Current tax	**611,391**	1,979,248
Deferred tax *(note 23)*	**–**	100,000
	611,391	2,079,248

Currently, the Company is recognized by the Xi'an Municipal Bureau of Science and Technology as a high technology enterprise located in the Xi'an National High-tech Industrial Development Zone and is therefore subject to enterprise income tax ("EIT") rate of 15%.

The amount represents provision for EIT on the estimated assessable profit of the Company and its subsidiaries for the year. Taxation for the overseas subsidiary is charged at the appropriate current rates of taxation ruling in the relevant country.

Subsequent to the 2005 year end, on 15 January 2006, the Company submitted an application to the relevant tax authority for exemption from EIT for the first two profitable years of operations (i.e. for the years ended 31 December 2005 and 2006 respectively) and 50% reduction on the EIT for the following three years. However, up to the date of this report, the Company has not received any approval from the relevant tax authority for its application for the tax holiday.

9. INCOME TAX EXPENSES *(continued)*

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

	2005 RMB	2004 RMB
Profit before taxation	**16,004,066**	17,096,606
Tax at domestic income tax rate applicable of profits in the respective countries	**2,336,769**	2,564,491
Tax effect of expenses that are not deductible in determining taxable profit	**609,806**	1,135,857
Tax effect of non-taxable revenue	**(135,861)**	–
Tax effect of unrecognised tax losses	**171,737**	–
Tax effect on additional tax allowance in respect of the research and development costs	**(2,371,060)**	(1,720,879)
Tax effect on additional tax allowance in respect of the government subsidy for export sales	**–**	(221)
Tax expenses	**611,391**	1,979,248

10. PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

During the year ended 31 December 2005, the consolidated profit attributable to equity shareholders of the Company includes a profit of RMB15,272,884 (2004: RMB15,024,802) dealt with in the financial statements of the Company.

11. DIVIDENDS

Dividends payable to equity shareholders of the Company attributable to the year is as follows:

	2005 RMB	2004 RMB
Interim dividend declared and paid of 1.5 cents per share (2004: Nil)	**9,705,882**	–
Final dividend	**–**	–
	9,705,882	–

12. EARNINGS PER SHARE – BASIC

The calculation of the basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB15,463,137 (2004: RMB15,017,358) and the weighted average number of 647,058,824 shares in issue during the year (2004: 647,058,824).

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

13. INTERESTS IN LEASEHOLD LAND HELD FOR OWN USE UNDER OPERATING LEASES

The Group and the Company

	RMB
Cost	
At 1 January 2005 and 31 December 2005	12,695,357
Amortisation	
At 1 January 2005	821,087
Charge for the year	259,020
At 31 December 2005	1,080,107
Net book value	
At 31 December 2005	11,615,250
At 31 December 2004	11,874,270

The cost of interests in leasehold land held for own use under operating leases is amortised over the lease term period of 49 years on a straight line basis.

As at 31 December 2005, the land lease premium held for own use with carrying value of RMB11,615,250 (2004: RMB11,874,270) has been pledged.

14. INTANGIBLE ASSETS

The Group and the Company

	Development costs	Technological know-how	Total
	RMB	*RMB*	*RMB*
Cost			
At 1 January 2005	24,249,090	10,000,000	34,249,090
Addition through internal development	11,535,285	–	11,535,285
At 31 December 2005	35,784,375	10,000,000	45,784,375
Amortisation			
At 1 January 2005	2,068,608	4,333,333	6,401,941
Charge for the year	3,116,075	1,000,000	4,116,075
At 31 December 2005	5,184,683	5,333,333	10,518,016
Net book value			
At 31 December 2005	30,599,692	4,666,667	35,266,359
At 31 December 2004	22,180,482	5,666,667	27,847,149

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"), founder 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 stated as cost less impairment losses (if any) 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

	Buildings held for own use carried at cost	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Leasehold improvement	Properties under construction	Total
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
Cost							
At 1 January 2005	26,047,058	35,855,257	13,801,439	5,024,960	–	44,096,598	124,825,312
Additions	10,525	2,352,859	842,544	223,848	27,000	1,872,128	5,328,904
Transfer	29,226,754	1,729,800	3,576,086	–	–	(34,532,640)	–
Disposals	–	(732,086)	(362,848)	–	–	–	(1,094,934)
At 31 December 2005	55,284,337	39,205,830	17,857,221	5,248,808	27,000	11,436,086	129,059,282
Accumulated Depreciation							
At 1 January 2005	2,522,863	12,665,733	4,881,347	1,273,518	–	–	21,343,461
Charge for the year	1,425,910	5,722,916	2,839,117	613,456	7,559	–	10,608,958
Written back on disposals	–	(625,812)	(246,867)	–	–	–	(872,679)
At 31 December 2005	3,948,773	17,762,837	7,473,597	1,886,974	7,559	–	31,079,740
Net book value							
At 31 December 2005	51,335,564	21,442,993	10,383,624	3,361,834	19,441	11,436,086	97,979,542
At 31 December 2004	23,524,195	23,189,524	8,920,092	3,751,442	–	44,096,598	103,481,851

The buildings are situated on medium-term leasehold land held for own use under operating leases in mainland China, and the amount of RMB51,335,564 (2004: RMB23,524,195) has been pledged.

15. PROPERTY, PLANT AND EQUIPMENT *(continued)*

The Company

	Buildings held for own use carried at cost	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Properties under construction	Total
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
At cost						
As at 1 January 2005	26,047,058	35,855,257	13,801,439	5,024,960	44,096,598	124,825,312
Additions	10,525	2,074,260	697,016	–	1,872,128	4,653,929
Transfer	29,226,754	1,729,800	3,576,086	–	(34,532,640)	–
Inter-company transfer	–	(3,517,878)	(870,425)	–	–	(4,388,303)
Disposals	–	(732,086)	(345,132)	–	–	(1,077,218)
As at 31 December 2005	55,284,337	35,409,353	16,858,984	5,024,960	11,436,086	124,013,720
Accumulated depreciation						
As at 1 January 2005	2,522,863	12,665,733	4,881,347	1,273,518	–	21,343,461
Charge for the year	1,425,910	5,247,570	2,748,223	596,882	–	10,018,585
Inter-company transfer	–	(875,702)	(306,322)	–	–	(1,182,024)
Written back on disposals	–	(625,812)	(245,745)	–	–	(871,557)
As at 31 December 2005	3,948,773	16,411,789	7,077,503	1,870,400	–	29,308,465
Net book value						
As at 31 December 2005	51,335,564	18,997,564	9,781,481	3,154,560	11,436,086	94,705,255
As at 31 December 2004	23,524,195	23,189,524	8,920,092	3,751,442	44,096,598	103,481,851

16. INVESTMENTS IN SUBSIDIARIES

	2005	2004
	RMB	*RMB*
Unlisted shares	**7,897,500**	1,597,500

Particulars of the Company's subsidiaries as at 31 December 2005 are as follows:

Name of subsidiary	**Form of business structure**	**Place of operation and incorporation**	**Issued and fully paid share capital**	**Percentage of equity interest held by the Company**	**Principal activities**
XAHT Antenna Technologies (Hongkong) Limited	Limited company	Hong Kong	1,500,000 ordinary shares of HK$1 each	100%	Trading of base station antennas and related products
Xi'an Haitian Communication System Engineering Co. Ltd.	Limited company	Mainland China	5,000,000 shares of RMB1 each	99%	Design and installation of the antennas and related products
Xi'an Hi-Tech Communication Software Co., Ltd.	Limited company	Mainland China	1,500,000 shares of RMB1 each	90%	Dormant
嘉載通信設備有限公司	Sino-foreign equity joint venture	Mainland China	– *(Note)*	– *(Note)*	Dormant

Note: On 15 November, 2005, the Company, XAHT Antenna Technologies (Hongkong) Limited and Datang Mobile Communications Equipment Co. Ltd. ("Datang Mobile") entered into a joint venture agreement, the details have been outlined in the Circular dated 7 December 2005. Pursuant to the agreement, 嘉載通信設備有限公司 (the "JV Company") was established in mainland China on 30 December 2005 with registered capital of RMB160,000,000. Subsequent to the balance sheet date, on 17 January, 2006, Datang Mobile injected RMB8,400,000 of capital contribution whereas on 18 January, 2006, the Company injected RMB15,600,000 to the JV Company. The capital injection by both Datang Mobile and the Company was confirmed and certified by Yuehua Certified Public Accountants Co., Ltd. Shaanxi Branch on 20 January 2006.

17. INVENTORIES

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB	*RMB*	***RMB***	*RMB*
Raw materials	**9,162,340**	8,392,912	**9,162,340**	8,392,912
Work in progress	**5,351,762**	1,232,510	**2,040,630**	1,232,510
Finished goods	**21,182,583**	15,929,135	**21,182,583**	15,929,135
	35,696,685	25,554,557	**32,385,553**	25,554,557

18. TRADE RECEIVABLES

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 (net of impairment losses for bad and doubtful debts) is as follows:

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB	*RMB*	***RMB***	*RMB*
Aged:				
0 - 60 days	**73,158,574**	58,370,665	**70,057,598**	58,370,665
61 - 120 days	**21,807,846**	24,689,672	**21,412,092**	24,689,672
121 - 180 days	**18,538,087**	11,696,278	**18,538,087**	11,696,278
181 - 240 days	**9,699,794**	20,074,349	**8,549,794**	20,074,349
241 - 365 days	**16,494,814**	16,984,692	**16,494,814**	16,984,692
Over 365 days	**36,173,418**	40,476,644	**36,173,418**	40,476,644
	175,872,533	172,292,300	**171,225,803**	172,292,300
Gross total	**186,441,892**	182,861,659	**181,795,162**	182,861,659
Less: Impairment losses for bad and doubtful debts	**(10,569,359)**	(10,569,359)	**(10,569,359)**	(10,569,359)
	175,872,533	172,292,300	**171,225,803**	172,292,300

19. AMOUNTS DUE FROM DIRECTORS

The Group and the Company

	2005 RMB	2004 RMB
Liang Zhijun	**1,166,589**	404,057
Xiao Bing	**695,651**	302,855
	1,862,240	706,912
Maximum balance during the year		
Liang Zhijun	**1,166,589**	404,057
Xiao Bing	**695,651**	302,855

Mr. Liang Zhijun and Xiao Bing both are the executive directors of the Company.

The amounts represent advances to the directors and cash advances for business operation to the directors. The amounts are unsecured, no interest bearing and no fixed term of repayment.

20. AMOUNTS DUE FROM RELATED PARTIES

Name of related parties	Relationship	Notes	The Group 2005 RMB	The Group 2004 RMB	The Company 2005 RMB	The Company 2004 RMB
陝西海通天綫有限責任公司（「海通天綫」）	Close family member of the company's director is the shareholder and director of 海通天綫	*i & ii*	**371,164**	–	**371,164**	–
西安海天投資控股有限責任公司（「海天投資」）	Common director and shareholder of both companies	*i & iii*	**1,714,800**	–	**1,714,800**	–
Fang Xi	Chief financial officer	*i & iv*	**214,000**	295,000	**214,000**	295,000
Zong Ruiliang	General manager for Research and development Department	*i & v*	**130,000**	–	**130,000**	–
Mei Jie	Minority shareholder of a subsidiary	*i & vi*	**805,756**	–	**–**	–
			3,235,720	295,000	**2,429,964**	295,000

20. AMOUNTS DUE FROM RELATED PARTIES *(continued)*

Maximum balance during the year

Name of related parties	The Group		The Company	
	2005	2004	**2005**	2004
	RMB	*RMB*	***RMB***	*RMB*
陝西海通天綫有限責任公司（「海通天綫」）	**371,164**	–	**371,164**	–
西安海天投資控股有限責任公司（「海天投資」）	**1,714,800**	–	**1,714,800**	–
Fang Xi	**214,000**	295,000	**214,000**	295,000
Zong Ruiliang	**130,000**	–	**130,000**	–
Mei Jie	**805,756**	–	**–**	–

Notes:

i) The amounts are unsecured, no interest bearing and no fixed term of repayment.

ii) The amount included the subcontractor income of RMB360,000, including value add tax (2004: Nil) receivable from 海通天綫. The selling price was determined after arm's length negotiation between the parties concerned.

iii) The amount represents the advance to 海天投資.

iv) The amount included the advance to Mr. Fang of RMB150,000 (2004: RMB150,000) and advance for business operation of RMB64,000 (2004: RMB145,000).

v) The amount represents the advance for business operation.

vi) The amount represents the advance to Mr. Mei.

21. TRADE PAYABLES

The aged analysis of trade payables is as follows:

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB	*RMB*	***RMB***	*RMB*
Aged:				
0 - 60 days	**39,850,104**	16,915,287	**39,758,321**	16,915,287
61 - 120 days	**14,107,757**	6,944,106	**14,107,757**	6,944,106
121 - 365 days	**14,727,264**	4,489,695	**14,727,264**	4,489,695
Over 365 days	**1,244,833**	120,202	**1,244,833**	120,202
	69,929,958	28,469,290	**69,838,175**	28,469,290

22. BANK LOANS

The Group and the Company

	2005	2004
	RMB	*RMB*
Bank loans		
Secured	**91,565,460**	70,000,000
Unsecured	**30,000,000**	90,000,000
Total	**121,565,460**	160,000,000
The bank loans are repayable as follows:		
Within one year	**51,565,460**	90,000,000
More than one year, but not exceeding two years	**50,000,000**	50,000,000
More than two years, but not exceeding five years	**20,000,000**	20,000,000
	121,565,460	160,000,000
Less: Amount repayable within one year shown under current liabilities	**(51,565,460)**	(90,000,000)
	70,000,000	70,000,000

As at 31 December 2005, the above bank loans bore interest at rates ranging from 5.22% to 5.76% per annum.

22. BANK LOANS *(continued)*

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:

	2005	2004
	RMB	*RMB*
Bank deposits	**2,985,226**	8,003,168
Buildings	**51,335,564**	23,524,195
Land lease premium held for own use	**11,615,250**	11,874,270
Trade receivables	**21,565,460**	49,846,701
	87,501,500	93,248,334

23. DEFERRED TAXATION

The Group and the Company

	2005	2004
	RMB	*RMB*
At 1 January 2005	**600,000**	500,000
Deferred taxation charged for the year	**–**	100,000
At 31 December 2005	**600,000**	600,000

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

24. SHARE CAPITAL

Share of RMB0.10 each

	Number of shares		Registered,
	Domestic		issued and
	shares	H shares	fully paid
			RMB
At 31 December 2004 and 2005	485,294,118	161,764,705	64,705,882

25. RESERVES

The Group

	Share premium *RMB*	Statutory surplus reserve *RMB* *(Note 25(a))*	Statutory public welfare fund *RMB* *(Note 25(b))*	Retained profits *RMB*	Total *RMB*
At 1 January 2004	71,228,946	9,503,111	5,174,539	70,310,394	156,216,990
Dividends	–	–	–	(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	71,228,946	9,805,345	5,325,656	81,639,107	167,999,054
Dividends	–	–	–	(9,705,882)	(9,705,882)
Net profit for the year	–	–	–	15,463,137	15,463,137
Transfer	–	407,595	203,797	(611,392)	–
At 31 December 2005	71,228,946	10,212,940	5,529,453	86,784,970	173,756,309

25. RESERVES *(continued)*

The Company

	Share premium *RMB*	Statutory surplus reserve *RMB* *(Note 25(a))*	Statutory public welfare fund *RMB* *(Note 25(b))*	Retained profits *RMB*	Total *RMB*
At 1 January 2004	71,228,946	9,503,111	5,174,539	70,310,394	156,216,990
Dividends	–	–	–	(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	71,228,946	9,805,345	5,325,656	81,646,551	168,006,498
Dividends	–	–	–	(9,705,882)	(9,705,882)
Net profit for the year	–	–	–	15,272,884	15,272,884
Transfer	–	407,595	203,797	(611,392)	–
At 31 December 2005	71,228,946	10,212,940	5,529,453	86,602,161	173,573,500

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.

C) Distributable reserves

In accordance with the Articles of Association of the Company, the reserve available for distribution is the lower of amount determined under accounting principles generally accepted in the Mainland China and the amount determined under the accounting principles generally accepted in Hong Kong. Based on the financial statements of the Company prepared in accordance with the relevant accounting principles and financial regulations applicable to companies established in the Mainland China, the Company's reserves available for distribution to shareholders at 31 December 2005 were RMB53,863,513 (2004: RMB64,938,808).

26. OPERATING LEASE COMMITMENTS

The Group and the Company

At 31 December 2005, the Group had outstanding commitments payable under non-cancellable operating leases in respect of rented premises which fall due as follows:

	2005	2004
	RMB	*RMB*
Within one year	**422,249**	356,794
In the second to fifth year inclusive	**21,630**	150,060
	443,879	506,854

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.

27. CAPITAL COMMITMENTS

The Group and the Company

	2005	2004
	RMB	*RMB*
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	**1,931,870**	4,446,686

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 2004 and 2005, the Group had no significant obligation apart from the contribution as stated above.

29. GOVERNMENT GRANTS

During the year, government grants of RMB1,644,786 (2004: RMB1,282,473) have been received to subsidise the Company for the construction of property, plant and equipment, for upgrading existing production capacity and to encourage export sales in Mainland China. The amounts have been included in other operating income for the year.

During the year, the Company received government grants of RMBNil (2004: RMB1,200,000) and RMB4,750,000 (2004: RMB2,100,000) for 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 2005, the development and industrialisation of antenna for the 3G and TD-SCDMA mobile communication included as other payables are RMB551,457 (2004: RMB683,000) and RMB2,412,902 (2004: RMB886,532) respectively. The amount will be recognised in the income statement as revenue on a systematic basis over the useful live of plant and equipment acquired under these projects.

During the year, the Company received government grants of RMB8,000,000 for improvement of the technology of base station antennas. Certain plant and equipment are acquired under this project. The remaining amount of RMB4,567,314 included as other payables will be recognised in the income statement as revenue on a systematic basis over the useful live of the assets.

During the year, the Company received government grants of RMB360,000 for the development of export mobile telecommunication products, the development project was completed and the grant has recognised in the income statement to set off the expenses incurred for this project.

30. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with current year's presentation.

Financial Summary

	Year ended 31 December				
	2001	2002	2003	2004	**2005**
	RMB	*RMB*	*RMB*	*RMB*	***RMB***
RESULTS					
Turnover	74,905,651	164,525,831	226,731,785	200,999,236	**176,889,046**
Profit before taxation	19,615,594	44,561,815	53,526,916	17,096,606	**16,004,066**
Income tax expense	–	(8,168,467)	(10,518,081)	(2,079,248)	**(611,391)**
Net profit for the year	19,615,594	36,393,348	43,008,835	15,017,358	**15,392,675**

	As at 31 December				
	2001	2002	2003	2004	**2005**
	RMB	*RMB*	*RMB*	*RMB*	***RMB***
ASSETS AND LIABILITIES					
Total assets	134,357,184	247,549,634	446,648,882	477,089,046	**469,291,553**
Total liabilities	(63,771,323)	(155,570,425)	(225,726,010)	(244,384,110)	**(230,699,824)**
Shareholders' funds	70,585,861	91,979,209	220,922,872	232,704,936	**238,591,729**

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