



西安海天天线科技股份有限公司  
Xi'an Haitian Antenna Technologies Co., Ltd.\*  
*(a joint stock limited company incorporated in the People's Republic of China)*  
(Stock Code : 8227)

# INTERIM REPORT 2006

\* for identification purposes only

## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (THE “GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

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

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

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

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*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 the GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this 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

## HIGHLIGHTS

- During the three months ended 30 June 2006, the Group recorded an unaudited net loss of approximately RMB9.84 million, representing a decrease of approximately 1,158.1% as compared to the net profit of approximately RMB0.93 million for the corresponding period in year 2005. During the six months ended 30 June 2006, the Group recorded an unaudited net loss of approximately RMB18.85 million, representing an increase of approximately 99.7% as compared to the net loss of approximately RMB9.44 million for the corresponding period in the year 2005.
- The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2006.

**INTERIM RESULT FOR THE SIX MONTHS ENDED 30 JUNE 2006**

The board (the "Board") of Directors hereby submits the unaudited operating results of the Company and its subsidiaries (collectively, the "Group") for the three months and six months ended 30 June 2006, together with the unaudited comparative figures for the corresponding period in the year 2005 as follows:

**Condensed Consolidated Income Statements**

	Notes	(Unaudited) For the three months ended 30 June		(Unaudited) For the six months ended 30 June	
		2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Turnover	3	<b>39,595</b>	41,706	<b>67,454</b>	64,207
Cost of sales		<b>(30,864)</b>	(23,162)	<b>(49,082)</b>	(34,983)
Gross profit		<b>8,731</b>	18,544	<b>18,372</b>	29,224
Other operating income		<b>122</b>	68	<b>415</b>	267
Distribution costs		<b>(6,153)</b>	(8,798)	<b>(14,444)</b>	(18,703)
Administrative expenses		<b>(7,867)</b>	(4,375)	<b>(14,968)</b>	(9,435)
Other operating expenses		<b>(4,040)</b>	(2,209)	<b>(7,815)</b>	(6,431)
Profit (loss) from operations	5	<b>(9,207)</b>	3,230	<b>(18,440)</b>	(5,078)
Finance costs		<b>(1,410)</b>	(2,270)	<b>(2,645)</b>	(4,329)
Profit (loss) before taxation		<b>(10,617)</b>	960	<b>(21,085)</b>	(9,407)
Income tax credit	6	<b>-</b>	-	<b>525</b>	-
Profit (loss) before minority interests		<b>(10,617)</b>	960	<b>(20,560)</b>	(9,407)
Minority interests		<b>780</b>	(30)	<b>1,707</b>	(30)
Net profit (loss) for the period		<b>(9,837)</b>	930	<b>(18,853)</b>	(9,437)
Dividend	7	<b>-</b>	9,706	<b>-</b>	9,706
Basic earning (loss) per share (in RMB cents)	8	<b>(1.52)</b>	0.14	<b>(2.91)</b>	(1.46)

**Condensed Consolidated Balance Sheet**

	Notes	<b>As at 30 June 2006 RMB'000 (unaudited)</b>	<b>As at 31 December 2005 RMB'000 (audited)</b>
<b>NON-CURRENT ASSETS</b>			
Interests in leasehold land held for own use under operating leases		<b>11,486</b>	11,615
Intangible assets		<b>91,756</b>	35,266
Property, plant and equipment	9	<b>109,955</b>	97,980
Other financial asset		<b>280</b>	280
Pledged bank deposits		<b>817</b>	796
		<b>214,294</b>	145,937
<b>CURRENT ASSETS</b>			
Inventories		<b>51,146</b>	35,697
Trade receivables	10	<b>165,394</b>	175,873
Bills receivable		<b>1,562</b>	1,120
Other receivables and prepayments		<b>16,837</b>	12,129
Amounts due from directors		<b>1,520</b>	1,862
Amounts due from related parties		<b>1,876</b>	3,236
Pledged bank deposits		<b>894</b>	2,189
Bank balances and cash		<b>89,253</b>	91,249
		<b>328,482</b>	323,355
<b>CURRENT LIABILITIES</b>			
Trade payables	11	<b>77,371</b>	69,930
Bills payable		<b>–</b>	10,632
Other payables and accrued charges		<b>49,210</b>	17,531
Taxation		<b>3,957</b>	7,439
Dividend payables		<b>2,931</b>	3,003
Bank loans – due within one year		<b>162,675</b>	51,565
		<b>296,144</b>	160,100
<b>NET CURRENT ASSETS</b>		<b>32,338</b>	163,255
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>246,632</b>	309,192
<b>NON-CURRENT LIABILITIES</b>			
Bank loans – due after one year		<b>–</b>	70,000
Deferred taxation		<b>600</b>	600
		<b>600</b>	70,600
<b>NET ASSETS</b>		<b>246,032</b>	238,592
<b>CAPITAL AND RESERVES</b>			
Share capital		<b>64,706</b>	64,706
Reserves		<b>154,903</b>	173,756
<b>TOTAL EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY</b>		<b>219,609</b>	238,462
<b>MINORITY INTERESTS</b>		<b>26,423</b>	130
<b>TOTAL EQUITY</b>		<b>246,032</b>	238,592

**Condensed Consolidated Statement of Changes In Equity***For the six months ended 30 June 2006*

	Share capital	Share premium	Statutory surplus reserve	Statutory public welfare fund	Retained profits	Total	Minority interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
At 1 January 2005	64,706	71,229	9,805	5,326	81,639	232,705	-	232,705
Minority interests	-	-	-	-	-	-	200	200
Net loss for the period	-	-	-	-	(9,437)	(9,437)	30	(9,407)
<b>At 30 June 2005</b>	<b>64,706</b>	<b>71,229</b>	<b>9,805</b>	<b>5,326</b>	<b>72,202</b>	<b>223,268</b>	<b>230</b>	<b>223,498</b>
At 1 January 2006	64,706	71,229	10,213	5,529	86,785	238,462	130	238,592
Minority interests	-	-	-	-	-	-	28,000	28,000
Net loss for the period	-	-	-	-	(18,853)	(18,853)	(1,707)	(20,560)
<b>At 30 June 2006</b>	<b>64,706</b>	<b>71,229</b>	<b>10,213</b>	<b>5,529</b>	<b>67,932</b>	<b>219,609</b>	<b>26,423</b>	<b>246,032</b>

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

	<b>2006</b> <b>RMB'000</b> <b>(unaudited)</b>	2005 RMB'000 (unaudited)
Net cash generated from (used in) operating activities:	<b>11,134</b>	(13,493)
Net cash used in investing activities		
Purchase of intangible asset	<b>(60,855)</b>	–
Purchase of property, plant and equipment	<b>(17,256)</b>	(3,617)
Other investing cash flows	<b>(1,412)</b>	62
Proceeds from disposal of property, plant and equipment	–	89
	<b>(79,523)</b>	(3,466)
Net cash generated from (used in) financing activities:		
New borrowings raised	<b>118,565</b>	–
Proceeds from share capital contributed by a minority shareholder	<b>28,000</b>	–
Repayment of borrowings	<b>(77,455)</b>	(5,368)
Other financing cash flows	<b>(2,717)</b>	200
	<b>66,393</b>	(5,168)
Net decrease in cash and cash equivalents	<b>(1,996)</b>	(22,127)
Cash and cash equivalents at 1 January	<b>91,249</b>	107,614
Cash and cash equivalents at 30 June represented by bank balances and cash	<b>89,253</b>	85,487

## Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2006

### 1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Company and its subsidiaries (the "Group") are principally engaged in research and development, manufacture and sale of base station antenna and related products.

This unaudited condensed consolidated financial information has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

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

### 2. ACCOUNTING POLICIES

The accounting policies and methods of computation used in the preparation of this condensed consolidated financial information are consistent with those used in the annual financial statements for the year ended 31 December 2005.

### 3. TURNOVER

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

Turnover breakdown by nature of revenue:

	For the three months ended 30 June		For the six months ended 30 June	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Sales of goods	<b>38,686</b>	40,724	<b>63,109</b>	61,387
Service income	<b>909</b>	982	<b>4,345</b>	2,820
	<b>39,595</b>	41,706	<b>67,454</b>	64,207



#### 4. SEGMENT INFORMATION

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

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

	For the six months ended 30 June 2006			For the six months ended 30 June 2005		
	The People's Republic of China (the "PRC") RMB'000	Other countries RMB'000	Consolidated RMB'000	The PRC RMB'000	Other countries RMB'000	Consolidated RMB'000
Revenue	51,739	15,715	67,454	57,257	6,950	64,207
Segment result	(5,775)	4,311	(1,464)	5,760	1,825	7,584
Unallocated corporate expenses			(17,045)			(12,870)
Interest income			69			208
Finance costs			(2,645)			(4,329)
Loss before taxation			(21,085)			(9,407)
Income tax credit			525			-
Loss before minority interests			(20,560)			(9,407)

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

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

**5. PROFIT (LOSS) FROM OPERATIONS**

	For the three months ended 30 June		For the six months ended 30 June	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Profit (loss) from operations has been arrived at after charging:				
Directors' and supervisors' remuneration	377	277	697	716
Other staff costs	3,828	5,456	8,336	10,749
Retirement benefit scheme contributions (excluding those of directors and supervisors)	670	302	941	600
<b>Total staff costs</b>	<b>4,875</b>	<b>6,035</b>	<b>9,974</b>	<b>12,065</b>
Less: Staff costs included in research and development costs	(297)	(644)	(727)	(1,455)
Staff costs capitalized in development costs	(405)	(958)	(935)	(1,858)
	<b>4,173</b>	<b>4,433</b>	<b>8,312</b>	<b>8,752</b>
Auditors' remuneration				
– Audit services	120	113	166	236
– Other services	20	4	12	31
Cost of inventories recognised in the income statement	28,943	20,611	43,620	31,107
Depreciation and amortisation of property, plant and equipment	2,660	2,685	5,156	5,085
Less: Depreciation and amortisation included in research and development costs	(159)	(412)	(494)	(845)
Depreciation and amortisation capitalized in development costs	(562)	(591)	(1,271)	(1,026)
	<b>1,939</b>	<b>1,682</b>	<b>3,391</b>	<b>3,214</b>
Amortisation of development cost (included in other operating expenses)	1,376	735	3,240	1,429
Amortisation of technological know-how (included in other operating expenses)	1,940	250	3,881	500
Amortisation of land use right (included in administrative expenses)	65	65	130	130
<b>Total depreciation and amortisation</b>	<b>5,320</b>	<b>2,732</b>	<b>10,642</b>	<b>5,273</b>
Loss on disposal of property, plant and equipment	3	5	3	5
Research and development costs	2,027	4,453	4,542	9,174
Less: Development costs capitalized	(1,248)	(2,623)	(2,755)	(4,989)
	<b>779</b>	<b>1,830</b>	<b>1,787</b>	<b>4,185</b>
Interest expenses	1,410	2,270	2,645	4,329
and after crediting:				
Interest income	23	50	69	208

**6. INCOME TAX CREDIT**

The amount represented the reversal of over-provision for the Enterprise Income Tax ("EIT") on the Group's estimated assessable profit for the year 2005.

On 10 March 2006, the Company was granted the exemption from EIT for the first two profitable years of operations (i.e. for the years ended 31 December 2005 and 2006) and 50% reduction on the EIT for the following three years.

**7. DIVIDEND**

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2006 (2005: RMB0.015 per share).

**8. BASIC EARNING (LOSS) PER SHARE**

The calculation of the basic earning (loss) per share is based on the unaudited net loss for the three months and six months ended 30 June 2006 of approximately RMB9,837,000, and RMB18,853,000 respectively (three months and six months ended 30 June 2005: net profit of approximately RMB930,000 and net loss of approximately RMB9,437,000 respectively) divided by 647,058,824 shares in issue (2005: 647,058,824 shares).

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

**9. PROPERTY, PLANT AND EQUIPMENT**

During the period, the Group spent approximately RMB17.3 million (2005: RMB3.6 million) on acquisition of property, plant and equipment.

**10. TRADE RECEIVABLES**

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

Age	<b>As at 30 June 2006 RMB'000</b>	<b>As at 31 December 2005 RMB'000</b>
0 to 60 days	<b>33,921</b>	73,159
61 to 120 days	<b>18,375</b>	21,808
121 to 180 days	<b>8,333</b>	18,538
181 to 240 days	<b>30,690</b>	9,700
241 to 365 days	<b>20,392</b>	16,495
Over 365 days	<b>64,252</b>	46,742
	<b>175,963</b>	186,442
Less: Allowance for doubtful debts	<b>(10,569)</b>	(10,569)
	<b>165,394</b>	175,873

The Directors consider that the carrying amount of the trade receivables approximates their fair value.

**11. TRADE PAYABLES**

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

	<b>As at 30 June 2006 RMB'000</b>	As at 31 December 2005 RMB'000
Age		
0 to 60 days	<b>40,525</b>	39,850
61 to 120 days	<b>5,038</b>	14,108
121 to 365 days	<b>28,266</b>	14,727
Over 365 days	<b>3,542</b>	1,245
	<b>77,371</b>	69,930

The Directors consider that the carrying amount of the trade payables approximates their fair value.

**12. CAPITAL COMMITMENTS**

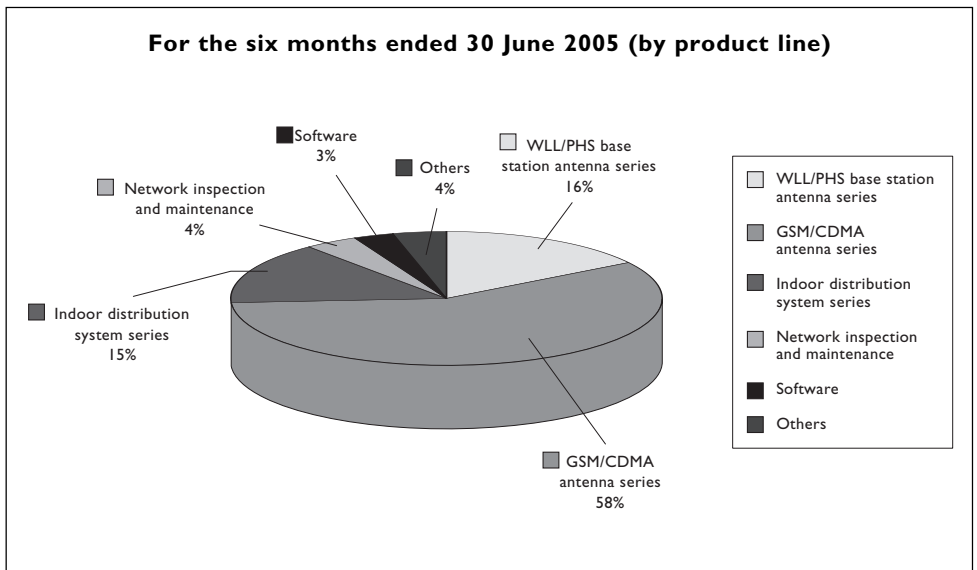
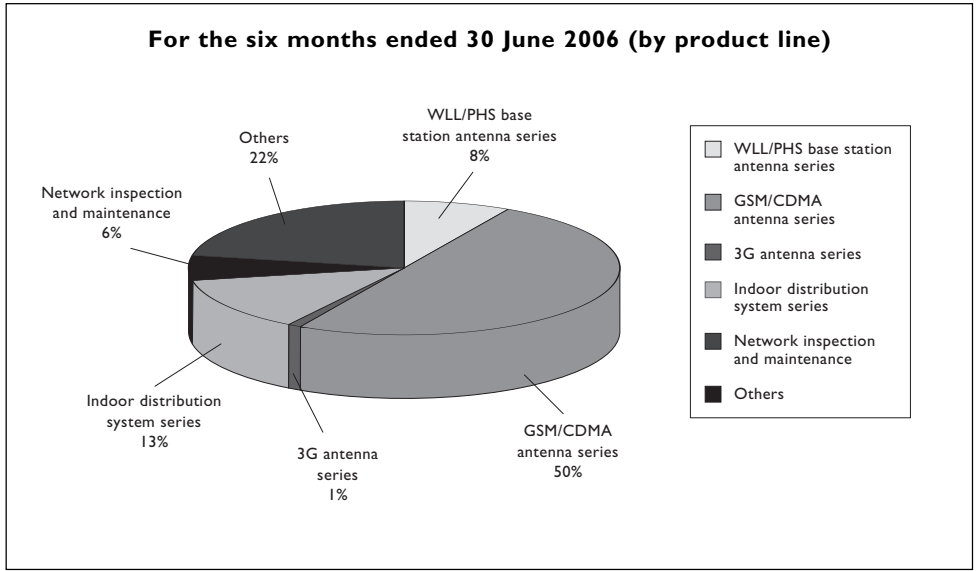
	<b>As at 30 June 2006 RMB'000</b>	As at 31 December 2005 RMB'000
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	<b>929</b>	1,932

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

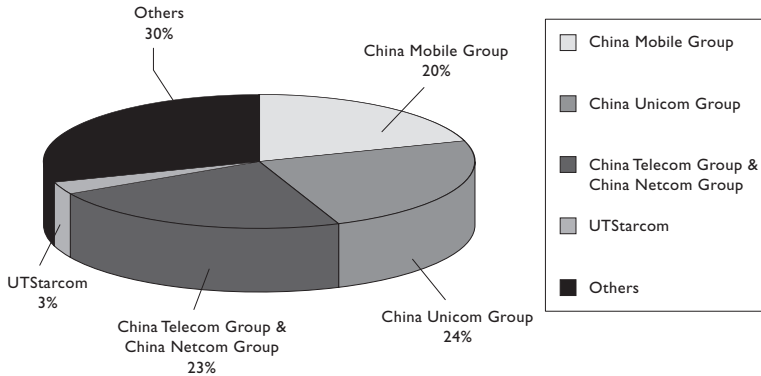
The Group recorded an unaudited turnover of approximately RMB39.6 million and RMB67.5 million for the three months and six months ended 30 June 2006 respectively, representing a decrease of approximately 5.0% and an increase of approximately 5.1% compared with the unaudited turnover for the corresponding period in the year 2005. The increase was mainly resulted from the strategical focus of the Group on developing international markets which in turns become an expanding income source and contribute to broadened customer base. However, the increase was partly offset by the decrease in sales in domestic market due to conservative atmosphere in the wireless telecommunications industry in PRC and uncertainty over 3G licences. Although percentage of total sales of GSM/CDMA antenna series product decreased from approximately 58.0% for the corresponding period in the year 2005 to approximately 50.0% for the six months ended 30 June 2006, the product line remained as the major revenue contributor of the Group; while revenue generated from other antenna series grew by 481.3% and accounted for approximately 4.0% of the Group's revenue in the corresponding period in 2005, compared to 22.0% in 2006 . In addition, turnover from 3G antenna series represented approximately 1.0% of total sales of the Group.

Composite of sales by product line for the six months ended 30 June 2006, together with the comparative figures for the corresponding period in the year 2005, are provided as follows:

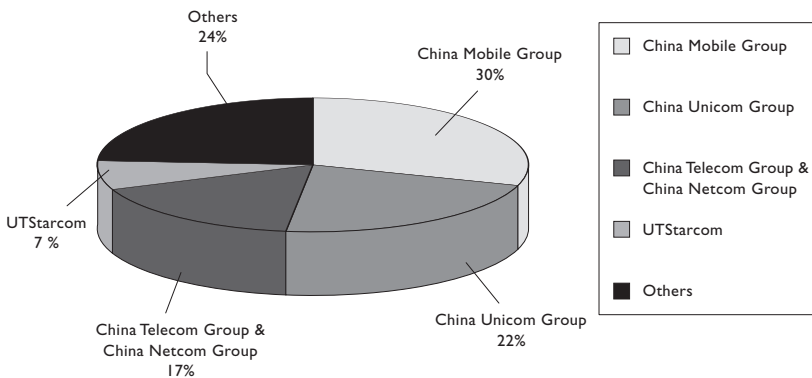


Composite of turnover by major customers for the six months ended 30 June 2006, together with the comparative figures for the corresponding period in the year 2005, are provided as follows:

**For the six months ended 30 June 2006 (by major customers)**



**For the six months ended 30 June 2005 (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**

During the six months ended 30 June 2006, unaudited gross profit amounted to approximately RMB18.4 million, gross profit margin was approximately 27.3%, represented a material decrease when compared to the gross profit margin of 45.5% for the corresponding period in the year 2005. The decrease was mainly due to (1) intense price pressure – major customers including China Mobile Group adopted the practice of central procurement of products which directly exert pressure on selling price; and (2) rising material prices including copper and oil over the period further deteriorated the situation.

**Operating Costs and Expenses**

Distribution costs for the six months ended 30 June 2006 amounted to approximately RMB14.4 million, representing a decrease of approximately RMB4.3 million or approximately 23.0% comparing with the corresponding period in the year 2005. The decrease was mainly due to the Group’s effort in streamlining the sales and marketing team and its operation which lead to a general decrease in distribution costs.

Administrative expenses had increased by RMB5.6 million or 59.6%, amounting to approximately RMB15.0 million comparing with the corresponding period in the year 2005. The increase is mainly due to the increased number of subsidiaries which contribute to a general increase in administrative expenses especially for payroll and professional fee.

Other operating expenses amounted to approximately RMB7.8 million, representing an increase of approximately RMB1.4 million or 21.9% comparing with the corresponding period in the year 2005. The increase was mainly resulted from the amortization of capitalized research and development cost and amortization of intangible assets.



Finance costs amounted to approximately RMB2.6 million, representing a decrease of approximately RMB1.7 million or 39.5% comparing with the corresponding period in the year 2005. The decrease was mainly due to decrease in average monthly bank loan balance during the current period when compared with the corresponding period in the year 2005.

Consequently, during the three months ended 30 June 2006, the Group recorded an unaudited net loss of approximately RMB9.84 million, representing a decrease of approximately 1,158.1% as compared to the net profit of approximately RMB0.93 million for the corresponding period in year 2005. During the six months ended 30 June 2006, the Group recorded an unaudited net loss of approximately RMB18.85 million, representing an increase of approximately 99.7% as compared to the net loss of approximately RMB9.44 million for the corresponding period in the year 2005.

## **PROSPECTS**

The Directors still remain optimistic about the tremendous opportunities that 3G will bring to the development of the Group and the Group will continue its focus on developing TD-SCDMA related products as well as other new items in order to enhance its product portfolio.

The Group's strategy in developing international markets gradually started contributing to its revenue and the Directors believe that export sales will become an increasing and stable income stream of the Group.

Facing with pressure on declining profit margin, the Group will focus on improving operating efficiency and to adopt various cost saving measures so as to ensure improvement in operating results of the Group.

## **LIQUIDITY AND FINANCIAL RESOURCES**

During the reporting period, the Group was mainly financed by cash flow from business operations and banking facilities.

The Group's short-term bank borrowings increased from approximately RMB51.6 million to approximately RMB162.7 million which represented total bank borrowings of the Group as at 30 June 2006. These bank borrowings were mainly used for the Group's daily operation and acquisition of fixed assets.

As at 30 June 2006, all of the Group's bank borrowings bear interest at fixed interest rates ranging from 5.4% to 7.6% per annum. Since all the bank borrowings were denominated in Renminbi, exposure to foreign exchange risk was minimal.

During the reporting period, the Group's gearing ratio increased to 66.1% (as at 31 December 2005: 51.0%), which is calculated based on total bank borrowings of approximately RMB162.7 million over total shareholders' funds of approximately RMB246.0 million. Cash and cash equivalents decreased from approximately RMB91.2 million to RMB89.3 million. Most of the Group's bank deposits were deposited with banks as short-term deposits and denominated in either Hong Kong dollars or Renminbi, which are directly related to the Group's business in the areas of the currencies concerned.

## **CHARGES ON GROUP'S ASSETS**

As at 30 June 2006, the Company pledged bank deposits with a total amount of approximately RMB1.7 million, buildings of net book value of approximately RMB50.5 million, land use right of net book value of approximately RMB11.5 million and trade receivables of approximately RMB37.8 million for banking facilities.

## **CONTINGENT LIABILITIES**

As at 30 June 2006, the Group and the Company did not have any material contingent liabilities.

## **FOREIGN EXCHANGE EXPOSURE**

For the period ended 30 June 2006, the Group was not exposed to any significant foreign exchange risk as majority of the Group's transactions were denominated in Renminbi. Hence, no financial instrument for hedging was employed.

## **EMPLOYEES AND REMUNERATION POLICY**

As at 30 June 2006, the Group had approximately 544 full-time employees. Total staff costs for the six months ended 30 June 2006 amounting to approximately RMB10.0 million (six months ended 30 June 2005: RMB12 million), including remuneration of the Directors and members of supervisory committee (the "Supervisors") and staff costs included in research and development costs and capitalized. The Group reviews employee remuneration from time to time and increases are normally granted annually or by special adjustment depending on length of service and performance when warranted. In addition to salaries, the 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 on the financial performance of the Group. The Group has not granted any share options to the Directors and its full-time employees.

## SIGNIFICANT INVESTMENT HELD

During the six months ended 30 June 2006 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 30 June 2006, 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 RMB0.9 million (as at 31 December 2005: RMB2 million). Save as disclosed herein the Group did not have other plans for material investment.

## MATERIAL ACQUISITIONS AND DISPOSALS

During the six months ended 30 June 2006, the Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies.

## 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 30 June 2006, 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 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 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 西安天安投资有限公司 (Xi'an Tian An Investment Company Limited\*, "Tian An Investment"), which is beneficially owned as to 60% by Mr. Xiao Bing and 40% by Ms. Yao Wenli. By virtue of the SFO, Mr. Xiao Bing was deemed to be interested in the same 180,000,000 Domestic Shares held by Tian An Investment.

Other than as disclosed above, none of the Directors, Supervisors and chief executive of the Company 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 30 June 2006 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 30 June 2006, 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 30 June 2006, 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 Domestic Shares of the Company*

<b>Name of shareholder</b>	<b>Type of interest</b>	<b>Capacity</b>	<b>Number of Domestic Shares held in the Company</b>	<b>Approximate percentage in the total issued Domestic Shares of the Company</b>	<b>Approximate percentage in the total issued share capital of the Company</b>
<b>Domestic Shares</b>					
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%

**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 Domestic Shares of the Company***

Name of substantial shareholder	Type of interest	Capacity	Number of 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 H Shares of the Company**

Name of shareholder	Type of interest	Capacity	Number of 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
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%
宋穎女士	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 30 June 2006, 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.

## **COMPETING INTERESTS**

None of the Directors, the Supervisors or the management shareholders of the Company (as defined in the GEM Listing Rules) or their respective associates had an interest in any business which competes or may compete, directly or indirectly, with the business of the Group nor any conflicts of interest with the Group.

## **AUDIT COMMITTEE**

An audit committee of the Company (the "Audit Committee") was established on 4 April 2003 with terms of reference in compliance with the GEM Listing Rules. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control systems of the Group. As at 30 June 2006, the Audit Committee comprised of Mr. Wang Pengcheng and Professor Gong Shuxi, independent non-executive Directors, and Mr. Li Wenqi, a non-executive Director. The Group's unaudited consolidated results for the six months ended 30 June 2006 have been reviewed by the Audit Committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

## **CODE ON CORPORATE GOVERNANCE PRACTICES**

For the six months ended 30 June 2006, the Company has complied with the requirements of the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules.

## **CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS**

During the six months ended 30 June 2006, the Company has adopted a code of conduct for securities transactions by Directors (the "Code"), which is no less exacting than the required standard of dealings of securities by Directors as set out in Rule 5.48 to 5.67 of the GEM Listing Rules. In addition, the Company has made specific inquiry with all the Directors, and has not been notified of any noncompliance with the standard of dealings of securities by Directors and the Code.



## **PURCHASE, SALE OR REDEMPTION OF SHARES**

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2006.

By order of the Board

**Xiao Bing**

Chairman

Xi'an, the PRC, 11 August 2006

*As at the date of this report, the Board comprises 肖兵先生 (Mr. Xiao Bing), 梁志軍先生 (Mr. Liang Zhijun) and 周天游先生 (Mr. Zhou Tianyou) being executive Directors; 王科先生 (Mr. Wang Ke), 劉永強先生 (Mr. Liu Yongqiang), 王全福先生 (Mr. Wang Quanfu), 王京女士 (Ms. Wang Jing) and 李文琦先生 (Mr. Li Wenqi) being non-executive Directors; and 龔書喜教授 (Professor. Gong Shuxi), 王鵬程先生 (Mr. Wang Pengcheng) and 強文郁先生 (Mr. Qiang Wenyu) being independent non-executive Directors.*