THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

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)

MAJOR AND CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTION

Financial Adviser to the Company

VXL FINANCIAL SERVICES LIMITED
卓越企业融资有限公司

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

KGI CAPITAL ASIA LIMITED

A notice convening the extraordinary general meeting of Xi'an Haitian Antenna Technologies Co., Ltd., to be held at the Conference Room of the Company, No. 36 Gao Xin Liu Road, Xi'an National Hi-tech Industrial Development Zone, Xi'an, Shaanxi Province, the People's Republic of China (the "**PRC**") on Friday, 24 November 2006 at 2:00 p.m. is set out on pages 90 to 91 of this circular. Whether or not you are able to attend the extraordinary general meeting, please complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the Company's H share registrar at Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (for H shares) or the Company's head office at No.36, Gao Xin Liu Road, Xi'an National Hi-tech Industrial Development Zone, Xi'an, Shaanxi Province, the PRC, Postal Code 710075 (for domestic shares) as soon as possible and in any event not less than 48 hours before the time appointed for holding the extraordinary general meeting or any adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting at the extraordinary general meeting or any adjourned meeting (as the case may be) should you so wish.

This circular will remain on the GEM website at www.hkgem.com on the "Latest Company Announcements" page for at least seven days from the date of its posting.

3 October 2006

* *for identification purpose only*

CHARACTERISTICS OF GEM

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 of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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

CONTENTS

In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:

"Board"	the board of Directors
"BOM"	bill of materials, a complete list encompassing direct and indirect detailed material costs, labour costs, overhead costs, gross margin and total product costs for each product, together with tooling costs, and any other applicable costs associated with a product
"Business Day"	9:00 – 17:00 of any day except (i) Saturday and Sunday (unless prescribed otherwise by the PRC government); or (ii) any other statutory holidays in the PRC
"Company"	Xi'an Haitian Antenna Technologies Co., Ltd., a joint stock limited company incorporated in the PRC and the H shares of which are listed on GEM of the Stock Exchange
"Datang Mobile"	大唐移動通訊設備有限公司 (Datang Mobile Communication Equipment Co. Ltd.), established in the PRC in February 2002, is in possession of the core technology for TD-SCDMA development and is proposed to be engaged in the provision of 3G mobile communication equipment in the PRC. It is a core member of Datang Telecom
"Datang Telecom"	大唐電信科技產業集團 (Datang Telecom Technology and Industry Group), a large high-tech industry group of companies focusing on the research and development, production and sale of telecommunications equipment. Its members include Datang Mobile and 大唐電信科技股份有限公司 (Datang Telecom Technology Co., Ltd.), which is a limited liability company established in the PRC with its shares listed on the Shanghai Stock Exchange and whose principal business includes the development, production and sale of communications equipment and the provision of related technical services
"Director(s)"	the director(s) of the Company
"Domestic Shares"	ordinary shares in the share capital of the Company, with a nominal value of RMB0.10 each, which are subscribed for in Renminbi

"EGM"	an extraordinary general meeting of the Company to be convened on Friday at 24 November 2006 at 2:00 p.m., for approving, inter alia, the TD-SCDMA Technology Licence Agreement and the Manufacture Agreement and the annual caps associated to the Manufacture Agreement
"GEM"	the Growth Enterprise Market of the Stock Exchange
"GEM Listing Rules"	the Rules Governing the Listing of Securities on GEM
"Group"	the Company and its subsidiaries
"H Shares"	overseas-listed foreign shares in the share capital of the Company, with a nominal value of RMB0.10 each, which are listed on GEM and subscribed for and traded in Hong Kong dollars
"Haitian HK"	XAHT Antenna (Hong Kong) Limited, a wholly owned subsidiary of the Company
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	a committee of the Board comprising the independent non-executive Directors who are not interested in the Transactions
"Independent Shareholders"	Shareholders other than Datang Mobile and parties acting in concert with it, and its associates
"Independent Third Party(ies)"	independent third party(ies) which is (are) not connected person(s) of the Company (as defined in the GEM Listing Rules)
"Intelligent Antenna Technology Licence Agreement"	the technology licence agreement dated 30 December 2005 entered into between the Company and the Joint Venture Company
"Jiefang"	西安解放集團股份有限公司 (Xi'an Jiefang Group Joint Stock Co., Ltd.), a limited liability company established in the PRC, a substantial shareholder of the Company interested in 100,000,000 Shares, representing approximately 15.45% of the Company's issued share capital

"Joint Venture Agreement"	a sino-foreign equity joint venture agreement dated 15 November 2005 entered into between the Company, Haitian HK and Datang Mobile, pursuant to which the Company, Haitian HK and Datang Mobile agreed to establish the Joint Venture Company
"Joint Venture Company"	the joint venture company established in the PRC on 30 December 2005 pursuant to the Joint Venture Agreement
"KGI"	KGI Capital Asia Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders as regards the Transactions and the annual cap for the Manufacture Agreement, a licensed corporation under the SFO to carry out types 1 (Dealing in securities), 4 (Advising on securities) and 6 (Advising on corporate finance) regulated activities
"Latest Practicable Date"	29 September 2006, being the latest practicable date for ascertaining certain information contained in this circular
"Licence Rights"	The licence rights granted by Datang mobile to the Joint Venture Company pursuant to the TD-SCDMA Technology Licence Agreement
"Manufacture Agreement"	the manufacture agreement dated 30 December 2005 entered into between the Joint Venture Company and Datang Mobile
"PRC"	the People's Republic of China
"Products"	the TD-SCDMA mini-cellular base stations to be manufactured by the Joint Venture Company pursuant to the Manufacture Agreement
"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	ordinary share(s) of RMB0.10 each in the share capital of the Company
"Shareholders"	the holders of shares of the Company

"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Supervisor(s)"	the supervisor(s) of the Company
"TD-SCDMA"	Time Division Synchronous Code Division Multiple Access, one of the three recognized standards for 3G technology in the world
"TD-SCDMA Technology Licence Agreement"	the technology licence agreement dated 30 December 2005 entered into between the Joint Venture Company and Datang Mobile
"Tian An"	西安天安投資有限公司(Xi'an Tian An Investment Company Ltd.), a limited liability company established in the PRC, a substantial shareholder of the Company interested in 180,000,000 Shares, representing approximately 27.81% of the Company's issued share capital
"Transactions"	the entering of the TD-SCDMA Technology Licence Agreement and the Manufacture Agreement with Datang Mobile by the Joint Venture Company
"Transaction Date"	30 December 2005, being the date of the TD-SCDMA Technology Licence Agreement and the Manufacture Agreement
"XITIC"	西安國際信託投資有限公司 (Xi'an International Trust & Investment Co., Ltd.), a limited liability company established in the PRC, a substantial Shareholder of the Company interested in 70,151,471 Shares, representing approximately 10.84% of the Company's issued share capital

For the purpose of illustration only, RMB to HK$ is translated at a rate of RMB1.04 = HK$1.00. No representation is made that any amounts in RMB could have been or could be converted at such rate or any other rates or at all.

西安海天天綫科技股份有限公司
XI'AN HAITIAN ANTENNA TECHNOLOGIES CO., LTD.*

(A joint stock limited company incorporated in the People's Republic of China)
(Stock Code: 8227)

Executive Directors:
Mr. Xiao Bing (肖兵先生)
Mr. Liang Zhijun (梁志軍先生)
Mr. Zhou Tianyou (周天游先生)

Non-executive Directors:
Mr. Wang Ke (王科先生)
Mr. Liu Yongqiang (劉永強先生)
Mr. Wang Quanfu (王全福先生)
Ms. Wang Jing (王京女士)
Mr. Li Wenqi (李文琦先生)

Independent non-executive Directors:
Professor. Gong Shuxi (龔書喜教授)
Mr. Wang Pengcheng (王鵬程先生)
Mr. Qiang Wenyu (強文郁先生)

Registered address:
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, 31st Floor
Office Tower, Convention Plaza
1 Harbour Road
Wanchai, Hong Kong

3 October 2006

To the Shareholders,

Dear Sir or Madam,

**MAJOR AND CONNECTED TRANSACTION
AND
CONTINUING CONNECTED TRANSACTION**

INTRODUCTION

Reference is made to the announcement of the Company dated 16 November 2005 and 23 August 2006. The Board wishes to announce that, on 30 December 2005, the Joint Venture Company has entered into the TD-SCDMA Technology Licence Agreement and the Manufacture Agreement with Datang Mobile. The Company has on the same date entered into the Intelligent Antenna Technology Licence Agreement with the Joint Venture Company.

* *For identification purpose only*

The Independent Board Committee has been established to advise the Independent Shareholders on whether the Transactions and the annual cap for the Manufacture Agreement are fair and reasonable and in the interest of the Company and the Shareholders as a whole. In this respect, KGI has been appointed as the independent financial adviser to advise the Independent Board Committee as to whether the terms of the Transactions and the annual cap for the Manufacture Agreement are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

The purpose of this circular is to provide you with details of the Transactions and the annual cap for the Manufacture Agreement, the recommendation of the Independent Board Committee, the advice from KGI to the Independent Board Committee and the Independent Shareholders in relation to the Transactions and the annual cap for the Manufacture Agreement and to give you notice of the EGM to be convened for the purpose of considering and, if thought fit, approving the Transactions and the annual cap for the Manufacture Agreement by way of poll.

THE AGREEMENTS

The TD-SCDMA Technology Licence Agreement

The principal terms of the TD-SCDMA Technology Licence Agreement are as follows:

Date : 30 December 2005

Parties : (i) Datang Mobile; and
(ii) the Joint Venture Company

Datang Mobile is a non wholly-owned subsidiary of Datang Telecom, a state-owned enterprise in the PRC. To the best of the knowledge, information and belief of the Directors having made all reasonable enquiry, each of the other shareholders of Datang Mobile and where such other shareholders of Datang Mobile are corporations, whose respective ultimate beneficial owners are Independent Third Parties.

Licence rights : Datang Mobile agreed to grant the non-exclusive licence to the Joint Venture Company for using its self-developed TD-SCDMA mini-cellular base station technology for manufacturing and sale of the Products in accordance with the Manufacture Agreement.

As at 30 June 2006, being the latest financial period end date of the Company for which financial results has been published, the net book value of the licence rights was approximately RMB57.47 million (equivalent to approximately HK$55.26 million).

Term	:	Nine years commencing from the date of the TD-SCDMA Technology Licence Agreement, being 30 December 2005.
Consideration	:	RMB60,855,100 (equivalent to approximately HK$58,514,519). Pursuant to the TD-SCDMA Technology Licence Agreement, a first installment of the consideration of RMB32,360,000 (equivalent to approximately HK$31,115,385) has to be settled by the Joint Venture Company within ten Business Days following the date of the TD-SCDMA Technology Licence Agreement. The remaining balance of RMB28,495,100 (equivalent to approximately HK$27,399,135) has to be settled within four months following the date of the TD-SCDMA Technology Licence Agreement. The consideration was arrived at after arm's length negotiation between the Joint Venture Company and Datang Mobile with reference to comparable transaction involving the transfer of telecommunication technology licence. As at the Latest Practicable Date, the Joint Venture Company has already paid RMB28 million (equivalent to approximately HK$26.92 million) to Datang Mobile. The payment of the consideration has not been made in accordance with the original payment schedule as stipulated in the TD-SCDMA Technology Licence Agreement. The operation of the Joint Venture Company has not been in full thrust awaiting the policy regarding the standard of 3G technology in the PRC to be formulated, thus the parties consider unnecessary at this stage to deploy the resources of the Joint Venture Company as originally scheduled. The directors of the Joint Venture Company are still in the process of liaising with Datang Mobile to revise the payment schedule of the consideration in order to match with the timing of policy formulation by relevant authorities in the PRC regarding the standard of 3G technology. The consideration has been and will be settled by internal resources of the Joint Venture Company.

The Manufacture Agreement

The principal terms of the Manufacture Agreement are as follows:

Date	:	30 December 2005
Parties	:	(iii) Datang Mobile as the purchaser; and (iv) the Joint Venture Company as the supplier
Subject	:	Datang Mobile agreed to purchase and the Joint Venture Company agreed to sell the Products manufactured by the Joint Venture Company on an exclusive basis.
Term	:	Six years commencing from the date of the Manufacture Agreement, being 30 December 2005.
Selling price	:	The selling prices of the Products are determined on the basis of BOM costs plus certain fixed percentage of margin which the Directors consider to be in normal commercial terms.
Annual cap	:	RMB300 million for each of the financial years ending 31 December 2008. The Company will review the annual cap upon the expiry of the initial three-year period and will then apply for annual caps for the remaining three years duration of the Manufacture Agreement in accordance with the GEM Listing Rules. The annual caps were determined after taking into consideration of the maximum annual manufacturing capacity for the Products of the Joint Venture Company arrived at based on the existing facilities of the Joint Venture Company and production lead time of the Products, and the estimated selling price for the Products based on the above formula.

The operation of the Joint Venture Company has not been in full thrust awaiting the policy regarding the standard of 3G technology in the PRC to be formulated. Save for some trial running operations, the Joint Venture Company has not commenced the manufacturing of the Products under the Manufacture Agreement. Thus no revenue in relation to the selling of Products to Datang Mobile has been recognized for the six months ended 30 June 2006.

Other related agreement

The Company has also entered into the Intelligent Antenna Technology Licence Agreement with the Joint Venture Company on 30 December 2005, pursuant to which the

Company has granted an exclusive licence to the Joint Venture Company for using its TD-SCDMA intelligent antenna technology to manufacture TD-SCDMA intelligent antennas for a period of nine years commencing from the date of the agreement at a consideration of RMB22 million (equivalent to approximately HK$21.15 million). The entering of the Intelligent Antenna Technology Licence Agreement is exempted from reporting, announcement and independent Shareholders' approval requirements pursuant to Rule 20.31(1) of the GEM Listing Rules.

REASONS FOR THE TRANSACTIONS

As referred to in the announcement of the Company dated 16 November 2005, the Directors believe that through the establishment of the Joint Venture Company, the Group's sales and distribution network for its mobile communication products will be strengthened and the range of its products, in particular, products relating to TD-SCDMA technology will be expanded. Furthermore, the establishment of the Joint Venture Company will allow the Company to further penetrate the mobile communication product market in the PRC and broaden its geographic scope. The Directors consider that the earning base of the Group will be enlarged when the Joint Venture Company commences to generate profits.

The conditions precedent for the payment obligations under the Joint Venture Agreement included, among other things, the Joint Venture Company entered into the TD-SCDMA Technology Licence Agreement and the Manufacture Agreement. Thus the entering of the TD-SCDMA Technology Licence Agreement and the Manufacture Agreement is essential for the Joint Venture Company to achieve the abovementioned benefits to the Group.

The Directors (including the independent non-executive Directors) consider that the TD-SCDMA Technology Licence Agreement and the Manufacture Agreement have been entered into in the ordinary and usual course of business of the Group, the terms of which are on normal commercial terms and the Transactions are in the interest of the Company and the Shareholders as a whole.

FINANCIAL EFFECTS OF THE TRANSACTIONS TO THE GROUP

The Directors confirm that no material adverse effect on the working capital position of the Group nor any material negative impact on the assets and liabilities of the Group will be arose as a result of the completion of the Transaction. And in light of the above benefits which the Directors expect to be bring about as a result of the Transactions, the Directors believe that the Transactions will have a positive impact on the earnings of the Group in the future.

NON-COMPLIANCE WITH THE GEM LISTING RULES

Since the entering of the TD-SCDMA Technology Licence Agreement and the Manufacture Agreement by the Joint Venture Company constituted major and connected transaction and continuing connected transaction of the Company respectively, the entering of each of the TD-SCDMA Technology Licence Agreement and the Manufacture Agreement were subject to announcement and shareholders' approval requirement under Chapter 19 and 20 of the GEM Listing Rules. However, the Company has failed to comply with the said requirements after the entering of the TD-SCDMA Technology Licence Agreement and the Manufacture Agreement by the Joint Venture Company on 30 December 2005. The Company seeks the ratification of the Transactions by, inter alia, issuing the announcement dated 23 August 2006, this circular and obtaining shareholders' approval at the EGM, in order to fulfill the relevant requirements under the GEM Listing Rules.

The Board will take appropriate remedial action so as to avoid future breaches of the GEM Listing Rules.

INFORMATION OF THE PARTIES

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

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

The Joint Venture Company has been 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.

IMPLICATION UNDER THE GEM LISTING RULES

As the consideration payable under the TD-SCDMA Technology Licence Agreement exceeded 25% but not more than 100% of the market capitalization of the Company, the entering of the TD-SCDMA Technology Licence Agreement by the Joint Venture Company constituted a major transaction of the Company under the GEM Listing Rules. As at the Transaction Date and the Latest Practicable Date, Datang Mobile interested in 35% of the Joint Venture Company, a non-wholly owned subsidiary of the Company, thus it is a connected person of the Company within the meaning of the GEM Listing Rules. As such, the entering of the TD-SCDMA Technology Licence Agreement by the Joint Venture Company also constituted a connected transaction of the Company.

As each of the applicable percentage ratios (other than the profit ratios) is on an annual basis more than 25%, the entering of the Manufacture Agreement by the Joint Venture Company with Datang Mobile constituted a non-exempted continuing connected transaction of the Company under the GEM Listing Rules. In addition, pursuant to Rule 20.35(1) of the GEM Listing Rules, KGI, the independent financial advisers appointed by the Company have to advise on the necessity of the duration of the Manufacture Agreement which is longer than three years and to confirm that the six years duration of the Manufacture Agreement is normal business practice for contracts of this type.

Each of the TD-SCDMA Technology Licence Agreement and the Manufacture Agreement and the annual caps associated to the Manufacture Agreement is subject to independent Shareholders' approval requirement as stipulated under Rule 20.52 of the GEM Listing Rules. The voting at the EGM in respect of the resolutions for approving the TD-SCDMA Technology Licence Agreement and the Manufacture Agreement and the annual caps associated to the Manufacture Agreement, for which no Shareholder is required to abstain from voting, will be taken by poll.

RECOMMENDATION

The Board considers that the terms of the Transactions and the annual caps for the Manufacture Agreement referred to in this circular are fair and reasonable and in the best interests of the Company and its Shareholders as a whole and, accordingly, recommend you to vote in favour of the resolutions regarding the TD-SCDMA Technology Licence Agreement, the Manufacture Agreement and the annual caps for the Manufacture Agreement contemplated thereunder to be proposed at the EGM.

Your attention is also drawn to the Appendices to this circular.

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

* *For identification purpose only*

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)

3 October 2006

To the Independent Shareholders

Dear Sir or Madam,

We refer to the circular dated 3 October 2006 issued by Xi'an Haitian Antenna Technologies Company Ltd., (the "Circular") of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

We have been appointed by the Board to constitute the Independent Board Committee to advise you in connection with the terms of the Transactions and the annual caps for the Manufacture Agreement. In addition, KGI has been appointed as the independent financial adviser to advise us in connection with the above.

Having considered the terms of the Transactions and the annual caps for the Manufacture Agreement and the advice of KGI in relation thereto as set out on pages 13 to 24 of the Circular, we are of the view that the Transactions and the annual caps for the Manufacture Agreement are in the interests of the Company and the Independent Shareholders as a whole and the terms of the Transactions and the annual caps for the Manufacture Agreement are fair and reasonable so far as the Independent Shareholders are concerned. We therefore recommend you to vote in favour of the respective resolutions to be proposed at the EGM to approve the Transactions and the annual caps for the Manufacture Agreement.

Your faithfully,
For and on behalf of the Independent Board Committee
Professor. Gong Shuxi
Mr. Wang Pengcheng
Mr. Qiang Wenyu
Independent non-executive Directors

* *For identification purpose only*

Set out below is the text of the letter of advice from KGI Capital Asia Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders prepared for inclusion in this circular.

KGI CAPITAL ASIA LIMITED
27/F ICBC Tower
Citibank Plaza
3 Garden Road
Central Hong Kong
Tel: 2878 6888
Fax: 2970 0080

3 October 2006

To the Independent Board Committee
and the Independent Shareholders
Xi'an Haitian Antenna Technologies Co., Ltd.
No. 36 Gao Xin Liu Road,
Xi'an National Hi-tech Industrial Development Zone,
Xi'an Shaanxi Province,
The PRC

Dear Sirs,

MAJOR AND CONNECTED TRANSACTION
AND
CONTINUING CONNECTED TRANSACTION

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the (i) major and connected transaction relating to the TD-SCDMA Technology Licence Agreement; and (ii) continuing connected transaction relating to the Manufacture Agreement and the annual caps associated to the Manufacture Agreement, particulars of which are set out in the "Letter from the Board" (the "Letter") contained in the circular to the Shareholders dated 3 October 2006 (the "Circular") and in which this letter is reproduced. Unless the context requires otherwise, terms used in this letter shall have the same meanings as given to them under the definition section of the Circular.

As at the Transaction Date and the Latest Practicable Date, Datang Mobile was interested in 35% of the Joint Venture Company, a non-wholly owned subsidiary of the Company, thus it is a connected person of the Company under the GEM Listing Rules. As such, the entering of the TD-SCDMA Technology Licence Agreement by the Joint Venture Company with Datang Mobile constituted a connected transaction of the Company. In addition, pursuant to the GEM Listing Rules, as each of the applicable percentage ratios (other than the profit ratios) is on an annual basis more than 25%, the entering of the

Manufacture Agreement by the Joint Venture Company with Datang Mobile constituted a non-exempted continuing connected transaction of the Company. Thus, each of the TD-SCDMA Technology Licence Agreement and the Manufacture Agreement and the annual caps associated to the Manufacture Agreement is subject to the Independent Shareholders' approval requirement as stipulated under Rule 20.52 of the GEM Listing Rules. The voting at the EGM in respect of the resolutions for approving the TD-SCDMA Technology Licence Agreement and the Manufacture Agreement and the annual caps associated to the Manufacture Agreement, for which no Shareholder is required to abstain from voting, will be taken by poll.

An independent board committee, comprising Professor Gong Shuxi, Mr. Wang Pengcheng and Mr. Qiang Wenyu, being the independent non-executive Directors, has been established to consider the terms in respect of the (i) major and connected transaction relating to the TD-SCDMA Technology Licence Agreement; and (ii) continuing connected transaction relating to the Manufacture Agreement and the annual caps associated to the Manufacture Agreement, and to advise the Independent Shareholders thereon.

We have been appointed by the Independent Board Committee to advise them as to whether or not the terms of the TD-SCDMA Technology Licence Agreement and the Manufacture Agreement and the annual caps relating thereto are fair and reasonable and are in the interests of the Company and the Independent Shareholders as a whole. In addition, as the Manufacture Agreement has a term exceeding three years, we have been appointed to advise on the necessity of the duration of the Manufacture Agreement which is longer than three years and to confirm that the six years duration of the Manufacture Agreement is normal business practice for contracts of this type under Rule 20.35(1) of the GEM Listing Rules.

BASIS OF OUR OPINION

In formulating our opinion and recommendation, we have relied on the accuracy of the information and facts supplied, and the opinions and representations expressed to us by the Company, its Directors and management of the Company. We have also assumed that all statements of belief, opinion and intention made by the Directors in the Circular were reasonably made after due and careful enquiry and are based on honestly-held opinions. We have no reason to doubt the truth, accuracy and completeness of the information and representations referred to in the Circular and provided to us by the Company, its Directors and management of the Company. We have been advised by the Directors that no material facts have been omitted from the information provided to us and referred to in the Circular. We have also assumed that all statement of intention of the Company, its Directors and management of the Company as set out in the Circular will be implemented. We have assumed that all information and representations made or referred to in the Circular and provided to us by the Company, its Directors and management of the Company, for which they were solely and wholly responsible, were true, complete and accurate at the time they were made and shall continue to be true, complete and accurate at the date of the EGM.

In formulating our opinion, we have obtained and reviewed relevant information and documents provided by the Company and its Directors and management of the Company in connection with the transactions and discussed with the management of the Company so as to assess the fairness and reasonableness of the terms of the TD-SCDMA Technology Licence Agreement and the Manufacture Agreement and the annual caps associated to the Manufacture Agreement. Relevant information and documents, included, among other things, the TD-SCDMA Technology Licence Agreement, the Manufacture Agreement, the annual report of the Company for the year ended 31 December 2005 and the interim report of the Company for the six months ended 30 June 2006. We believe that we have reviewed sufficient information to enable us to reach an informed view, to justify our reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our opinion regarding the TD-SCDMA Technology Licence Agreement and the Manufacture Agreement and the annual caps associated to the Manufacture Agreement. We have not, however, carried out any independent verification of the information and representations provided to us by the management of the Company and the Directors nor have we conducted any form of independent investigation into the businesses and affairs, financial position or the future prospects of the Company or Datang Mobile or their respective subsidiaries or associated companies.

Our opinion is necessarily based upon the financial, economic, market, regulatory and other conditions as they existed on, and the facts, information, representations and opinions made available to us as of, the Latest Practicable Date. Our opinion does not in any manner address the Company's own decision to proceed with the entering into the TD-SCDMA Technology Licence Agreement and the Manufacture Agreement. We disclaim any undertaking or obligation to advise any person of any change in any fact or matter affecting the opinion expressed herein, which may come or be brought to our attention after the Latest Practicable Date.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation to the Independent Board Committee and the Independent Shareholders in respect of the terms of (i) the TD-SCDMA Technology Licence Agreement; and (ii) the Manufacture Agreement and the annual cap relating thereto, and the reasons for the Manufacture Agreement of a term longer than three years, we have taken the following principal factors and reasons into consideration:

1. Background to and reasons for the Transactions

(a) The Company, the Joint Venture Company and Datang Mobile

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

As referred to the Letter, the Joint Venture Company is a non-wholly owned subsidiary of the Company, which is principally 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.

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

As released in Beijing Review No. 9 2005 (the "Article"), TD-SCDMA is one of the three mainstream standards recognized by the International Telecommunication Union (ITU) for 3G mobile communication technologies, and it is developed and proposed by Datang Mobile. The Article also stated that Datang Mobile is one of the three main 3G network equipment suppliers in the PRC market in relation to the mobile communication products.

(b) The Joint Venture Agreement, the TD-SCDMA Technology Licence Agreement and the Manufacture Agreement

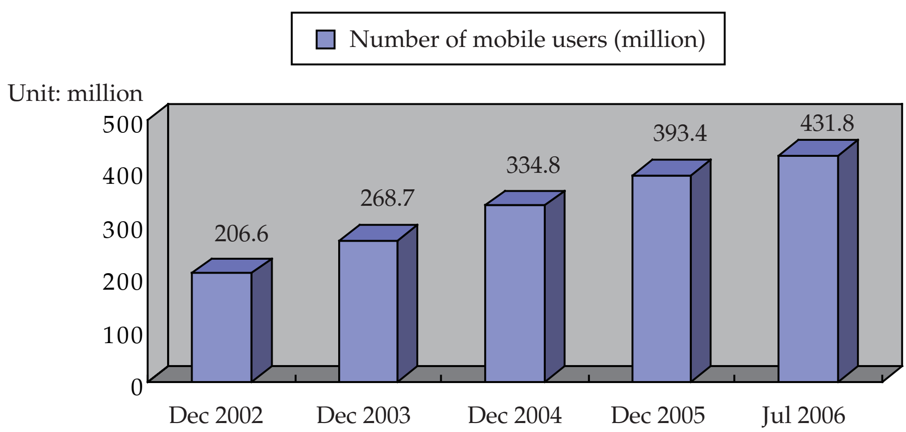
Pursuant to the Joint Venture Agreement, among other things, one of the conditions precedents for fulfilling the payment obligations under the Joint Venture Agreement was that the Joint Venture Company entered into the TD-SCDMA Technology Licence Agreement and the Manufacture Agreement with Datang Mobile.

As stated in the Letter, the Directors believe that through the establishment of the Joint Venture Company, the Group's sales and distribution network for its mobile communication products will be strengthened and the range of its products, in particular products relating to TD-SCDMA technology, will be expanded. Furthermore, it will allow the Company to further penetrate the mobile communication product market in the PRC and broaden its geographic scope. Thus, the entering of the TD-SCDMA Technology Licence Agreement and the Manufacture Agreement is essential for the Joint Venture Company to achieve the abovementioned benefits to the Group. We concur with the Directors' views that the Group will strengthen its earning base when the Joint Venture Company commences to generate profits.

(c) Overview of the mobile telecommunication market in the PRC

Based on the data provided in the website of the Ministry of Information Industry, capital expenditure in China's telecommunications sector declined by 4.8% to RMB203.34 billion in 2005, as compared to the same in 2004. The revenue generated from telecommunications operations and number of mobile users maintained the growing trends. Revenue generated from telecommunications operations increased by approximately 11.8% from RMB518.76 billion in 2004 to RMB579.90 billion in 2005. As at the end of 2005, there were approximately 393.4 million mobile phone users in the PRC, representing an increase of approximately 17.5% when compared to approximately 334.8 million mobile phone users as at the end of 2004. As at 31 July 2006, the number of mobile phone users in the PRC reached approximately 431.8 million.

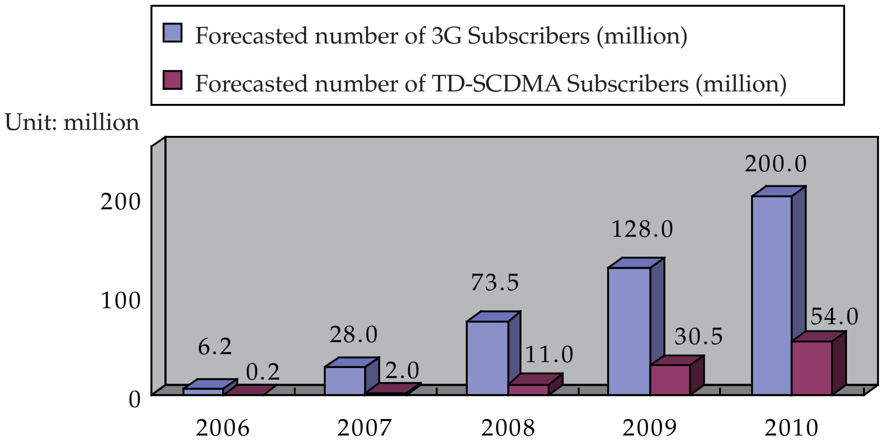
The table set out below illustrates the increasing trend of the number of mobile phone users in the PRC from 2002 to 2005 and 7 months ended 31 July 2006.



Source: Ministry of Information Industry

According to the news released in several research reports and articles, including China Communication Network and Global Information Inc. in December 2004 and August 2005 respectively (the "Articles"), upon approval of TD-SCDMA by the International Telecommunication Union as a global 3G standard in May 2000, the PRC government has provided full support to develop and construct China's network infrastructure so that TD-SCDMA, which is self developed by the PRC, can roll out high-speed 3G wireless network in the PRC. The Articles predicted that TD-SCDMA technology will be ready for full-scale production and the 3G licence is expected to be officially released in the PRC in the near future.

According to the TD-SCDMA Development Report 2005-2006 released by Research In China in February 2006, as shown in the chart below, it predicts that, upon the approval and the official release of 3G licences in the PRC by relevant authorities of the PRC, the total number of TD-SCDMA subscribers in 2006 will be approximately 20,000 and will reach 54 million by 2010.



Source: Research In China

Having considered that:

(i) the principal businesses of the Company, the Joint Venture Company and Datang Mobile;

(ii) the entering of the TD-SCDMA Technology Licence Agreement and the Manufacture Agreement is essential for the Joint Venture Company to achieve the benefits of strengthening the earning base of the Group; and

(iii) the market potential growth of the TD-SCDMA technology in the PRC,

we are therefore of the view that the entering of the TD-SCDMA Technology Licence Agreement and the Manufacture Agreement by the Joint Venture Company are considered to be in the interests of the Company and the Independent Shareholders as a whole.

2. Terms of the TD-SCDMA Technology Licence Agreement and the Manufacture Agreement

The principal terms of the TD-SCDMA Technology Licence Agreement and the Manufacture Agreement have been summarised under the section headed "The Agreements" in the Letter.

(a) The TD-SCDMA Technology Licence Agreement

Pursuant to the TD-SCDMA Technology Licence Agreement entered into between Datang Mobile and the Joint Venture Company, Datang Mobile agreed to grant the non-exclusive licence to the Joint Venture Company for using its TD-SCDMA mini-cellular base station technology for manufacturing and sale of the Products in accordance with the Manufacture Agreement.

As stated in the Letter, the consideration for the TD-SCDMA Technology Licence Agreement is RMB60,855,100 (equivalent to approximately HK$58.5 million). We have reviewed the information provided by the Directors relating to the consideration for a similar telecommunication technology licence agreement paid by an overseas independent manufacturer of mobile communication equipment to Datang Mobile and noted that the consideration pursuant to the TD-SCDMA Technology Licence Agreement paid by the Joint Venture Company to Datang Mobile is comparable to those paid by the overseas independent manufacturer of mobile communication equipment. As such, having considered:

– the consideration of RMB60,855,100 (equivalent to approximately HK$58.5 million) for the TD-SCDMA Technology Licence Agreement with a term of nine years compared favourably with the terms and consideration for a similar telecommunication technology licence agreement entered into by an overseas independent manufacturer of mobile communication equipment and Datang Mobile with a shorter term and higher consideration;

– the consideration for the TD-SCDMA Technology Licence Agreement was arrived at after arm's length negotiation between the Joint Venture Company and Datang Mobile with reference to comparable transaction involving the transfer of similar telecommunication technology licence; and

– as Datang Mobile owns 35% equity interest of the Joint Venture Company, therefore, by providing the TD-SCDMA telecommunication technology at a favourable term and consideration when compared with those of the comparable transaction, Datang Mobile demonstrates its support to the development of 3G telecommunication technology business of the Joint Venture Company.

therefore, we are of the view that the consideration for the TD-SCDMA Technology Licence Agreement is in the interest of the Company and the Independent Shareholders as a whole.

Pursuant to the TD-SCDMA Technology Licence Agreement, the total consideration of RMB60,855,100 (equivalent to approximately HK$58.5 million) will be settled on the payment schedule as set out below:

– first installment of the consideration of RMB32,360,000 (equivalent to approximately HK$31.1 million) has to be settled by the Joint Venture Company within ten Business Days following the date of the agreement;

– the remaining balance of RMB28,495,100 (equivalent to approximately HK$27.4 million) has to be settled within four months following the date of the agreement.

As stated in the Letter, the payment of the consideration under the TD-SCDMA Technology Licence Agreement has not been made in accordance with the original payment schedule as stipulated in the TD-SCDMA Technology Licence Agreement, the Joint Venture Company has already paid RMB28 million (equivalent to approximately HK$26.92 million) up to the Latest Practicable Date. We understand from the Directors that the operation of the Joint Venture Company has not been in full thrust awaiting the policy regarding the standard of 3G technology in the PRC to be formulated and finalised, thus it is considered unnecessary at this stage to deploy the resources of the Joint Venture Company as originally scheduled. Given the fact that the timing of policy formulation and finalisation by relevant authorities in the PRC regarding the standard of 3G technology is still unknown as at the Latest Practicable Date, we consider that the delay in the original payment schedule in relation to the TD-SCDMA Technology Licence Agreement is justifiable.

(b) The Manufacture Agreement

Pursuant to the Manufacture Agreement entered into between Datang Mobile as the purchaser and the Joint Venture Company as the supplier, Datang Mobile agreed to purchase and the Joint Venture Company agreed to sell the Products manufactured by the Joint Venture Company on an exclusive basis. In addition, Datang Mobile is not allowed to produce the Products by itself or assign to any producers, apart from the Joint Venture Company, to produce the Products. Furthermore, the Joint Venture Company is the exclusive supplier of the Products to Datang Mobile.

Pursuant to the Manufacture Agreement, the selling prices of the Products sold by the Joint Venture Company to Datang Mobile are determined on the basis of BOM costs plus certain fixed percentage of margin. We understand from the Directors that the basis of BOM costs plus certain fixed percentage of margin is considered to be in normal commercial terms, and a profitable margin will be obtained after taking into account all the relevant costs including the licence fee incurred for the TD-

SCDMA Technology Licence Agreement. In addition, according to the Directors, the selling prices of the Products will be reviewed and adjusted at least four times per year in order to reflect the up-to-date market situation of the Products so as to maintain the competitive edge of the Company. In view of the above, we consider that the basis of determination of the selling prices of the Products pursuant to the Manufacture Agreement is fair and reasonable so far as the interests of the Independent Shareholders generally are concerned.

We note that the Manufacture Agreement entered into between Datang Mobile and the Joint Venture Company has a duration of six years, which is longer than three years as set out in Rule 20.35(1) of the GEM Listing Rules. In order to assess whether or not the six years duration of the Manufacture Agreement is a normal business practice for contracts of this type under the GEM Listing Rules, we have reviewed both the durations of the TD-SCDMA Technology Licence Agreement and the Manufacture Agreement as a whole, given the fact that the Manufacture Agreement is inextricably linked with the TD-SCDMA Technology Licence Agreement. As such, we have made references to, so far as we are aware of, the following similar technology/trademark licensing arrangements as announced by other Hong Kong listed companies during the period from 2004 to the Latest Practicable Date (the "Comparables"). Given the similar nature in terms of licencing arrangements of the TD-SCDMA Technology Licence Agreement and the Comparables, we consider that references of the Comparables can be used in assessing the duration of nine years of the TD-SCDMA Technology Licence Agreement and the duration of six years of the Manufacture Agreement. The table below summarises the terms of the relevant agreements of the Comparables and we found four listed companies had executed similar technology/trademark transfer or licencing arrangements and we note that it is a normal business practice for contracts of this type to be of a term within the range from five to twenty years.

Comparables (Stock code)	**Reference date**	**Nature of agreement**	**Terms**
COSCO International Holdings Limited (0517)	15 June 2005	Technology transfer	13 years
Hang Ten Group Holdings Limited (0448)	9 June 2004	Use of trademark	10 years
Qingling Motors Co. Ltd. (1122)	21 April 2006	Technology transfer	10 years
TCL International Holdings Limited (1070)	31 May 2004	Use of trademark	5-20 years

In addition, having considered the followings:

(i) we understand from the Directors that the duration of six years is arrived at after arm's length negotiation between the Joint Venture Company and Datang Mobile with reference to the development progress of 3G communication network and the timetable of officially release of 3G licence in the PRC;

(ii) the Products manufactured by the Joint Venture Company are exclusively sold under the TD-SCDMA technology, which is initiated and developed by Datang Mobile;

(iii) the Manufacture Agreement provides the Group with a exclusive long-term binding contractual relationship with Datang Mobile and thus to secure the sourcing of revenues of the Group;

(iv) the Manufacture Agreement is inextricably linked with the TD-SCDMA Technology Licence Agreement, which has a term of nine years. According to the Directors, the Manufacture Agreement will be reviewed with reference to the market situation at the time when the Manufacture Agreement expires. The Directors consider that this arrangement will provide flexibility to the Joint Venture Company; and

(v) one of the purposes of entering into the Manufacture Agreement is to facilitate the development and marketing of TD-SCDMA technology standard for 3G mobile communication industry in the PRC by Datang Mobile, being one of the three main 3G network equipment suppliers in the PRC,

therefore, we are of the view that the six years duration of the Manufacture Agreement is essential for the Group, and consider that the six years duration of the Manufacture Agreement is in the interests of the Company and the Independent Shareholders as a whole.

Having taking into account of the abovementioned factors, we are of the view that the basis of determination of the terms of the TD-SCDMA Technology Licence Agreement and the Manufacture Agreement is fair and reasonable so far as the interests of the Company and the Independent Shareholders generally are concerned.

3. Proposed annual caps amount

According to the Letter, the annual cap for each of the financial years ending 31 December 2008 associated with the Manufacture Agreement is arrived by taking into consideration of the maximum annual manufacturing capacity for the Products of the Joint Venture Company arrived at based on the existing facilities of the Joint Venture Company and production lead time of the Products, and the estimated selling price for the Products based on the calculation in terms of BOM costs plus certain fixed percentage of margin. The Directors considered that the annual caps will not exceed RMB300 million for each of the financial years ending 31 December 2008.

In view of (i) the anticipated good potential of the 3G telecommunication market in the PRC; and (ii) the governmental support of the development of the TD-SCDMA technology in the PRC, the Company will review the annual cap upon the expiry of the initial three-year period as at year ending 31 December 2008 and will apply for the approval of the annual caps for the remaining three years duration of the Manufacture Agreement in accordance with the GEM Listing Rules, depending on the market situation by that time, we consider that the proposed annual caps amount for the Manufacture Agreement for each of the financial years ending 31 December 2008 is fair and reasonable so far as the interests of the Independent Shareholders generally are concerned.

4. Risks associated with the Transactions

(a) Uncertainty of the timetable of the official release of 3G licences in the PRC

In the view of the fact that the timetable of official release of 3G licences by relevant authorities in the PRC is still uncertain, hence, as discussed above, as at the Latest Practicable Date:

1. the registered capital of the Joint Venture Company is not fully paid yet;

2. the remaining balance of the consideration of the TD-SCDMA Technology Licence Agreement of approximately RMB32.86 million (equivalent to approximately HK$31.59 million) to be payable by the Joint Venture Company to Datang Mobile is outstanding; and

3. the remaining balance of the consideration of the Intelligent Antenna Technology Licence Agreement of approximately RMB11 million (equivalent to HK$10.58 million) to be payable by the Joint Venture Company to the Company is outstanding.

The Independent Shareholders should note that there is a risk for the Joint Venture Company to further delay the payment of the remaining balances of the consideration under the TD-SCDMA Technology Licence Agreement and the Intelligent Antenna Technology Licence Agreement respectively and the corresponding delay of the manufacture and sale of the Products by the Joint Venture Company under the Manufacture Agreement, which may adversely affect the operations and the overall financial results of the Joint Venture Company.

(b) Non-exclusive use of TD-SCDMA mini-cellular base station technology under the TD-SCDMA Technology Licence Agreement

Although the specialized usage right of TD-SCDMA mini-cellular base station technology has been granted by Datang Mobile to the Joint Venture Company, such usage right is not exclusively granted to the Joint Venture Company. The Independent Shareholders should note that there will have the possibility of applying such right by other competitors to produce similar products in the PRC which may adversely affects the business or profitability of the Joint Venture Company in the future.

Nevertheless, we note that (i) the entering of the TD-SCDMA Technology Licence Agreement and the Manufacture Agreement are essential for the Joint Venture Company to achieve the benefits of enlarging the earning base of the Group; (ii) the market demand for the Products to be manufactured by the Joint Venture Company is expected to be high once the timetable of official releasing 3G licence in the PRC having been confirmed; (iii) the potential growth of the PRC mobile telecommunication market in relation to TD-SCDMA technology; and (iv) the terms and considerations of the TD-SCDMA Technology Licence Agreement and the Manufacture Agreement are arrived after arm's length negotiation, therefore we consider that the terms of the TD-SCDMA Technology Licence Agreement and the Manufacture Agreement are fair and reasonable so far as the interests of the Company and the Independent Shareholders are concerned.

RECOMMENDATION

Given the abovementioned risks, the Independent Shareholders should carefully evaluate potential risks and benefits associated with the Transactions in determining whether to vote for this resolution. Nevertheless, having considered the above principal factors and reasons, we are of the view that, on balance, the terms of the TD-SCDMA Technology Licence Agreement and the Manufacture Agreement and the annual caps associated to the Manufacture Agreement are fair and reasonable so far as the interests of the Independent Shareholders are generally concerned and are in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders, and recommend the Independent Shareholders, to vote in favour of the ordinary resolutions to approve (i) the TD-SCDMA Technology Licence Agreement; and (ii) the Manufacture Agreement and the annual caps associated to the Manufacture Agreement that will be proposed at the EGM.

Yours faithfully,
For and on behalf of
KGI Capital Asia Limited

Laurent Leung	**Jimmy Chan**
Director	*Senior Vice President*

1. THREE-YEAR FINANCIAL SUMMARY

The following is a summary of the audited financial information of the Group for each of the three years ended 31 December 2003, 2004 and 2005 as extracted from the relevant annual reports of the Company and unaudited financial information for the two periods ended 30 June 2005 and 2006 as extracted from the Company's interim report for the six months ended 30 June 2005 and 2006:

The auditors of the Company have given unqualified opinions on the financial statements for each of the three years ended 31 December 2003, 2004 and 2005.

Consolidated Income Statement

	For the year ended 31 December			For the six months ended 30 June	
	2005	**2004**	**2003**	**2006**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(audited)	(audited)	(audited)	(unaudited)	(unaudited)
Turnover	176,889	200,999	226,732	67,454	64,207
Cost of sales	(97,416)	(108,663)	(112,824)	(49,082)	(34,983)
Gross profit	79,473	92,336	113,908	18,372	29,224
Other revenue	2,485	2,634	2,987	415	267
Distribution costs	(31,910)	(43,467)	(24,455)	(14,444)	(18,703)
Administrative expenses	(21,568)	(19,217)	(20,898)	(14,968)	(9,435)
Other operating expenses	(4,636)	(8,731)	(13,061)	(7,815)	(6,431)
Profit (loss) from operations	23,844	23,556	58,481	(18,440)	(5,078)
Finance costs	(7,840)	(6,460)	(4,954)	(2,645)	(4,329)
Profit (loss) before taxation	16,004	17,097	53,527	(21,085)	(9,407)
Income tax Expense (Credit)	(611)	(2,079)	(10,518)	525	–
Profit (loss) for the year/period	15,393	15,017	43,009	(20,560)	(9,407)
Attributable to					
equity shareholders of the company	15,463	15,017	43,009	(18,853)	(9,437)
minority interests	(70)	–	–	(1,707)	30
Profit (loss) for the year/period	15,393	15,017	43,009	(20,560)	(9,407)
Dividends	9,706	–	3,235	–	9,706
Basic earnings (loss) per share (in RMB cents)	2.4	2.3	8.2	(2.91)	(1.46)

Consolidated Balance Sheet

	As at 31 December			As at 30 June
	2005	**2004**	**2003**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(audited)	(audited)	(audited)	(unaudited)
NON-CURRENT ASSETS				
Interests in leasehold land held for own use under operating leases	11,615	11,874	12,133	11,486
Intangible assets	35,266	27,847	12,871	91,756
Property, plant and equipment	97,980	103,482	80,081	109,955
Other financial assets	280	280	280	280
Deposits for acquisition of land use right/property, plant and equipment	–	–	527	–
Pledged bank deposits	796	624	271	817
	145,937	144,107	106,163	214,294
CURRENT ASSETS				
Inventories	35,697	25,555	27,060	51,146
Trade receivables	175,873	172,292	158,131	165,394
Bills receivable	1,120	7,373	200	1,562
Other receivables and prepayments	12,129	11,766	16,963	16,837
Amounts due from directors	1,862	707	–	1,520
Amounts due from related parties	3,236	295	–	1,876
Pledged bank deposits	2,189	7,380	24,544	894
Bank balances and cash	91,249	107,614	113,588	89,253
	323,355	332,982	340,486	328,482
CURRENT LIABILITIES				
Trade payables	69,930	28,469	27,420	77,371
Bills payable	10,632	35,401	47,627	–
Other payables and accrued charges	17,531	11,061	28,672	49,210
Dividend payables	3,003	–	–	2,931
Taxation	7,439	8,853	16,833	3,957
Bank loans – due within one year	51,565	90,000	54,674	162,675
	160,100	173,784	175,226	296,144
NET CURRENT ASSETS	163,255	159,198	165,260	32,338
TOTAL ASSETS LESS CURRENT LIABILITIES	309,192	303,305	271,423	246,632
NON-CURRENT LIABILITIES				
Bank loans – due after one year	70,000	70,000	50,000	–
Deferred taxation	600	600	500	600
	70,600	70,600	50,500	600
NET ASSETS	238,592	232,705	220,923	246,032

	As at 31 December			As at 30 June
	2005	**2004**	**2003**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(audited)	(audited)	(audited)	(unaudited)
CAPITAL AND RESERVES				
Share capital	64,706	64,706	64,706	64,706
Reserves	173,756	167,999	156,217	154,903
TOTAL EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY	238,462	232,705	220,923	219,609
MINORITY INTERESTS	130	–	–	26,423
TOTAL EQUITY	238,592	232,705	220,923	246,032

2. AUDITED FINANCIAL STATEMENTS

The following is the audited financial statements of the Group for the year ended 31 December 2005 together with accompany notes, extract from the Company's annual report for the year ended 31 December 2005.

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	6a	(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	–
Basic earnings per share (in RMB cents)	12	2.4	2.3

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

	Note	2005 RMB	2004 RMB
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
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

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

	Note	2005 RMB	2004 RMB
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
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

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 prepayments	(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)

	2005	2004
	RMB	*RMB*
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)
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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

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.

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.

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.

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.

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.

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.

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.

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.

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.

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	**2004**
	RMB	*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.*

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.

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. BASIC EARNINGS PER SHARE

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 *RMB*	**Technological know-how** *RMB*	**Total** *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.

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	**2004**
	RMB	*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

Maximum balance during the year

Name of related parties	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」)	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.

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

25. RESERVES

The Group

	Share premium	**Statutory surplus reserve**	**Statutory public welfare fund**	**Retained profits**	**Total**
	RMB	*RMB*	*RMB*	*RMB*	*RMB*
		(Note 25(a))	*(Note 25(b))*		
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

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.

3. UNAUDITED INTERIM RESULT FOR THE SIX MONTHS ENDED 30 JUNE 2006

The following is the unaudited operating results of the Group for the six months ended 30 June 2006 together with accompany notes, extract from the Company's interim report for the six months ended 30 June 2006.

Condensed Consolidated Income Statements

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

Condensed Consolidated Balance Sheet

	Notes	As at 30 June 2006 RMB'000 (unaudited)	As at 31 December 2005 RMB'000 (audited)
NON-CURRENT ASSETS			
Interests in leasehold land held for own use under operating leases		11,486	11,615
Intangible assets		91,756	35,266
Property, plant and equipment	*9*	109,955	97,980
Other financial asset		280	280
Pledged bank deposits		817	796
		214,294	145,937
CURRENT ASSETS			
Inventories		51,146	35,697
Trade receivables	*10*	165,394	175,873
Bills receivable		1,562	1,120
Other receivables and prepayments		16,837	12,129
Amounts due from directors		1,520	1,862
Amounts due from related parties		1,876	3,236
Pledged bank deposits		894	2,189
Bank balances and cash		89,253	91,249
		328,482	323,355
CURRENT LIABILITIES			
Trade payables	*11*	77,371	69,930
Bills payable		–	10,632
Other payables and accrued charges		49,210	17,531
Taxation		3,957	7,439
Dividend payables		2,931	3,003
Bank loans – due within one year		162,675	51,565
		296,144	160,100
NET CURRENT ASSETS		32,338	163,255
TOTAL ASSETS LESS CURRENT LIABILITIES		246,632	309,192

	As at 30 June 2006 *RMB'000* (unaudited)	As at 31 December 2005 *RMB'000* (audited)
NON-CURRENT LIABILITIES		
Bank loans – due after one year	–	70,000
Deferred taxation	600	600
	600	70,600
NET ASSETS	246,032	238,592
CAPITAL AND RESERVES		
Share capital	64,706	64,706
Reserves	154,903	173,756
TOTAL EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY	219,609	238,462
MINORITY INTERESTS	26,423	130
TOTAL EQUITY	246,032	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 (unaudited)	*RMB'000* (unaudited)	*RMB'000* (unaudited)	*RMB'000* (unaudited)	*RMB'000* (unaudited)	*RMB'000* (unaudited)	*RMB'000* (unaudited)	*RMB'000* (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)
At 30 June 2005	64,706	71,229	9,805	5,326	72,202	223,268	230	223,498
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)
At 30 June 2006	64,706	71,229	10,213	5,529	67,932	219,609	26,423	246,032

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

	2006	2005
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Net cash generated from (used in) operating activities:	11,134	(13,493)
Net cash used in investing activities:		
Purchase of intangible asset	(60,855)	–
Purchase of property, plant and equipment	(17,256)	(3,617)
Other investing cash flows	(1,412)	62
Proceeds from disposal of property, plant and equipment	–	89
	(79,523)	(3,466)
Net cash generated from (used in) financing activities:		
New borrowings raised	118,565	–
Proceeds from share capital contributed by a minority shareholder	28,000	–
Repayment of borrowings	(77,455)	(5,368)
Other financing cash flows	(2,717)	200
	66,393	(5,168)
Net decrease in cash and cash equivalents	(1,996)	(22,127)
Cash and cash equivalents at 1 January	91,249	107,614
Cash and cash equivalents at 30 June represented by bank balances and cash	89,253	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	**2005**	**2006**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Sales of goods	38,686	40,724	63,109	61,387
Service income	909	982	4,345	2,820
	39,595	41,706	67,454	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")	Other countries	Conso-lidated	The PRC	Other countries	Conso-lidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*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	2005	2006	2005
	RMB'000	*RMB'000*	*RMB'000*	*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
Total staff costs	4,875	6,035	9,974	12,065
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)
	4,173	4,433	8,312	8,752
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)
	1,939	1,682	3,391	3,214
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
Total depreciation and amortisation	5,320	2,732	10,642	5,273
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)
	779	1,830	1,787	4,185
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:

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

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

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

12. CAPITAL COMMITMENTS

	As at 30 June 2006 *RMB'000*	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	929	1,932

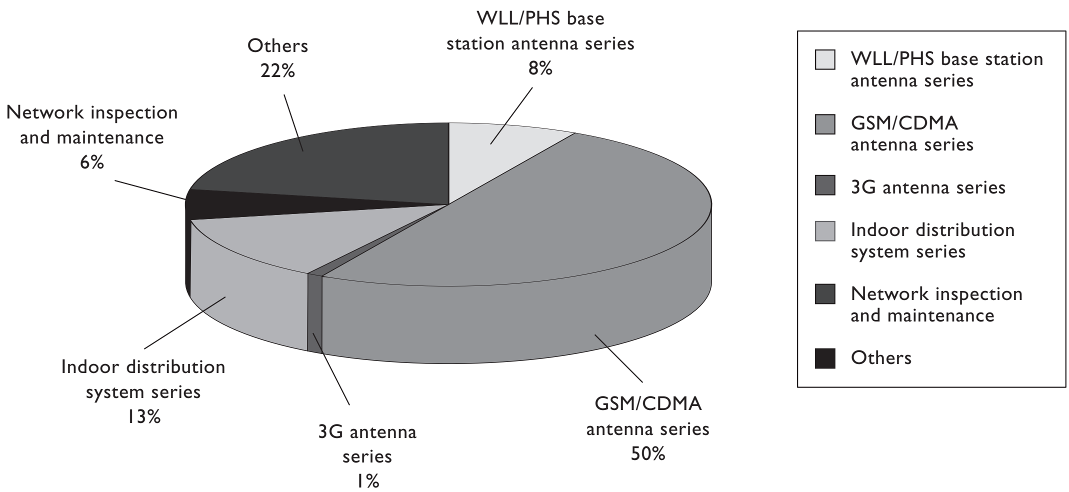
MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

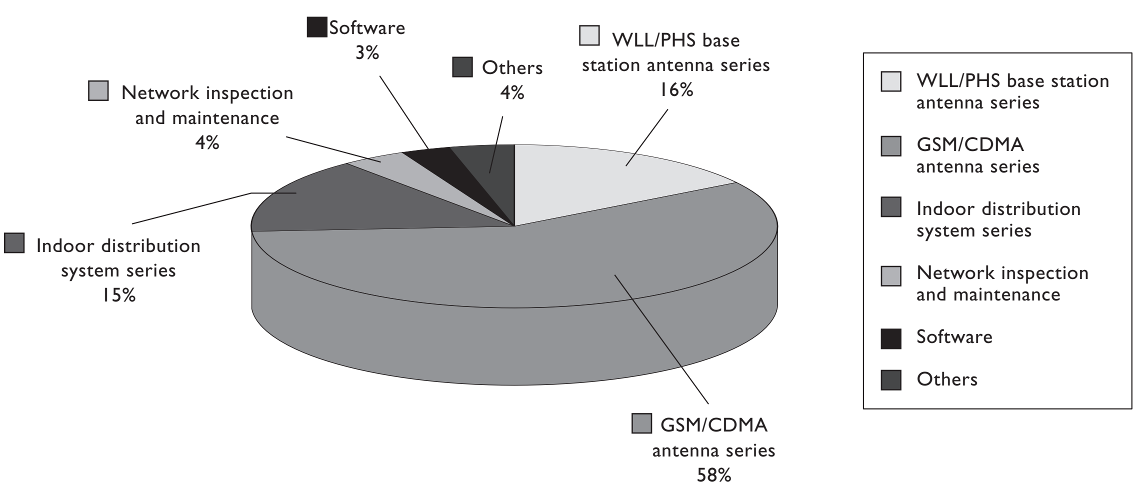
The Group recorded an unaudited turnover of approximately RMB39.6 million and RMB67.5 million for the three months and six months ended 30 June 2006 respectively, representing a decrease of approximately 5.0% and an increase of approximately 5.1% compared with the unaudited turnover for the corresponding 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:

For the six months ended 30 June 2006 (by product line)

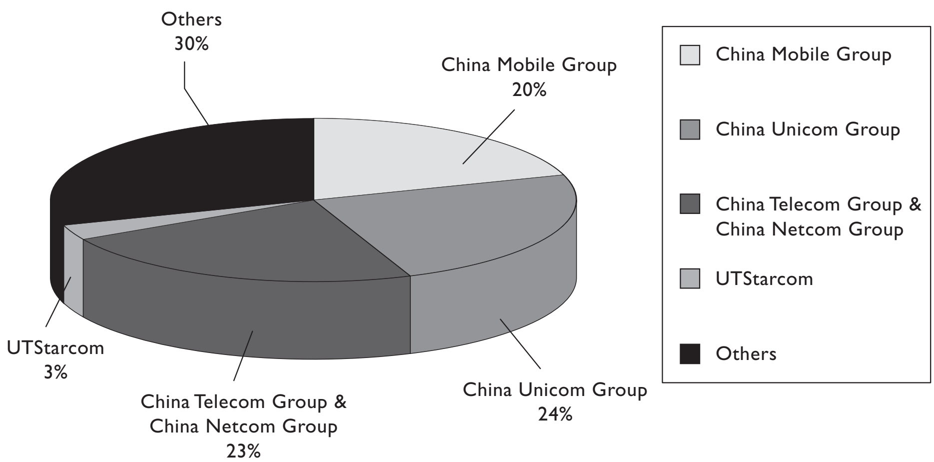


For the six months ended 30 June 2005 (by product line)

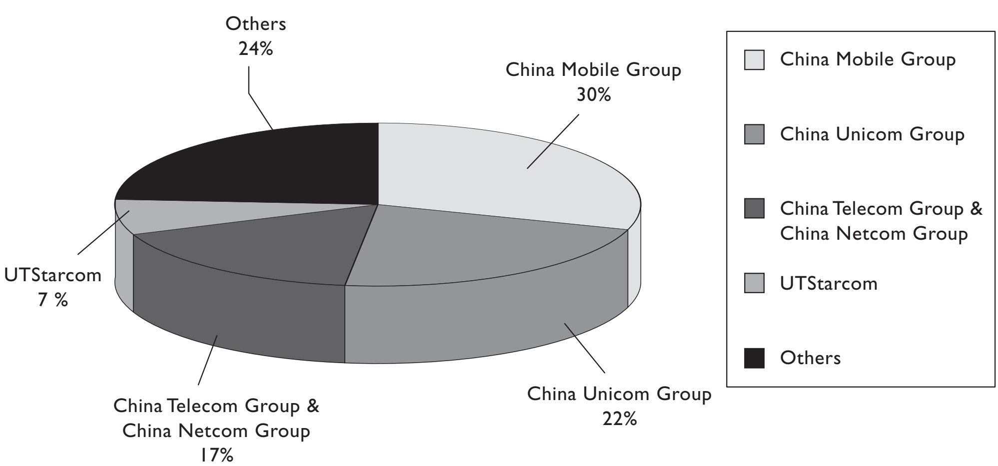


Composite of turnover by major customers for the six months ended 30 June 2006, together with the comparative figures for the corresponding period in the year 2005, are provided as follows:

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.

4. STATEMENT OF INDEBTEDNESS

Borrowings

The Group generally finances its operations with internally generated cashflows and banking facilities provided by its bankers in the PRC.

As at the close of business on 31 August 2006, being the latest practicable date prior to the printing of this circular for the purpose of this indebtedness statement, the Group had total outstanding bank borrowings of approximately RMB149,770,000.

As at 31 August, the Group's borrowing were secured by following assets and the carrying value of the assets are as follows:

	RMB
Bank deposits	2,262,000
Buildings	50,186,000
Land lease premium held for own use	11,443,000
Trade receivables	30,962,000
	94,853,000

Capital commitments and contingent liabilities

As at the close of business on 31 August 2006, the Group had capital commitments of approximately RMB23,318,000.

Save as aforesaid, the Group had no other material contingent liabilities as at 31 August 2006.

Disclaimers

Save as aforesaid or as otherwise disclosed herein and apart from intra-group liabilities, the Group did not have any outstanding debt securities, term loans, bank overdrafts, liabilities under acceptance, acceptance credits, hire purchase commitments, mortgages and charges, at the close of business on 31 August 2006.

The Board has confirmed that, save as disclosed above, there has not been any material change in the indebtedness, commitments or contingent liabilities of the Group since 31 August 2006.

5. WORKING CAPITAL

The Directors are of the opinion that taking into account the Group's existing cash and bank balances and the present available banking facilities, the Group has sufficient working capital for its present requirements for the next twelve months in the absence of unforeseen circumstances.

6. MATERIAL ADVERSE CHANGES

Save as disclosed in the Company's interim report for the six month period ended 30 June 2006, in particular, the net loss attributable to shareholders of approximately RMB18,853,000 for the six months ended 30 June 2006, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2005, the date to which the latest published audited consolidated financial statements of the Group were made up.

7. THE FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Group is principally engaged in the research and development, manufacture and sale of base station antennas and related products. For the year ended 31 December 2005 and six-month periods ended 30 June 2006, the Group recorded revenue of approximately RMB176,889,000 and RMB67,454,000 respectively, and net profit attributable to shareholders of approximately RMB15,463,000 and net loss attributable to shareholders of RMB18,853,000 respectively.

To make the best use of the opportunities emerged from the expected issuance of new mobile communication network operator licence and the launching of the third generation mobile communication services in the PRC, the TD-SCDMA Technology Licence Agreement and the Manufacturing Agreement can secure the Group with advanced production technology and broadened sales and distribution network.

Though the Group recorded loss for the six months ended 30 June 2006, the business prospect associated to the Transactions has not yet been reflected in the financial results of the Group as the operation of the Joint Venture Company has not been in full thrust awaiting the policy regarding the standard of 3G technology in the PRC to be formulated. The Directors are optimistic about the prospects of the Group's business and believe that the financial status of the Group for the coming financial years will be improved and the earning base will be enlarged when the Group's production capabilities relating to TD-SCDMA technology related products are enhanced and the new products are introduced to the markets after the standard of 3G technology has been formulated in the PRC.

The Board is not aware of any special trade factors or risks which could materially affect the operating results of the Group.

FINANCIAL INFORMATION OF THE LICENCE RIGHTS

No revenue has been generated from the Licence Rights for the three financial years ended 31 December 2005 and thereafter up to the Latest Practicable Date. thus no profit and loss statements of the Licence Rights is disclosed herein.

VALUATION OF THE LICENCE RIGHTS

No valuation of the Licence Rights has been conducted during the three years ended 31 December 2005 and thereafter up to the Latest Practicable Date. Thus no valuation report of the Licence Rights is disclosed herein.

PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

The effect of the TD-SCDMA Technology Licence Agreement to the statement of assets and liabilities of the Group has already been reflected in the published unaudited financial statement of the Group for the six months ended 30 June 2006, the same of which has also been included in Appendix I to this circular. Thus no pro forma statement of the assets and liabilities of the enlarged Group is disclosed herein to avoid confusion.

RESPONSIBILITY STATEMENT

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

(a) the information contained in this circular is accurate and complete in all material respects and not misleading;

(b) there are no other matters the omission of which would make any statement in this circular misleading; and

(c) all opinions expressed in this circular have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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

As at the Latest Practicable Date the interests and short positions of the Directors, Supervisors (as if the requirements applicable to the Directors under the SFO 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 the Domestic Shares held in the Company	Approximate percentage in the total issued Domestic Shares of the Company	Approximate percentage in the total issued share capital of the Company
肖兵先生 Mr. Xiao Bing	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.

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

As at the Latest Practicable Date, 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 position in Domestic Shares of the Company

Name of 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
Domestic Shares					
Tian An Investment	Corporate	Beneficial owner	180,000,000 *(Note 1)*	37.09%	27.81%
姚文俐女士 Ms. Yao Wenli	Personal	Held by controlled corporation	180,000,000 *(Note 1)*	37.09%	27.81%
肖良勇教授 Professor Xiao Liangyong	Personal	Parties acting in concert	180,000,000 *(Note 2)*	37.09%	27.81%

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

* *for identification purpose only*

Notes:

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 and Ms. Yao Wenli. By virtue of the SFO, he was deemed to be interested in the same 180,000,000 Domestic Shares held by Tian An Investment.

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 right of XITIC, were deemed to be interested in the same 70,151,471 Domestic Shares held by XITIC.

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

Long position in Domestic Shares of the Company

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

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%
Ms. Song Ying	Personal	Beneficial owner	8,800,000	5.43%	1.35%

* *for identification purpose only*

Notes:

1. The Domestic Shares were held by Beijing Holdings. By virtue of the SFO, Beijing Holdings (Group) Limited, which holds more than one third of voting rights of Beijing Holdings, was deemed to be interested in the same 54,077,941 Domestic Shares held by Beijing Holdings.

2. The Domestic Shares were held by Shaanxi Silk. By virtue of the SFO, Shaanxi Finance Bureau, which holds more than one third of voting rights of Shaanxi Silk, was deemed to be interested in the same 45,064,706 Domestic Shares held by Shaanxi Silk.

3. The details of these shareholders of the Company were based on information as set out in the website of the Stock Exchange. The Company has not been notified by the relevant shareholders and has not received any Corporate Substantial Shareholder Notice from the relevant shareholders.

SERVICE CONTRACTS

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

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

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

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

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

DIRECTORS' INTEREST IN ASSETS AND CONTRACTS

(a) As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have been acquired or disposed of by or leased to any member of the Group since 31 December 2005, being the date to which the latest published audited accounts of the Company were made up.

(b) As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date and which is significant to the business of the Group.

COMPETING INTERESTS

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

LITIGATION

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

PARTICULARS OF THE DIRECTORS

Name	Address
Mr. Xiao Bing	Building 30-2-8 No. 2 Taibai South Road Yanta District Xi'an, Shaanxi Province PRC
Mr. Liang Zhijun	No. 202 Building 2 Unit 3 Qinjingyuan Keji Road Xi'an Xi'an, Shaanxi Province PRC
Mr. Zhou Tianyou	No. 1810 Building 3 Section 1 No. 8 Yuhui North Road Chaoyang District Beijing PRC
Mr. Wang Ke	No. 4035 Unit 2 Building 6 No. 6 Wenyi South Road Beilin District Xi'an, Shaanxi Province PRC
Mr. Liu Yongqiang	No. 18, Shangde Road Xincheng District Xi'an, Shaanxi Province PRC
Mr. Wang Quanfu	No. 87 Dongguan Zhengjie Beilin District Xi'an, Shaanxi Province PRC
Mr. Wang Jing	No. 512 Building 1 Yard 23 Chegangzhuang West Road Haidian District Beijing PRC

Name	Address
Mr. Li Wenqi	No. D6-2 Daxue East Road Beilin District Xi'an, Shaanxi Province PRC
Mr. Gong Shuixi	Building 46-4-13 No. 2 South Yard Taibai South Road Yanta District Xi'an, Shaanxi Province PRC
Mr. Wang Pengcheng	No. 402 Unit 3 Building 2 Yard 3 Taibai North Road Lianbu District Xi'an, Shaanxi Province PRC
Mr. Qiang Wenyu	Flat B, Room 1904 Hongway Garden 8 New Market Street Sheung Wan Hong Kong

Executive Directors

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

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

周天游先生 (Mr. ZHOU Tianyou), 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 (荷蘭翔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

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

劉永強先生 (Mr. LIU Yongqiang), aged 66, is a non-executive Director. He graduated from the 西北新聞刊授學院 (Northwest Journalism Institute) in 1987 and became the deputy secretary-general of Xi'an Municipal People's Government in 1989. Mr. LIU became the chairman of the board of 西安國際信託投資有限公司 (Xi'an International Trust & Investment Co., Ltd., "XITIC"), a substantial Shareholder, in 1999 and joined the Company as a non-executive Director since October 2000.

王全福先生 (Mr. WANG Quanfu), aged 42, is a non-executive Director. He graduated from 中共陝西省委黨校 (Party School of the Shaanxi Provincial Committee of the Chinese Communist Party) in 1997. He started working in Xi'an Jiefang Group since 1988 and is an assistant to the general manager of Xi'an Jiefang Group from May 2001 to date and was elected as a non-executive Director since October 2000.

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

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

Independent non-executive Directors

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

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

強文郁先生 (Mr. QIANG Wenyu), 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.

MATERIAL CONTRACTS

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

EXPERTS

KGI has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letters and/or references to its name in the form and context in which if appear.

The following are the qualification of the expert who has provided its advice, which are contained in this circular:

Name	Qualification
KGI	A licensed corporation under the Securities and Futures Ordinance which engages in types 1 (Dealing in securities), 4 (Advising on securities) and 6 (Advising on corporate finance) regulated activities, the independent financial adviser to the Independent Board Committee and the Independent Shareholders

As at the Latest Practicable Date, KGI was not beneficially interested in the share capital of any member of the Company nor did it has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any Shares, convertible securities, warrants, options or derivatives which carry voting rights in any member of the Company.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours from the date of this circular up to and including 19 October 2006 at the principal place of business of the Company at Unit 3103, 31/F., Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong:

(a) the Articles of Association of the Company;

(b) the annual reports of the Company for each of the two financial years ended 31 December 2005;

(c) the interim report of the Company for the six months ended 30 June 2006;

(d) the Joint Venture Agreement, the TD-SCDMA Technology Licence Agreement and the Manufacture Agreement;

(e) the letter of advice from KGI dated 3 October 2006, the text of which is set out on pages 13 to 24 of this Circular;

(f) the written consent from KGI dated 3 October 2006, referred to in the paragraph headed "Expert" of this appendix;

(g) the Directors' service contracts referred to under the paragraph headed "Services Contracts" in this appendix; and

(h) this circular.

PROCEDURES FOR DEMANDING A POLL BY SHAREHOLDERS

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

(a) by chairman of the meeting;

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

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

MISCELLANEOUS

(i) The registered office of the Company is situated at No.36 Gao Xin Liu Road, Xi'an National Hi-tech Industrial Development Zone, Xi'an, Shaanxi Province, the PRC.

(ii) The principal place of business of the Company in Hong Kong is at Unit 3103, 31/F., Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong.

(iii) The Hong Kong share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(iv) The company secretary and qualified accountant of the Company appointed under Rule 5.15 of the GEM Listing Rules is Ms. Chow Yuk Lan. She is an associate member of both Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants.

(v) The compliance officer of the Company is Mr. Xiao Bing.

(vi) The Company has established an audit committee on 4 April 2003 with written terms of reference in compliance with the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control systems of the Group. As at the Latest Practicable Date, the audit committee comprised Mr. Wang Pencheng and Professor Gong Shuxi, independent non-executive Directors, and Mr. Li Wenqi, a non-executive Director. Particulars of the respective members of the audit committee are referred to in the paragraph headed "Particulars of the Directors" in this appendix.

(vii) The authorised representatives of the Company are Mr. Xiao Bing and Mr. Liang Zhijun.

(viii) The English text of this circular shall prevail over the Chinese text.

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)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT an extraordinary general meeting of Xi'an Haitian Antenna Technologies Company Ltd., (the "Company") will be held at the Conference Room of the Company, No. 36 Gao Xin Liu Road, Xi'an National Hi-tech Industrial Development Zone, Xi'an, Shaanxi Province, the People's Republic of China (the "PRC") on Friday, 24 November 2006 at 2:00 p.m. for the following purposes:

1. to consider and, if thought fit, to pass, with or without modification, the following resolution as an ordinary resolution:

   "**THAT** the TD-SCDMA Technology Licence Agreement (as defined in the circular to the shareholders of the Company dated 3 October 2006 (the "Circular")), a copy of which has been produced to this meeting marked "A" and signed by the Chairman of this meeting for the purpose of identification, details of which are set out in the Circular and the transactions contemplated therein, be and are hereby approved, confirmed and/or ratified, the Director (s) authorized for and on behalf of the Company, among other matters, to sign, execute, perfect, deliver or to authorize signing, executing, perfecting and delivering the relating documents and deeds be and are hereby approved, confirmed and/or ratified, and any Director of the Company (the "Director") be and is hereby authorized to take such action, do such things and execute such further documents or deeds as the Director may, in his opinion, deem necessary or desirable for the purpose of implementing such agreement."

2. to consider and, if thought fit, to pass, with or without modification, the following resolution as an ordinary resolution:

   "**THAT** the Manufacture Agreement (as defined in the Circular), a copy of which has been produced to this meeting marked "B" and signed by the Chairman of this meeting for the purpose of identification, details of which are set out in the Circular and the transactions contemplated therein and the annual cap of RMB300 million for each of the three financial year ending 31 December 2008 in relation thereto, be and are hereby approved, confirmed and/or ratified, the Director(s) authorized for and on behalf of the Company, among other matters, to sign, execute, perfect, deliver or to authorize signing, executing, perfecting and delivering the relating documents and deeds be and are hereby approved, confirmed and/or ratified, and any Director be and is hereby authorized to take such action, do such things and execute such further documents or deeds as the Director may, in his opinion, deem necessary or desirable for the purpose of implementing such agreement."

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

Xi'an, the PRC 3 October 2006

Executive Directors:
Mr. Xiao Bing (肖兵先生)
Mr. Liang Zhijun (梁志軍先生)
Mr. Zhou Tianyou (周天游先生)

Non-executive Directors:
Mr. Wang Ke (王科先生)
Mr. Liu Yongqiang (劉永強先生)
Mr. Wang Quanfu (王全福先生)
Ms. Wang Jing (王京女士)
Mr. Li Wenqi (李文琦先生)

Independent non-executive Directors:
Professor. Gong Shuxi (龔書喜教授)
Mr. Wang Pengcheng (王鵬程先生)
Mr. Qiang Wenyu (強文郁先生)

Registered address:
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, 31st Floor
Office Tower, Convention Plaza
1 Harbour Road
Wanchai, Hong Kong

Notes:

1. A member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxy to attend and, subject to the provisions of the articles of association of the Company, to vote on his behalf. A proxy need not be a member of the Company but must be present in person at the meeting to represent the member. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.

2. A form of proxy for use at the meeting is enclosed. In order to be valid, the form of proxy must be duly completed and signed in accordance with the instructions printed thereon and deposited together with a power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority, at the office of the Company's H share registrar at Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (for H shares) or the Company's head office at No. 36, Gao Xin Liu Road, Xi'an National Hi-tech Industrial Development Zone, Xi'an, Shaanxi Province, the PRC, Postal Code 710075 (for domestic shares) not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the above meeting or any adjournment thereof, should he so wish.

3. In the case of joint holders of shares, any one of such holders may vote at the meeting, either personally or by proxy, in respect of such share as if he was solely entitled thereto, but if more than one of such joint holders are present at the meeting personally or by proxy, that one of the said persons so present whose name stands first in the register of members of the Company in respect of such Shares shall alone be entitled to vote in respect thereof.

* *For identification purpose only*