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)

2006
ANNUAL REPORT

* *For identification purposes only*

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

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

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

The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

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

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Corporate Information

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC
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Xi'an National Hi-tech Industrial Development Zone
Xi'an, Shaanxi Province
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GEM STOCK CODE
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Tsun and Partners

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CCIF CPA Limited

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COMPLIANCE OFFICER
Mr. Xiao Bing (肖兵先生)

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

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

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

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

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

AUTHORISED PERSON TO ACCEPT SERVICE OF PROCESS AND NOTICE
Ms. Chow Yuk Lan (周玉蘭小姐), AHKICPA, ACCA

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The PRC

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

Agricultural Bank of China
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Xi'an National Hi-tech Industrial Development Zone
Xi'an, Shaanxi Province
The PRC

Chairman's Statement

Dear Shareholders:

On behalf of the Board of Directors (the "Board"), I am pleased to present the annual report of Xi'an Haitian Antenna Technologies Co., Ltd. together with its subsidiaries (the "Group") for the year ended 31 December 2006.

2006 was a tough year for the Group. The wireless telecommunications industry in PRC was confronted with further delay in issuance of 3G licence and major telecommunications operators were cautious in their investment plan for 2G products. The Group recorded its first year of loss amid the increasingly competitive environment in the wireless telecommunications industry and declining product gross profit margin.

In response to this situation, the Group proactively explored international market as well as new business opportunities in order to expand customer base and improve gross profit margin. Signs of success in implementing the above strategies were noted and revenue from export market and new products witnessed strong growth during the year.

In order to ensure sustainable development, the Group is fully aware of the importance of improving the efficiency of its operations as well as its competitiveness in the market. Continuous effort will be dedicated in improving the speed and efficiency in the development of new products, reduction in production cost and expanding customer base. We look forward to achieving strong growth in sales and improving profit margin in the near future. On the other hand, the Group has completed development of TD-SCDMA related products, which are readily available for their commercial application. The Group will grasp every opportunity presented by 3G in order to further balance our business development in the coming year.

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

Xiao Bing
Chairman

Xi'an, the PRC
9 March 2007

Management Discussion and Analysis

BUSINESS REVIEW

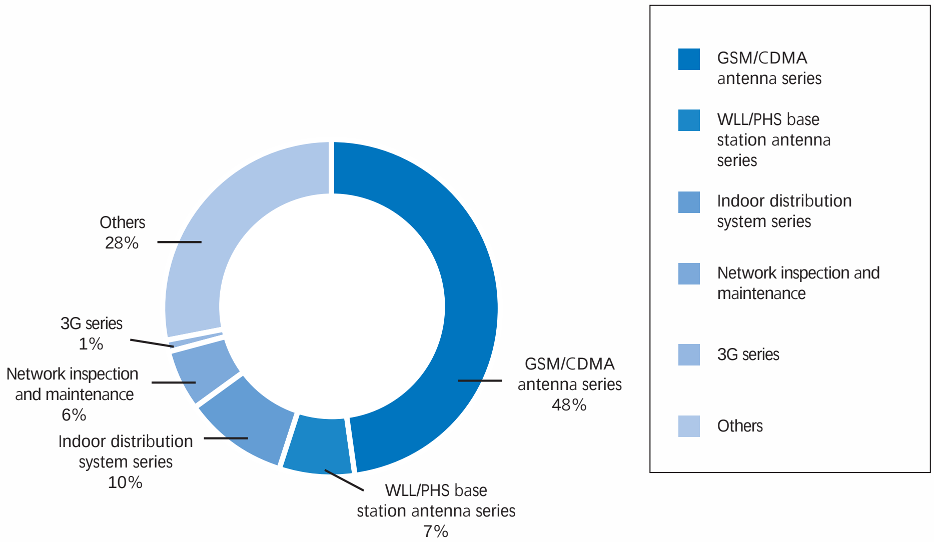
Revenue

The Group recorded a turnover of approximately RMB117.1 million for the year ended 31 December 2006, representing a decrease of approximately 33.8% from last year. The decrease was mainly attributable to (a) tightened credit control exercised by the Group during the year 2006; (b) further delay in the issuance of 3G licence by the PRC government; and (c) certain mobile operators were cautious in implementing their network expansion plans. Intense competition in the maturing 2G mobile communications market and price pressure from the central procurement strategy adopted by China Mobile Group also lead to sizable drop in total revenue of the Group.

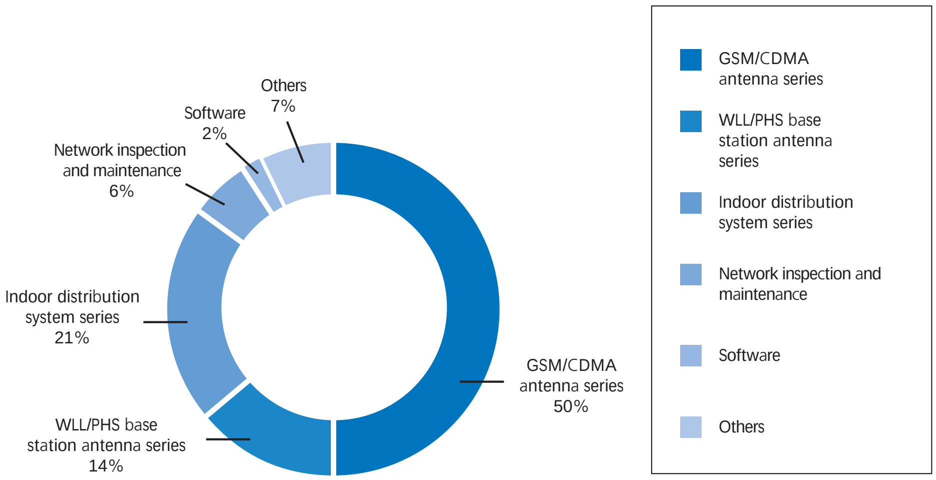
In response to the anticipated decline in sales of 2G products, the Group has been proactively developing the international market which contributed 24.0% of the Group's revenue in 2006, representing 17.6% increase when compared to the year 2005. More importantly, through our initiatives on expanding product portfolio, revenue generated from other antenna series reached RMB33.0 million in 2006, accounting for 28.0% of the Group's revenue and representing an increase of 199.0% against the previous year. The above measures successfully mitigate the declining revenue from existing business.

Composite of sales by product line for the year ended 31 December 2006, together with the comparative figures for the year ended 31 December 2005, are provided as follows:

For the year ended 31 December 2006 (by product lines)

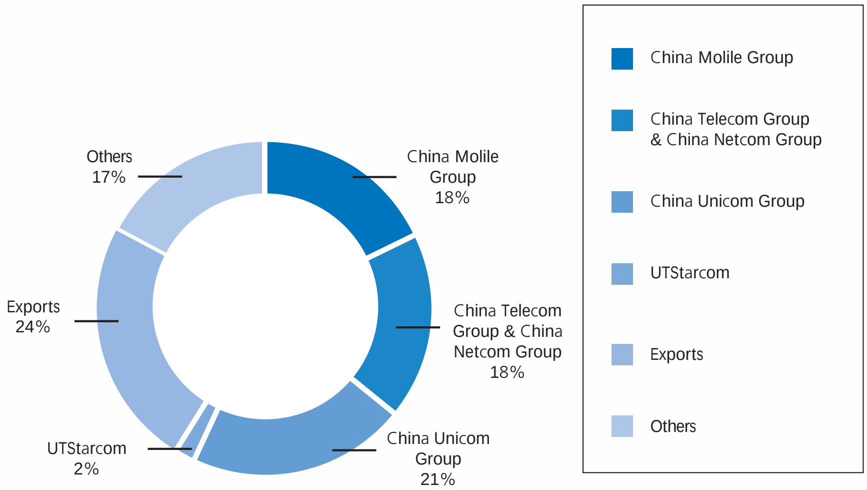


For the year ended 31 December 2005 (by product lines)



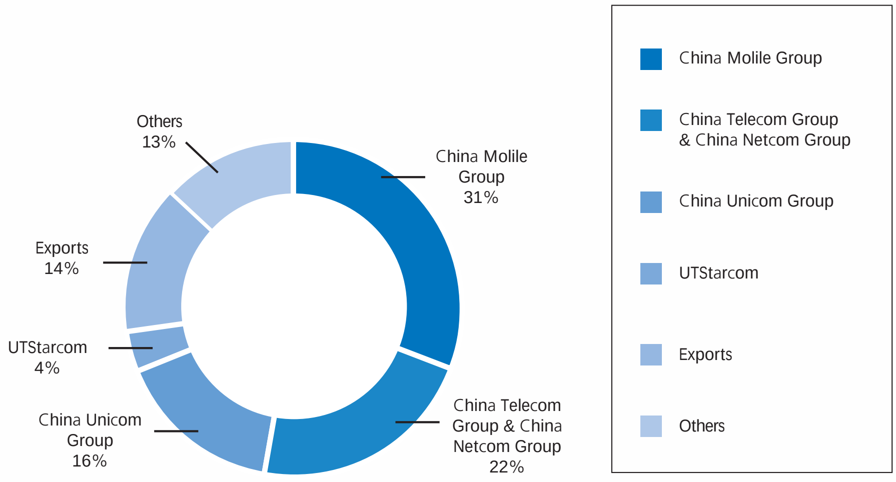
Composite of turnover by major customers for the year ended 31 December 2006, together with the comparative figures for the year ended 31 December 2005, are provided as follows:

For the year ended 31 December 2006 (by major customers)



Management Discussion and Analysis (continued)

For the year ended 31 December 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

The Group's gross profit for the year 2006 amounted to RMB21.6 million, representing a decrease of 72.8% over 2005. Gross profit margin was 18.4% in 2006 compared to 44.9% in 2005. The declining profit margin was due to the Group suffered from downward trend in selling prices and rising material cost over the past year and sales from higher margin products were not yet mature enough to be the main revenue driver of the Group in order to compensate the decreasing margin.

Management Discussion and Analysis (continued)

Operating Costs and Expenses

Distribution costs were approximately RMB28.5 million, representing a decrease of approximately 10.7% over year 2005. This was primarily a result of the Group's strengthened budgetary control. Besides, with more focused sales and marketing efforts on developing international market, distribution costs were utilized more efficiently.

Administrative expenses had increased by approximately 81.9%, amounting to approximately RMB39.3 million comparing with the year 2005. Since the Group is expanding its operating scale, a general increase in administrative expense was recorded especially for payroll, professional fee and depreciation expense. Besides, in view of recoverability of certain trade receivables, an allowance for doubtful debts amounted to RMB6.3 million was made. Moreover, a provision for obsolete inventories amounted to RMB3.2 million was also made during 2006.

Other operating expenses amounted to approximately RMB18.6 million, representing an increase of approximately RMB14.0 million comparing with year 2005. The increase was mainly resulted from the amortization of capitalized research and development cost and amortization of prepayment for TD-SCDMA technology licence.

Consequently, loss attributable to shareholders for the year ended 31 December 2006 was RMB68.1 million compared to a profit attributable to shareholders of approximately RMB15.5 million in the previous year. The net loss position was mainly due to the decrease in gross profit and increase in costs and expenses as mentioned above.

PROSPECTS

3G opportunities

During 2006, TD-SCDMA has gone through several rounds of pre-commercial trials and the Group made full use of its advantage in the techniques, participated actively in the research and development of TD-SCDMA products, and some of which have already been applied in the trail network.

Leveraging on its edge in technology, the Group had actively involved in research and development of TD-SCDMA, with a total of 8 TD-SCDMA intelligent antennas being developed and a 128 multi-probe 3D radiation pattern test system which enables dual testing function of handsets and intelligent antennas being completed and perfected.

嘉載通信設備有限公司 (Jiazai Communications Equipment Company Limited), a joint venture established by the Group and Datang Mobile Communications Equipment Company Limited ("Datang Mobile"), would focus on the manufacturing of TD-SCDMA micro cellular base station, and would supply the products to Datang Mobile exclusively in future 3G construction work in the PRC.

The PRC government will build more TD-SCDMA networks for testing the 3G technology platform in 2007, aiming to prepare for further commercialization of the self-developed standard before 2008 Olympic games are held. Although the government has yet to draw up a clear 3G road map, in view of the conditions for the 3G technology become mature, the Directors still remain cautiously optimistic about the opportunities that 3G will bring to the Group.

Global income source

The Group proactively developed the international market over the past few years, which became the key revenue driver of the Group and contributed a stable and significant stream of revenue to the Group during 2006. The Directors believe that the expansion of the Group's presence in the global market will broaden its brand recognition and customer base.

Enhancement of competitiveness

The Group will focus on implementing various cost control measures including but not limited to production reengineering, product redesign, tightened budgetary control and optimizing resources allocation. The Directors believe that the above initiatives can enhance our competitive capabilities in the market.

On the other hand, the Group will streamline its resources in the research and development activities. More focus will be on broadening high margin product portfolio in a timely manner and in cost efficient way.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

During the year, the Group was mainly financed by cash from operations, other loans and banking facilities. As at 31 December 2006, the Group's bank loans increased from approximately RMB121.6 million as at 31 December 2005 to approximately RMB139.6 million which are repayable within 1 year and other short-term loans amounted to RMB24 million. These interest bearing borrowings were mainly used for the Group's daily operation and acquisition of fixed assets.

As at 31 December 2006, all of the Group's interest bearing borrowings bear fixed interest rates ranging from 5.22% to 7.61%. Since all the interest bearing borrowings were denominated in RMB, the Directors consider that the exposure to foreign exchange risk was minimal.

As at 31 December 2006, the Group's gearing ratio increased to 96.0% (2005: 51.0%), which is calculated based on total interest bearing borrowings of approximately RMB163.6 million and total shareholders' funds of approximately RMB170.4 million. Cash and cash equivalents decreased from approximately RMB91.2 million to RMB47.9 million. Most of the Group's bank deposits were deposited with banks as short-term deposits and were denominated in either Hong Kong dollars or RMB, which are directly related to the Group's businesses in the areas of the currencies concerned.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the year ended 31 December 2006, neither the Company or any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CHARGES ON GROUP ASSETS

As at 31 December 2006, the Group pledged bank deposits of approximately RMB1.8 million, buildings of carrying value of approximately RMB49.6 million, land lease premium held for own used of carrying value of approximately RMB11.4 million and trade receivables of approximately RMB20.6 million for banking facilities.

CONTINGENT LIABILITIES

As at 31 December 2006, the Group did not have any material contingent liabilities.

Management Discussion and Analysis (continued)

FOREIGN EXCHANGE EXPOSURE

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

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2006, the Group had approximately 563 full-time employees. Total staff costs for the year 2006 amounted to approximately RMB24.7 million (2005: RMB22.2 million), including remuneration of the Directors and members of the supervisory committee (the "Supervisors"). The Group reviews employee remuneration from time to time and increases in remuneration are normally granted annually or by special adjustment depending on length of service and performance when warranted. In addition to salaries, the Group provides employee benefits including medical insurance and retirement benefits scheme. Bonuses are also available to employees of the Group at the discretion of the Directors and depending upon the financial performance of the Group. The Group has not granted any share options to the Directors and its employees.

SIGNIFICANT INVESTMENT HELD

Except for investment in subsidiaries, the Group did not hold any significant investment for the year ended 31 December 2006.

FUTURE PLANS FOR MATERIAL INVESTMENTS

As at 31 December 2006, the Group had capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment amounted to approximately RMB6.9 million (2005: RMB1.9 million).

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

MATERIAL ACQUISITIONS AND DISPOSALS

Save as disclosed in the paragraph headed "Significant Investment Held" above, the Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies during the year ended 31 December 2006.

TOP FIVE SUPPLIERS AND CUSTOMERS

For the year ended 31 December 2006, sales to the top five customers and the largest customer accounted for approximately 70.9% (2005: 73.5%) and 20.5% (2005: 31.2%) respectively of the Group's total turnover.

For the year ended 31 December 2006, purchases from the top five suppliers and the largest supplier accounted for approximately 43.4% (2005: 44.4%) and 11.9% (2005: 16.6%) respectively of the Group's total purchases.

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

POST BALANCE SHEET EVENT

On 2 March 2007, the Company and two joint placing agents (the "Joint Placing Agents") entered into a non-legally binding preliminary placing agreement, pursuant to which the Joint Placing Agents have agreed in principle to, on a best effort basis, severally procure placees to subscribe for and purchase an aggregate of not more than 177,941,177 H shares at an agreed-upon placing price. The details of the placing arrangement are set out in note 2(a) to the financial statements.

Corporate Governance Report

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Board, the Company has complied with the code provisions in the Code on Corporate Governance Practice (the "Code") as set out in Appendix 15 of the GEM Listing Rules throughout the financial year ended 31 December 2006 subject to the deviation disclosed hereof.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Under the code provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Following the resignation of Mr. Zhou Tianyou from the post of chief executive officer of the Company on 14 December 2006, Mr. Xiao Bing held the offices of Chairman and Chief Executive Officer of the Company since then. The Board is in the process of identifying a suitable candidate to fill the role of chief executive officer.

THE BOARD OF DIRECTORS

Composition and function

The Board is responsible for overseeing the preparation of accounts of each financial period, which shall give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. It is also responsible for formulating the Group's long-term strategy and supervising the management to ensure thorough implementation of the Group's policies and effective performance of their duties. As at 31 December 2006, the Board comprised eleven Directors, including the Chairman, two executive Directors, three independent non-executive Directors and five non-executive Directors. Biographies of the Directors are set out in the Directors' Report.

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

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

All non-executive Directors are engaged by a service contract for a fixed term for not more than 3 years. All Directors appointed to fill a casual vacancy are subject to re-election by shareholders at the first annual general meeting following their appointment and all Directors are subject to re-appointment or re-election at least once every three years.

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

Board meetings and attendance

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

Details of Directors' attendance records in 2006:

	Number of meetings attended/Total
Executive Directors	
Mr. Xiao Bing *(Chairman and Chief Executive Officer)*	7/8
Mr. Zhou Tianyou	7/8
Mr. Liang Zhijun	3/8
Non-Executive Directors	
Mr. Wang Ke	6/8
Mr. Liu Yongqiang	8/8
Mr. Li Wenqi	5/8
Ms. Wang Jing	2/8
Mr. Sun Wenguo (appointed on 13 October 2006)	2/8
Mr. Wang Quanfu (resigned on 13 October 2006)	3/8
Independent Non-Executive Directors	
Professor Gong Shuxi	6/8
Mr. Wang Pengcheng	7/8
Mr. Qiang Wenyu	7/8

DIRECTORS' SECURITIES TRANSACTIONS

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

INDEPENDENCE

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

REMUNERATION COMMITTEE

The Remuneration Committee was established in December 2005 and consists of three members, majority of which being independent non-executive Directors. The chairman of the committee is Mr. Qiang Wenyu, an independent non-executive Director, and other members include Mr. Wang Pengcheng and Mr. Wang Ke.

The committee met once in 2006 and was attended by all committee members. The policy for the remuneration of executive Directors and senior management was reviewed by the committee. Remuneration, including basic salary and performance bonus, of the executive Directors and senior management is based on skills, knowledge, involvement and performance of the individuals by reference to the Company's performance and profitability, as well as industry practice. The committee ensures that no Director is involved in deciding his own remuneration.

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

NOMINATION COMMITTEE

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

The Nomination Committee is responsible for formulating nomination policy, reviewing the structure, size and composition of the Board on a regular basis and making recommendations to the Board on selection and appointment of Board members. The committee met once in 2006 and was attended by all committee members for the selection and recommendation of candidates for directorship having regard to the relevance of skills and experience appropriate to the Group's business.

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

AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in compliance with Rules 5.28 and 5.33 of the GEM Listing Rules in April 2003. The Audit Committee is currently chaired by Mr. Wang Pengcheng, an independent non-executive Director, and the other members are Professor Gong Shuxi and Mr. Li Wenqi, with the majority being independent non-executive Directors.

The Audit Committee is responsible for reviewing accounting policies and practices adopted by the Group. It also reviews and discusses matters related to financial reporting, internal control, audit and performs other duties as assigned by the Board, and reports its work, findings and recommendations to the Board after each meeting in respect of the above matters as well as the operating risks faced by the Group. The Audit Committee has reviewed the financial results of the Group for the year ended 31 December 2006.

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

The Audit Committee held four meetings in 2006 discussing the Group's annual results for 2005, quarterly results for 2006, and reviewing internal control matters. The individual attendance record of each member is as follows:

	Number of meetings attended/Total
Non-Executive Director	
Mr. Li Wenqi	2/4
Independent Non-Executive Directors	
Professor Gong Shuxi	3/4
Mr. Wang Pengcheng (Chairman)	3/4

AUDITORS' REMUNERATION

During 2006, the fees paid to external auditors for audit and non-audit services amounted to RMB595,500 and RMB180,897 respectively. Non-audit service fee mainly related to the issuance of comfort letters regarding indebtedness and sufficiency of working capital of the Group.

INTERNAL CONTROL

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

Directors, Supervisors and Senior Management

DIRECTORS

Executive Directors

Mr. Xiao Bing (肖兵先生), aged 41, he is a son of Professor Xiao Liangyong, the founder of the Company. Mr. Xiao studied in the college of continuous education of 西安電子科技大學 ("Xidian University"). He worked in 西安石油勘探儀器總廠 (Xi'an General Factory of Oil Instruments*) from 1988 to 1991 and was the deputy general manager of 西安海天通設備有限公司 (Xi'an Haitian Communications Equipment Company Limited*, "Xi'an Haitian Communications") from 1999 to 2000. He joined the Group as an executive Director and first assumed the post of the president of the Company since October 2000. Mr. Xiao Bing was elected the chairman of the Board since August 2004.

Mr. Liang Zhijun (梁志軍先生), aged 43, 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 vice president of the Company in April 2004. Mr. Liang had been nominated by the Board as an executive Director and an authorized representative of the Company effective in April 2005.

Mr. Zhou Tianyou (周天游先生), aged 44, 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 (荷蘭翱天軟件國際控股公司北京代表處). Mr. Zhou had been an independent non-executive Director from October 2000 to September 2005, and became the chief executive officer of the Company in September 2005 and had been nominated as an executive Director in December 2005.

Non-executive Directors

Mr. Wang Ke (王科先生), aged 60, graduated from 黑龍江商學院 (Helongjiang Commerce College) in December 1968 and obtained the qualification of senior economist in July 1989. He joined the Group as a non-executive Director since May 2004. Mr. Wang has been the chairman of the board of directors of 西安解放集團股份有限公司 (Xi'an Jiefang Group Co. Ltd.*, "Xi'an Jiefang Group"), a substantial Shareholder of the Company and a listed company with its domestic A shares trading on the Shenzhen Stock Exchange, since January 1995.

Mr. Liu Yongqiang (劉永強先生), aged 68, graduated from the 西北新聞刊授學院 (Northwest Journalism Institute) in 1987 and became the deputy secretary-general of Xi'an Municipal People's Government in 1989. Mr. Liu became the chairman of the board of 西安國際信托投托有限公司 (Xi'an International Trust & Investment Co., Ltd.*, "XITIC"), a substantial Shareholder, in 1999 and joined the Company as a non-executive Director since October 2000.

Mr. Sun Wenguo, (孫文國先生) aged 31, graduated from the Department of International Finance of 陝西財經學院 (Xi'an Financial and Economic Institute) in 1998 with a bachelor degree. Mr. Sun previously worked in international section of Industrial and Commercial Bank of China, Dalian Branch and 西安高新醫院有限公司 (Xi'an Gaoxin Hospital Co., Ltd.). Currently, he holds the positions of the head of investment department and chairman of the 6th supervisory committee of 西安解放集團股份有限公司 (Xi'an Jiefang Group Inc.) and he is also the supervisor of 西安開元商城有限公司 (Xi'an Kaiyuan Shopping Mall Co., Ltd.). 西安解放集團有限公司 (Xi'an Jiefang Group Inc.) is a shareholder of the Company interested in approximately 15.45% of the issued share capital of the Company. Mr. Sun was appointed as a non-executive Director in October 2006.

Mr. Li Wenqi (李文琦先生), aged 41, graduated from 陝西財經學院 (Shaanxi College of Finance and Economics, now known as 西安交通大學 (Xi'an Jiaotong University)). He worked for 陝西絲綢進出口公司 (Shaanxi Silk Import & Export Corporation, one of the substantial shareholders, "Shaanxi Silk") as the deputy chief and manager of planning and finance department from October 1987 to April 1994 and from April 1994 to October 1997 respectively and the assistant to general manager and manager of planning and finance department from October 1997 to May 2001. He is an accountant and the chief accountant and manager of planning and finance department of Shaanxi Silk since May 2001. He joined the Company as a non-executive Director since October 2000.

Ms. Wang Jing (王京女士), aged 35, graduated from 北京財貿學院 (Beijing Finance and Trade College) in September 1988. Ms. Wang was the vice general manager of 北京京泰投資管理中心 (Beijing Holdings Investment Management Co., Ltd., "Beijing Holdings"), one of the substantial shareholders, since February 2004 and was elected as a non-executive Director since May 2004.

Independent non-executive Directors

Professor Gong Shuxi (龔書喜教授), aged 50, graduated from 西北電訊工程學院 (Northwest Institute of Communications Engineering, now known as Xidian University) with a bachelor degree, and from Xi'an Jiantong University with master and doctorate degrees in electromagnetic and microwave technology and is a professor. Professor Gong became the professor in Antenna Research Institute of Xidian University in 1997. Since October 2000, he was elected as an independent non-executive Director.

Mr. Wang Pengcheng (王鵬程先生), aged 39, graduated from 陝西財經學院 (Shaanxi Finance College*) in December 1988 with a certificate of tertiary education majored in accountancy and obtained a master degree in business administration from the Open University of Hong Kong in December 2000. Mr. Wang joined the 西安財政局 (Xi'an Finance Bureau, a shareholder of XITIC which in turn is a substantial Shareholder of the Company). He then joined 西安西格瑪有限責任會計師事務所 (Xi'an Zigma Accountants, LLC) as the vice chief executive of the firm until present. He was elected as an independent non-executive Director since 30 September 2004.

Mr. Qiang Wenyu (強文郁先生), aged 33, graduated from the School of Management and Economics of Beijing Institute of Technology (北京理工大學) in 1994 and joined the service of China North Industries Corporation (中國北方工業公司) in 1995. In 1998, he served as general manager of NIC Sports Inc. In 2003, Mr. Qiang assumed office as the deputy general manager of Silver City International (Holdings) Limited and the general manager of Throne Star International Limited. Mr. Qiang is a non-executive director of Raymond Industrial Ltd., a company listed on the main board of the Stock Exchange. He was elected as an independent non-executive Director since December 2005.

SUPERVISORS

Mr. Hu Hui (胡暉先生), aged 40, graduated from 長沙鐵道學院 (Changsha Railway College, now know as 中南大學 (Central South University)) major in mechanical engineering in 1989 and is an engineer. Mr. Hu was employed by 株州齒輪股份有限公司 (Zhuzhou Gear Co., Ltd.) from 1989 to December 2001. He joined the Group in May 2002, and then became the manager of the corporate planning department and a Supervisor in July 2002.

Ms. Sun Guilian (孫桂蓮小姐), aged 43, graduated from the 中南財經政法大學 (Zhongnan University of Economics and Law) majoring in business administration in 2002. She was employed by the No. 704 factory of the State and worked in the enterprise statistics department from 1984 to 2000. Ms. Sun joined the Group in September 2000 and was elected as a Supervisor in July 2002.

Directors, Supervisors and Senior Management (continued)

Mr. Liu Jiyang (劉激揚先生), aged 39, graduated from Xi'an Jiaotong University with a bachelor degree in management engineering in 1989 and a master degree in economic laws in 1993. Mr. Liu was employed by 西安大唐電信有限公司 (Xi'an Datang Telecom Company Limited) as the enterprise legal adviser and deputy general manager of 西安山脈科技發展有限公司 from April 2001 to February 2002. From March 2002 till now, he has been working as the general manager of 西安協聖科技有限責任公司 and was elected as a Supervisor in October 2002.

Professor Shi Ping (師萍教授), aged 57, holds a doctorate degree. Professor Shi has started working as a professor, tutor of doctorate students, deputy manager of the Institute of Economics and Management in 西北大學 (Northwest University) since December 1985. Currently, she is an independent non-executive director of Xi'an Jiefang Group. She was elected as a Supervisor in October 2002.

Mr. Gu Linqiang (谷林強先生), aged 40, graduated from 山東大學 (Shandong University) in 1989 with a bachelor degree in management science. In 1994, Mr. Gu worked in the credit department of XITIC. In 1997, he was posted to the investment banking division of XITIC and assumed the posts of deputy manager. Mr. Gu was elected as a Supervisor in October 2002.

SENIOR MANAGEMENT

Mr. Fang Xi (方曦先生), aged 36, graduated from the agricultural finance department of 中南財經政法大學 (Zhongnan University of Economics and Law) in 1993 and worked as head of finance department and deputy chief accountant of 國營黃河機器制造廠 (State-owned Huanghe Machinery Plant) from 1993 to 2001. Currently, he is responsible for the finance function of the Group. Mr. FANG was nominated by the Board as an executive Director effective in April 2005 and had resigned from the post of executive Director in September 2005.

Mr. Pan Zhiqing (潘志青先生), aged 44, graduated from 清華大學 (Tsinghua University) in August 1984 with a bachelor degree in Computer Science and Engineering, in 1987 with a master degree from 中國科學院數學研究所 (Institute of Mathematics in Chinese Academy of Sciences). Mr. Pan worked for 深圳安科公司 (Analogic Scientific Inc.) as team leader and assistant manager in MRI Department during August 1987 to July 1994, and as vice general manager in 深圳市聯誼九天電子技術有限公司 (Shenzhen Topsky Electronic Co., LTD.) and 深圳市泰立康電子有限公司 (Shenzhen Telecom Electronic Co., LTD.) during August 1994 to July 1997 and during August 1997 to July 1999 respectively. Before joining the Group, Mr. Pan worked as a general manager in 深圳市海天泰通訊設備有限公司 (Shenzhen Haitian-Tech Communications Co., LTD.). Mr. Pan was appointed as the Vice President of the Group in October 2006.

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Ms. Chow Yuk Lan (周玉蘭小姐), aged 32, holds a bachelor (Honour) degree in Accountancy from the Hong Kong Polytechnic University. She is an associate member of both the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. Ms. Chow has over eight years of experience in areas of auditing, accounting, taxation, company secretarial and financial management. Before joining the Company in July 2005, Ms. Chow worked as a manager in an international accounting firm.

Report of the Supervisory Committee

To the Shareholders,

During the year ended 31 December 2006, the supervisory committee of the Company (the "Supervisory Committee") thoroughly performed its duties faithfully in accordance with the provisions of the Company Laws of the People's Republic of China, the relevant laws and regulations of Hong Kong and the articles of association (the "Articles") of the Company. Adhering to the principles of safeguarding interests of the Shareholders and benefits of the staff of the Company, the Supervisors attended Board meetings, acquiring first-hand information of the Board's decision on marking important issues and effectively monitoring the Board and senior management of the Company in performing their duties, and providing reasonable recommendations and advices on the operations and development plans of the Company.

The Supervisory Committee considers that:

1. The Company's operation for the year 2006 complied with the relevant laws and regulations of the state and local governments of the PRC and the Articles.

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

3. The connected transactions of the Company were in the interests of the shareholders as a whole and under fair and reasonable basis;

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

5. The Supervisory Committee has verified the financial information such as the financial and performance reports and was satisfied with the report of the Board, the audited financial statements to be submitted to the forthcoming Annual General Meeting by the Board. We are of the opinion that the audited financial statements for the year ended 31 December 2006 have reflected truly and fairly the conditions of the operating results and the assets of the Company and of the Group.

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

By order of the Supervisory Committee

Hu Hui
Chairman

Xi'an, the PRC
9 March 2007

Directors' Report

The Directors have pleasure in presenting their report for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

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

The principal activities of its subsidiaries are set out in note 18 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2006 are set out in the income statement on page 27 of this annual report.

The Directors do not recommend the payment of any final dividend for the year ended 31 December 2006.

DISTRIBUTABLE RESERVES

In accordance with the Articles of Association of the Company (the "Articles"), the reserve available for distribution is the lower of amount determined under accounting principles generally accepted in the PRC and the amount determined under the principles generally accepted in Hong Kong. Based on the financial statements of the Company prepared in accordance with the relevant accounting principles and financial regulations applicable to companies established in the PRC, the Company's reserves available for distribution to shareholders as at 31 December 2006 were nil (2005: RMB53,863,513).

FINANCIAL SUMMARY

A summary of the results of the Group for each of the five years ended 31 December 2006 is set out on page 68 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group spent approximately RMB2.4 million on plant and equipment and approximately RMB52.7 million on properties under construction to expand and upgrade its production capacity.

Details of these and other movements during the year in the property, plant and equipment of the Group are set out in note 17 to the financial statements.

DIRECTORS AND SUPERVISORS

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

Executive directors:
Mr. Xiao Bing *(Chairman)*
Mr. Liang Zhijun
Mr. Zhou Tianyou

Non-executive directors:
Mr. Wang Ke
Mr. Liu Yongqiang
Mr. Li Wenqi
Ms. Wang Jing
Mr. Sun Wenguo (appointed on 13 October 2006)
Mr. Wang Quanfu (resigned on 13 October 2006)

Independent non-executive directors:
Professor Gong Shuxi
Mr. Wang Pengcheng
Mr. Qiang Wenyu

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

1. **Directors' and Supervisors' Service Contracts**

Each of the Directors and the Supervisors has entered into a service contract with the Company for a fixed term of three years or until the expiry of the current session of the board of directors subject to renewal upon approval by the Shareholders for one or more consecutive terms of three years.

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

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

2. **Independent non-executive Directors**

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

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

As at 31 December 2006, the interests and short positions of the Directors, Supervisors (as if the requirements applicable to the Directors under the Securities and Futures Ordinance ("SFO") (Chapter 571 of the Laws of Hong Kong) had applied to the Supervisors) and chief executives of the Company, including their respective associates, in the shares (the "Shares"), underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise required, pursuant to Rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Long positions in Domestic Shares of the Company

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

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

Other than as disclosed above, none of the Directors, Supervisors and chief executive of the Company nor their respective associates had any interests or short positions in any Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as at 31 December 2006 as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise required, pursuant to Rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

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

As at 31 December 2006, so far as is known to the Directors, Supervisors and chief executives of the Company, none of the Directors, Supervisors or chief executives of the Company or any of their respective associates including spouses and children under 18 years of age had any interest in, or has been granted, or exercised, any rights to subscribe for H Shares (or warrants or debentures, if applicable) or to acquire H Shares.

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

As at 31 December 2006, the following persons or entities (other than the Directors, Supervisors and chief executives of the Company) had interests or short positions in the Shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO:

(A) Substantial shareholders of the Company

Long positions in Domestic Shares of the Company

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
Tian An Investment	Corporate	Beneficial owner	180,000,000 *(Note 1)*	37.09%	27.81%
Ms. Yao Wenli (姚文俐女士)	Personal	Held by controlled Corporation	180,000,000 *(Note 1)*	37.09%	27.81%
Professor Xiao Liangyong (肖良勇教授)	Personal	Parties acting in concert	180,000,000 *(Note 2)*	37.09%	27.81%
西安解放集團股份有限公司 (Xi'an Jiefang Group Joint Stock Co., Ltd.*)	Corporate	Beneficial owner	100,000,000	20.60%	15.45%
西安國際信託投資有限公司 (Xi'an International Trust & Investment Co., Ltd.*, "XITIC")	Corporate	Beneficial owner	70,151,471 *(Note 3)*	14.45%	10.84%
西安市財政局 (Xi'an Finance Bureau*)	Corporate	Held by controlled Corporation	70,151,471 *(Note 3)*	14.45%	10.84%
陝西保升國際投資有限責任公司 (Shaanxi Baosheng International Investment Company Limited*)	Corporate	Held by controlled Corporation	70,151,471 *(Note 3)*	14.45%	10.84%

Notes:

1. The Domestic Shares were held by Tian An Investment, which is beneficially owned as to 60% by Mr. Xiao Bing and 40% by Ms. Yao Wenli. By virtue of the SFO, Ms. Yao Wenli was deemed to be interested in the same 180,000,000 Domestic Shares held by Tian An Investment.

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

3. The Domestic Shares were held by XITIC. By virtue of the SFO, Xi'an Finance Bureau and Shaanxi Baosheng International Investment Company Limited, which respectively holds more than one third of voting rights of XITIC, were deemed to be interested in the same 70,151,471 Domestic Shares held by XITIC.

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

Long positions in Domestic Shares of the Company

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

Long positions in H Shares of the Company

Name of shareholder	Type of interest	Capacity	Number of H Shares held in the Company	Approximate percentage in the total issued H Shares of the Company	Approximate percentage in the total issued share capital of the Company
Taicom Capital Ltd.	Corporate	Investment manager	13,004,000 *(Note 3)*	8.03%	2.00%
Carlson Fund Equity Asian Small Cap	Corporate	Investment manager	10,520,000 *(Note 3)*	6.50%	1.62%
宋穎女士	Personal	Beneficial owner	8,800,000 *(Note 3)*	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.

The Company has been informed by Shaanxi Silk that it has entered into an agreement to transfer all its domestic shares to 深圳市匯泰投資發展有限公司 (Shenzhen Huitai Investment Development Company Limited), and such transfer has been approved by 中國國務院國有資產監督管理委員會 (State-owned Assets Supervision and Administration Commission of the State Council of the PRC) on 29 November 2006. As advised by the PRC legal adviser of the Company, the transfer will be effective upon approval by the Ministry of Commerce of the PRC and completion of the registration procedures with the Shaanxi Provincial Administration of Industry and Commerce.

Save as disclosed above, as at 31 December 2006, the Directors, Supervisors and chief executives of the Company were not aware of any person (other than the Directors, Supervisors and chief executives of the Company) who had an interest or a short position in the Shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

ARRANGEMENTS TO PURCHASE SHARES

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

CONNECTED TRANSACTIONS

During the year, the Company has undertaken and/or approved a connected transaction and certain continuing connected transactions with its connected persons (as defined under the GEM Listing Rules), details of which are as follows:

Connected transaction

On 30 December 2005, a non-wholly owned subsidiary of the Company, Jiazai Communications Equipment Company Limited ("Jiazai"), entered into a TD-SCDMA Technology Licence Agreement with Datang Mobile Communication Equipment Co., Ltd. ("Datang Mobile"), a substantial shareholder of Jiazai, pursuant to which Datang Mobile agreed to grant the non-exclusive licence to Jiazai for using its self-developed TDSCDMA mini-cellular base station technology at a consideration of RMB60,855,100 over the period of nine years commencing from 30 December 2005. The transaction had been approved by resolutions of independent shareholders of the Company passed on 24 November 2006.

Continuing connected transactions

1. On 30 December 2005, Jiazai entered into a Manufacture Agreement with Datang Mobile, pursuant to which Jiazai agreed to sell and Datang Mobile agreed to purchase the TD-SCDMA mini-cellular base stations manufactured by Jiazai on an exclusive basis for a period of six years commencing from 30 December 2005. The transaction had been approved by resolutions of independent shareholders of the Company passed on 24 November 2006. For the year ended 31 December 2006, no transaction had been undertaken under the Manufacture Agreement.

2. On 6 July 2006, the Company, as tenant, entered into a lease agreement with 西安海天投資控股有限責任公司 (Xi'an Haitian Investment Holdings Limited) ("Haitian Investment"), as landlord, for the lease of land for daily operation and production purposes. Haitain Investment is a connected person of the Company within the meaning of the GEM Listing Rules by virtue of its being owned as to 75% by 肖兵先生 (Mr. Xiao Bing), a Director and substantial Shareholder, 5% by 梁志軍先生 (Mr. Liang Zhijun), a Director, 5% by 方曦先生 (Mr. Fang Xi), the financial controller of the Company, and the remaining 15% by independent third parties. For the year ended 31 December 2006, rent paid to Haitian Investment amounted to RMB2,630,000.

The aforesaid continuing connected transactions have been reviewed by independent non-executive Directors. The independent non-executive Directors confirmed that the continuing connected transaction set out in paragraph 2 above was entered into:

1. in the ordinary and usual course of business of the Company;

2. either on normal commercial terms or on terms no less favourable to the Company than terms available to or from independent third parties; and

3. in accordance with the relevant agreement governing it on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

DIRECTORS' AND SUPERVISORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in note 31 of the financial statements for the year ended 31 December 2006 set out in this annual report, no contract of significance, to which the Company or its subsidiaries was a party and in which a Director or a Supervisor had a material interest, whether directly or indirectly, subsisted at the end of the year or any time during the year.

COMPETING INTERESTS

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

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2006.

CONTINGENT LIABILITIES

The Group did not have any material contingent liability as at 31 December 2006.

CORPORATE GOVERNANCE

A report on the principal corporate governance practices adopted by the Company is set out on pages 10 to 13 of the annual report.

PRE-EMPTIVE RIGHTS

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

AUDITORS

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

On behalf of the Board

Mr. Xiao Bing
Chairman

Xi'an, the PRC
9 March 2007

Independent Auditor's Report

CCIF
CCIF CPA LIMITED
20/F Sunning Plaza
10 Hysan Avenue
Causeway Bay Hong Kong

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

We have audited the consolidated financial statements of Xi'an Haitian Antenna Technologies Co., Ltd. (the "Company") set out on pages 27 to 67, which comprise the consolidated and Company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of the report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Report (continued)

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Without qualifying our opinion, we draw attention to Note 2 to the financial statements which indicates that the Group incurred consolidated loss of RMB68,109,460 during the year ended 31 December 2006 and, as of that date, the Group reported consolidated net current liabilities of RMB31,422,410. These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern.

CCIF CPA Limited
Certified Public Accountants
Hong Kong, 9 March 2007

Delores Teh
Practising Certificate Number P03207

Consolidated Income Statement

For the year ended 31 December 2006

	Note	2006 RMB	2005 RMB
TURNOVER	6	**117,119,020**	176,889,046
COST OF SALES		**(95,534,192)**	(97,416,207)
GROSS PROFIT		**21,584,828**	79,472,839
OTHER REVENUE	6	**861,465**	2,484,566
DISTRIBUTION COSTS		**(28,474,928)**	(31,909,604)
ADMINISTRATIVE EXPENSES		**(39,303,237)**	(21,567,603)
OTHER OPERATING EXPENSES		**(18,618,022)**	(4,636,370)
(LOSS)/PROFIT FROM OPERATIONS		**(63,949,894)**	23,843,828
FINANCE COSTS	8a	**(9,361,873)**	(7,839,762)
(LOSS)/PROFIT BEFORE TAXATION	8	**(73,311,767)**	16,004,066
INCOME TAX CREDIT/(EXPENSE)	11	**268,451**	(611,391)
(LOSS)/PROFIT FOR THE YEAR		**(73,043,316)**	15,392,675
ATTRIBUTABLE TO			
Equity shareholders of the Company	12	**(68,109,460)**	15,463,137
Minority interests		**(4,933,856)**	(70,462)
(LOSS)/PROFIT FOR THE YEAR		**(73,043,316)**	15,392,675
DIVIDEND	13	**–**	9,705,882
(LOSS)/EARNINGS PER SHARE – BASIC	14	**(10.5 cents)**	2.4 cents

The notes on pages 35 to 67 form an integral part of these financial statements.

Consolidated Balance Sheet

As at 31 December 2006

	Note	2006 RMB	2005 RMB
NON-CURRENT ASSETS			
Interests in leasehold land held for own use under operating leases	15	**11,356,265**	11,615,250
Intangible assets	16	**86,279,431**	35,266,359
Property, plant and equipment	17	**144,180,430**	97,979,542
Other financial assets		**280,000**	280,000
Pledged bank deposits		**883,497**	796,219
		242,979,623	145,937,370
CURRENT ASSETS			
Inventories	21	**34,040,218**	35,696,685
Trade receivables	19	**101,681,916**	175,872,533
Bills receivable		**–**	1,120,378
Other receivables and prepayments		**36,715,191**	12,128,923
Amounts due from directors	20	**1,404,701**	1,862,240
Amounts due from related parties	22	**4,205,646**	3,235,720
Pledged bank deposits		**869,896**	2,189,007
Bank balances and cash		**47,925,958**	91,248,697
		226,843,526	323,354,183
CURRENT LIABILITIES			
Trade payables	23	**61,850,110**	69,929,958
Bills payable		**–**	10,631,626
Other payables and accrued charges		**27,769,187**	17,531,017
Dividend payable		**2,011,140**	3,003,140
Taxation		**3,035,156**	7,438,623
Interest bearing borrowings	24	**163,600,343**	51,565,460
		258,265,936	160,099,824
NET CURRENT (LIABILITIES)/ASSETS		**(31,422,410)**	163,254,359
TOTAL ASSETS LESS CURRENT LIABILITIES		**211,557,213**	309,191,729
NON-CURRENT LIABILITIES			
Interest bearing borrowings	24	**–**	70,000,000
Deferred taxation	26	**600,000**	600,000
		600,000	70,600,000
NET ASSETS		**210,957,213**	238,591,729

Consolidated Balance Sheet *(continued)*

As at 31 December 2006

	Note	2006 RMB	2005 RMB
CAPITAL AND RESERVES			
Share capital	27	**64,705,882**	64,705,882
Reserves	28	**105,646,849**	173,756,309
TOTAL EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY		**170,352,731**	238,462,191
MINORITY INTERESTS		**40,604,482**	129,538
TOTAL EQUITY		**210,957,213**	238,591,729

Approved and authorised for issue by the board of directors on 9 March 2007.

On behalf of the board

Mr. Xiao Bing
Director

Mr. Zhou Tianyou
Director

The notes on pages 35 to 67 form an integral part of these financial statements.

Balance Sheet

As at 31 December 2006

	Note	2006 RMB	2005 RMB
NON-CURRENT ASSETS			
Interests in leasehold land held for own use under operating leases	15	**11,356,265**	11,615,250
Intangible assets	16	**32,186,008**	35,266,359
Property, plant and equipment	17	**138,703,529**	94,705,255
Interest in subsidiaries	18	**92,747,500**	7,897,500
Other financial assets		**280,000**	280,000
Pledged bank deposits		**883,497**	796,219
		276,156,799	150,560,583
CURRENT ASSETS			
Inventories	21	**17,255,623**	32,385,553
Trade receivables	19	**88,441,535**	171,225,803
Bills receivable		**–**	1,120,378
Other receivables and prepayments		**34,417,574**	10,227,032
Amounts due from directors	20	**1,404,701**	1,862,240
Amounts due from related parties	22	**3,405,703**	2,429,964
Amounts due from subsidiaries		**10,429,979**	6,309,970
Pledged bank deposits		**869,896**	2,189,007
Bank balances and cash		**6,016,417**	88,713,427
		162,241,428	316,463,374
CURRENT LIABILITIES			
Trade payables	23	**57,105,761**	69,838,175
Bills payable		**–**	10,631,626
Other payables and accrued charges		**13,122,371**	15,753,731
Amounts due to subsidiaries		**1,929,331**	–
Dividend payable		**2,011,140**	3,003,140
Taxation		**4,127,232**	7,352,443
Interest bearing borrowings	24	**163,600,343**	51,565,460
Loans from a subsidiary	25	**7,415,000**	–
		249,311,178	158,144,575
NET CURRENT (LIABILITIES)/ASSETS		**(87,069,750)**	158,318,799
TOTAL ASSETS LESS CURRENT LIABILITIES		**189,087,049**	308,879,382
NON-CURRENT LIABILITIES			
Interest bearing borrowings	24	**–**	70,000,000
Deferred taxation	26	**600,000**	600,000
		600,000	70,600,000
NET ASSETS		**188,487,049**	238,279,382

Balance Sheet (continued)

As at 31 December 2006

	Note	2006 RMB	2005 RMB
CAPITAL AND RESERVES			
Share capital	27	**64,705,882**	64,705,882
Reserves	28	**123,781,167**	173,573,500
TOTAL EQUITY		**188,487,049**	238,279,382

Approved and authorised for issue by the board of directors on 9 March 2007.

On behalf of the board

Mr. Xiao Bing
Director

Mr. Zhou Tianyou
Director

The notes on pages 35 to 67 form an integral part of these financial statements.

Consolidated Statement of Changes In Equity

For the year ended 31 December 2006

	Share capital RMB (Note 27)	Share premium RMB	Statutory surplus reserve RMB (Note 28(a))	Statutory public welfare fund RMB (Note 28(b))	Retained profits RMB	Total RMB	Minority interests RMB	Total equity RMB
At 1 January 2005	64,705,882	71,228,946	9,805,345	5,325,656	81,639,107	232,704,936	–	232,704,936
Dividend	–	–	–	–	(9,705,882)	(9,705,882)	–	(9,705,882)
Capital injection by minority interests	–	–	–	–	–	–	200,000	200,000
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
Capital injection by minority interests	–	–	–	–	–	–	45,458,800	45,458,800
Loss for the year	–	–	–	–	(68,109,460)	(68,109,460)	(4,933,856)	(73,043,316)
Acquisition of additional interest in a subsidiary	–	–	–	–	–	–	(50,000)	(50,000)
Transfer	–	–	410,835	–	(410,835)	–	–	–
At 31 December 2006	64,705,882	71,228,946	10,623,775	5,529,453	18,264,675	170,352,731	40,604,482	210,957,213

The notes on pages 35 to 67 form an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2006

	2006 RMB	2005 RMB
CASH FLOWS FROM OPERATING ACTIVITIES		
(Loss)/Profit before taxation	**(73,311,767)**	16,004,066
Adjustments for:		
Depreciation of property, plant and equipment	**8,577,381**	10,608,958
Amortisation of lease premium held for own use	**258,985**	259,020
Amortisation of development costs	**7,419,334**	3,116,075
Amortisation of technological know-how	**7,761,677**	1,000,000
Provision for obsolete stock	**3,219,479**	–
Impairment losses for bad and doubtful debts	**6,340,443**	–
Loss on disposal of property, plant and equipment	**35,101**	162,114
Finance costs	**9,361,873**	7,839,762
Interest income	**(604,673)**	(724,025)
OPERATING (LOSS)/PROFIT BEFORE CHANGES IN WORKING CAPITAL	**(30,942,167)**	38,265,970
Increase in inventories	**(1,563,012)**	(10,142,128)
Decrease in trade and bills receivables	**68,970,552**	2,672,767
Increase in other receivables and prepayments	**(24,586,268)**	(362,494)
Increase/(decrease) in amounts due from directors	**457,539**	(1,155,328)
Increase in amounts due from related parties	**(969,926)**	(2,940,720)
(Decrease)/increase in trade and bills payables	**(18,711,474)**	16,691,517
(Decrease)/increase in other payables and accrued charges	**(303,030)**	6,470,262
CASH GENERATED FROM OPERATIONS	**(7,647,786)**	49,499,846
Income tax paid	**(4,135,016)**	(2,026,056)
NET CASH (USED IN)/GENERATED FROM OPERATING ACTIVITIES	**(11,782,802)**	47,473,790
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	**604,673**	724,025
Proceeds from disposal of property, plant and equipment	**265,611**	60,141
Payment for construction cost on properties under construction and purchase of property, plant and equipment	**(55,078,981)**	(5,328,904)
Decrease in pledged bank deposits	**1,231,833**	5,017,942
Expenditure on product development	**(5,338,983)**	(11,535,285)
Acquisition of technological know-how	**(50,313,900)**	–
NET CASH USED IN INVESTING ACTIVITIES	**(108,629,747)**	(11,062,081)

Consolidated Cash Flow Statement (continued)

For the year ended 31 December 2006

	2006 RMB	2005 RMB
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from share capital contributed by minority shareholders	**45,458,800**	200,000
Acquisition of shares in a subsidiary	**(50,000)**	–
New loans raised	**123,000,000**	51,565,460
Repayment of loans	**(80,965,117)**	(90,000,000)
Interest paid	**(9,361,873)**	(7,839,762)
Dividend paid to equity shareholders of the Company	**(992,000)**	(6,702,742)
NET CASH GENERATED FROM/(USED IN) FINANCING ACTIVITIES	**77,089,810**	(52,777,044)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(43,322,739)**	(16,365,335)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**91,248,697**	107,614,032
CASH AND CASH EQUIVALENTS AT END OF YEAR	**47,925,958**	91,248,697
ANALYSIS OF BALANCE OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**47,925,958**	91,248,697

The notes on pages 35 to 67 form an integral part of these financial statements.

Notes to the Financial Statements

For the year ended 31 December 2006

1. ORGANISATION AND OPERATIONS

The Company is a foreign investment joint stock limited company and its overseas listed foreign shares were listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

The principal activities of the Company are research and development, manufacture and sale of base station antennas and related products. The principal activities of the subsidiaries are set out in Note 18 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. BASIS OF PRESENTATION – MATERIAL UNCERTAINTIES RELATING TO THE GOING CONCERN BASIS

The Group sustained consolidated loss from ordinary activities attributable to shareholders of RMB68,109,460 (2005: consolidated profit RMB15,463,137) during the year, reported consolidated net current liabilities of RMB31,422,410 (2005: consolidated net current assets RMB163,254,359) as at 31 December 2006, and reported consolidated net cash outflow from operating activities of RMB11,782,802 (2005: consolidated net cash inflow from operating activities RMB47,473,790).

Notwithstanding going concerns and liquidity concerns arising from the consolidated net current liabilities as at 31 December 2006, the financial statements have been prepared on the assumption that the Group will continue to operate as a going concern in the foreseeable future. In the opinion of the directors, the liquidity of the Group can be maintained in the coming year, after taking into account several measures adopted and to be adopted subsequent to the balance sheet date as further detailed below:

(a) On 2 March 2007, the Company and two joint placing agents (the "Joint Placing Agents") entered into a non-legally binding preliminary placing agreement (the "Preliminary Agreement"), pursuant to which the Joint Placing Agents have agreed in principle to, on a best effort basis, severally procure placees to subscribe for and purchase an aggregate of not more than 177,941,177 H shares at an agreed-upon placing price (the "Placing Price"). The Placing Price will be determined upon execution of a definitive placing agreement (the "Definitive Placing Agreement").

The Company and the Joint Placing Agents shall execute the Definitive Placing Agreement on a date to be agreed between them after the following conditions have been fulfilled:

(1) the obtaining of the necessary approval of the shareholders of the Company for the issue of the New H Shares and the sale of the Sale H Shares in accordance with the Company's articles of association and the applicable laws and regulations; and

(2) the obtaining of all necessary consents and approval of the relevant regulatory authorities in the mainland China and Hong Kong for the issue of the New H Shares and the sale of the Sale H Shares, including the approval of the China Securities Regulatory Commission ("CSRC") and the State-owned Assets Supervision and Administration Commission of the State Council of the mainland China ("SASAC"), if applicable.

2. BASIS OF PRESENTATION – MATERIAL UNCERTAINTIES RELATING TO THE GOING CONCERN BASIS *(continued)*

Based on the maximum number of new H shares of 161,764,706 to be issued under the Agreement and the indicative placing price of approximately HK$0.32 per new H shares (being a discount of 20% to the average closing price of H share as quote on GEM for the 15 consecutive trading days ended on 2 March 2007), if the placing is successful, the gross proceeds from the placing of the New H Shares are estimated to be approximately HK$51.76 million.

The Preliminary Placing Agreement will lapse and has no effect on the date falling 6 months after the approval of the CSRC for the issue of the New H Shares and the sale of the Sale H Shares has been obtained. In such event no party to the Preliminary Placing Agreement shall have any claims against the other for any loss or damages.

There are no provisions in the Preliminary Placing Agreement which impose any obligation on the Company to sign the Definitive Placing Agreement or complete the Placing within a specific period of time.

(b) The Group maintains good and stable relationship with its banks and are confident of receiving continuing financial support from the banks. The Group is actively discussing with its banks for the renewal of various collateralised short term banking facilities of approximately RMB140 million which respectively shall expire in 2007. The directors are confident that the banks will agree to renew the short term banking facilities. With the ongoing support from the banks by way of renewal of the short term banking facilities, the Group should be able to rely on the facilities to generate sufficient cashflow from on-going operations to cover its operating costs and to meet its financing commitments.

(c) A related company has indicated its intention to continue to provide financial support to the Company by way of pledging its land as security for the Company to renew the bank loan and if necessary, increase the banking facilities.

(d) On 2 March 2007, the board of directors passed a resolution to approve of the Company to dispose of the land and building which comprise the office buildings and the production facilities for not less than RMB40,000,000 by no later than end of June 2007.

(e) The directors have adopted various cost control measures to reduce various general and administrative and other operating expenses.

In the opinion of the directors, in light of the measures adopted, together with the expected results of other measures and arrangements in progress and as planned, the Group will have sufficient financial resources to satisfy its working capital needs and other financing requirements for the foreseeable future. Accordingly, the directors are satisfied that it is appropriate to prepare the financial statements on a going concern basis.

Should the Group be unable to achieve the above and fail to continue in business as a going concern, adjustments would have to be made to restate the values of the assets to their immediate recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and liabilities as current assets and liabilities, respectively. The effects of these adjustments have not been reflected in the financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of Compliance

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 Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for current accounting period of the Group and the Company. The accounting policies of the Group and Company after the adoption of these new and revised HKFRSs have been summarised below.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see Note 35). The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2006 but are not relevant to the Group's operations:

– HKAS 19 Amendment – Actuarial Gains and Losses, Group Plans and Disclosures

– HKAS 21 Amendment – Net Investment in a Foreign Operation;

– HKAS 39 Amendment – Cash Flow Hedge Accounting of Forecast Intragroup Transactions;

– HKAS 39 Amendment – The Fair Value Option;

– HKAS 39 and HKFRS 4 Amendment – Financial Guarantee Contracts;

– HKFRS 6 – Exploration for and Evaluation of Mineral Resources;

– HKFRS 1 – Amendment – First-time Adoption of Hong Kong Financial Reporting Standards and HKFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources;

– HKFRS-Int 4 – Determining whether an Arrangement contains a Lease;

– HKFRS-Int 5 – Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds; and

– HKFRS-Int 6 – Liabilities arising from Participating in a Specific Market -Waste Electrical and Electronic Equipment.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

b) Basis of Preparation of the Financial Statements

The consolidated financial statements for the year ended 31 December 2006 comprise the Company and its subsidiaries (together referred to as the "Group").

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the other financial assets are stated at fair value as explained in the accounting policies set out in Note 3(g).

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 5.

c) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses, (see Note 3(k)).

d) Minority Interests

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

d) Minority Interests *(continued)*

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

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 (see Note 3(k)). The land lease premium held for own use is amortised on a straight-line basis over the period of the land use 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 3(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.

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.

Gain or losses arising from the retirement or disposal of an item of plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the items and are recognised in income statement on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of 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 than 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 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 3(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 (see Note 3(k)). 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 are reviewed annually.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above.

i) Technological Know-how

Technological know-how represents purchase cost for the technical knowledge and skill in the development and manufacturing of telecommunication products, is stated at cost less accumulated amortisation and identified impairment loss (see Note 3(k)).

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.

j) Operating Leases

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to income statement 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 income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to income statement 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 3(e)).

Notes to the Financial Statements (continued)

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

k) Impairment of Assets

i) Impairment of other receivables

Other current receivables that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

– For trade and other current receivables carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through income statement. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired.

– interest in leasehold land held for own use under operating leases;

– property, plant and equipment;

– intangible assets;

– investments in subsidiaries; and

– other financial assets.

If any such indication exists, the asset's recoverable amount is estimated. In addition, intangible assets that are not yet available for use, 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).

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

k) Impairment of Assets *(continued)*

ii) Impairment of other assets (continued)

– Recognition of impairment losses

An impairment loss is recognised in income statement whenever the carrying amount of an asset or the cash-generating unit to which it belongs, exceeds its recoverable amount.

– Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

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 income statement 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 (see Note 3(k)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see Note 3(k)).

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

p) 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.

q) Income Tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date, Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

q) Income Tax *(Continued)*

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset, Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

    - the same taxation entity; or

    - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

r) 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.

s) 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.

t) Government Grants

Government grants are recognised in the balance sheet initially 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 assets are deducted in arriving at the carrying amount of the asset and consequently are recognised in income statement over the useful life of the asset.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

u) Translation of Foreign Currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are re-translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into RMB at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity.

On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity which relate to that foreign operation is included in the calculation of the profit or loss on disposal.

v) Related Parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

ii) the Group and the party are subject to common control;

iii) the party is a member of key management personnel of the Group or the Group's parent or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals; or

iv) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

w) 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

w) Segment Reporting *(continued)*

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.

x) 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.

4. 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 Renminbi, 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.

4. FINANCIAL RISK MANAGEMENT *(continued)*

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.

5. ACCOUNTING ESTIMATES AND JUDGEMENTS

(a) Key sources of estimation uncertainty

Note 16 contains information about the assumptions relating to the amortisation and impairment of intangible assets. Other key sources of estimation uncertainty are as follows:

(i) Write-downs of inventories

Inventories are written down to net realisable value based on an assessment of the reliability of inventories. Written-downs on inventories are recorded where events or changes in circumstances indicate that the balance may not be realised. The identification of written-downs requires the use of judgments and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of inventories and write-down of inventories in the periods in which such estimate has been changed.

(ii) Estimated provision for impairment of trade and other receivables

The Group makes impairment losses on bad and doubtful debts based on an assessment of the recoverability of trade receivables and other receivables. Impairments are applied to trade receivables and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgment and estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of receivables and bad and doubtful debts expenses in the period in which such estimate has been charged.

(b) Critical accounting judgements in applying the Group's accounting policies

Certain critical accounting judgements in applying the Group's accounting policies are described below.

Going concern basis

As mentioned in Note 2 to the financial statements, the directors are satisfied that the Group will be able to meet its financial obligations in full as and when they fall due in the foreseeable future. As the directors are confident that the Group will be able to continue in operational existence in the foreseeable future, the financial statements have been prepared on a going concern basis.

If the going concern basis is not appropriate, adjustments would have been made to reclassify non-current assets and liabilities as current assets and liabilities respectively, to reduce the values of assets to their immediate recoverable amounts and to provide for any further liabilities which might arise. Such adjustments may have a significant consequential effect on the loss for the year and net assets of the Group.

6. TURNOVER AND REVENUE

The principal activities of the Group are research and development, manufacturing and sales of base station and related products.

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.

	2006 *RMB*	2005 *RMB*
Turnover		
Sales of goods	**109,416,210**	166,339,137
Service income	**7,702,810**	10,549,909
	117,119,020	176,889,046
Other revenue		
Government grants	**189,300**	1,644,786
Interest income	**604,673**	724,025
Others	**67,492**	115,755
	861,465	2,484,566
Total revenue	**117,980,485**	179,373,612

7. 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			
	2006		2005	
	Segment revenue *RMB*	Contribution to operating profit/(loss) *RMB*	Segment revenue *RMB*	Contribution to operating profit *RMB*
Mainland China	**88,819,541**	**(72,966,924)**	152,851,870	13,331,720
Asia excluding mainland China	**23,848,403**	**7,706,026**	15,430,393	6,643,033
Others	**4,451,076**	**1,311,004**	8,606,783	3,869,075
	117,119,020		176,889,046	
(Loss)/Profit from operations		**(63,949,894)**		23,843,828

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.

8. (LOSS)/PROFIT BEFORE TAXATION

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

a) Finance costs

	2006	2005
	RMB	*RMB*
Interest on bank loans wholly repayable within five years	**9,361,873**	7,839,762

b) Staff costs

	2006	2005
	RMB	*RMB*
Directors' and supervisors' remuneration *(Note 9)*	**1,957,910**	1,241,579
Salaries, wages and other benefits	**21,344,800**	19,429,525
Retirement benefit scheme contributions (excluding directors)	**1,443,315**	1,493,605
	24,746,025	22,164,709

c) Other items

	2006	2005
	RMB	*RMB*
Auditors' remuneration		
– audit services	**595,500**	430,435
– other services	**180,897**	80,279
Cost of inventories	**87,968,373**	86,362,996
Depreciation of property, plant and equipment	**8,577,381**	10,608,958
Amortisation of development costs	**7,419,334**	3,116,075
Amortisation of technological know-how	**7,761,677**	1,000,000
Amortisation of land lease premium held for own use	**258,985**	259,020
Loss on disposal of property, plant and equipment	**35,101**	162,114
Provision for obsolete stock	**3,219,479**	–
Impairment losses for bad and doubtful debts	**6,340,443**	–
Operating lease charges:		
– Minimum lease payments	**738,941**	651,122
Research and development costs	**1,019,684**	–
Interest income	**(604,673)**	(724,025)

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2006

9. 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	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
	RMB	*RMB*	***RMB***	*RMB*	***RMB***	*RMB*	***RMB***	*RMB*
Executive Directors								
Professor Xiao Liangyong (resigned on 29 March 2005)	**–**	–	**–**	169,620	**–**	–	**–**	169,620
Xiao Bing	**–**	–	**637,284**	288,859	**7,752**	10,741	**645,036**	299,600
Professor Guo Weisheng (resigned on 29 March 2005)	**–**	–	**–**	91,950	**–**	–	**–**	91,950
Fang Xi (resigned on 16 September 2005)	**–**	–	**–**	157,898	**–**	10,741	**–**	168,639
Zhou Tianyou	**–**	–	**509,901**	95,400	**5,389**	–	**515,290**	95,400
Liang Zhijun	**–**	–	**539,584**	157,286	**–**	–	**539,584**	157,286
Non-executive directors								
Wang Ke	**–**	–	**6,000**	6,000	**–**	–	**6,000**	6,000
Wang Jing	**–**	–	**6,000**	6,000	**–**	–	**6,000**	6,000
Wang Quanfu (resigned on 13 October 2006)	**–**	–	**5,000**	6,000	**–**	–	**5,000**	6,000
Liu Yongqiang	**–**	–	**6,000**	6,000	**–**	–	**6,000**	6,000
Li Wenqi	**–**	–	**6,000**	6,000	**–**	–	**6,000**	6,000
Sun Wenguo (appointed on 13 October 2006)	**–**	–	**1,000**	–	**–**	–	**1,000**	–
Independent non-executive directors								
Professor Gong Shuxi	**–**	–	**36,000**	36,000	**–**	–	**36,000**	36,000
Wang Pengcheng	**–**	–	**36,000**	36,000	**–**	–	**36,000**	36,000
Qiang Wenyu	**–**	–	**36,000**	–	**–**	–	**36,000**	–
Supervisors								
Hu Hui	**–**	–	**–**	26,976	**–**	4,410	**–**	31,386
Sun Guilian	**–**	–	**42,000**	47,698	**–**	–	**42,000**	47,698
Gu Linqiang	**–**	–	**6,000**	6,000	**–**	–	**6,000**	6,000
Liu Jiyang	**–**	–	**36,000**	36,000	**–**	–	**36,000**	36,000
Professor Shi Ping	**–**	–	**36,000**	36,000	**–**	–	**36,000**	36,000
Total	**–**	–	**1,944,769**	1,215,687	**13,141**	25,892	**1,957,910**	1,241,579

10. INDIVIDUALS WITH HIGHEST PAID

The five highest paid employees during the year included three directors (2005: three), details of whose remuneration are set out in Note 9.

The details of the remaining two (2005: two) individuals are disclosed as follows:

	2006	2005
	RMB	*RMB*
Salaries, allowances and benefits in kind	**872,764**	482,060
Retirement benefit scheme contributions	**7,752**	3,100
	880,516	485,160

The remuneration falls within the following band:

	Number of individuals	
	2006	2005
HK$ Nil – HK$1,000,000	**2**	2

11. INCOME TAX (CREDIT)/EXPENSE

	2006	2005
	RMB	*RMB*
Current tax (credit)/expense	**(268,451)**	611,391
Deferred tax *(Note 26)*	**–**	–
	(268,451)	611,391

Currently, the Company and its subsidiaries established in mainland China are recognised 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. In accordance with the applicable enterprise income tax of mainland China, they are subject to mainland China enterprise income tax ("EIT") at a rate of 24%. The Company was exempted from EIT for two years starting from 2005 and is entitled to a 50% reduction, which is 12%, on the EIT for the following three years (i.e. commencing from 1 January 2007) in accordance with Article 8 of Income Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises.

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2006

11. INCOME TAX (CREDIT)/EXPENSE *(continued)*

The (credit)/charge for the year can be reconciled to the (loss)/profit as shown in the income statement as follows:

	2006	2005
	RMB	*RMB*
(Loss)/Profit before taxation	**(73,311,767)**	16,004,066
Tax at domestic income tax rate applicable of profits in the respective countries	**(10,844,137)**	2,336,769
Tax effect of expenses that are not deductible in determining taxable profit	**7,240,257**	609,806
Tax effect of non-taxable revenue	**(1,684,924)**	(135,861)
Tax effect of unrecognised tax losses	**5,020,353**	171,737
Tax effect on additional tax allowance in respect of the research and development costs	**–**	(2,371,060)
Tax (credit)/expense	**(268,451)**	611,391

12. (LOSS)/PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

During the year ended 31 December 2006, the consolidated loss attributable to equity shareholders of the Company includes a loss of RMB49,792,333 (2005: profit of RMB15,272,884) dealt with in the financial statements of the Company.

13. DIVIDEND

Dividend payable to equity shareholders of the Company attributable to the year 2005 was as follows:

	2006	2005
	RMB	*RMB*
Interim dividend declared and paid of Nil per share (2005: 1.5 cents per share)	**–**	9,705,882

14. (LOSS)/EARNINGS PER SHARE – BASIC

The calculation of the basic (loss)/earnings per share is based on the loss attributable to equity shareholders of the Company of RMB68,109,460 (2005: profit of RMB15,463,137) and the weighted average number of 647,058,824 shares in issue during the year (2005: 647,058,824).

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

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

The Group and the Company

	RMB
Cost	
At 1 January 2005, 1 January 2006 and 31 December 2006	12,695,357
Amortisation	
At 1 January 2005	821,087
Provided for the year	259,020
At 31 December 2005	1,080,107
At 1 January 2006	1,080,107
Provided for the year	258,985
At 31 December 2006	1,339,092
Net book value	
At 31 December 2006	11,356,265
At 31 December 2005	11,615,250

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

As at 31 December 2006, land use right with carrying value of RMB11,356,265 (2005: RMB11,615,250) has been pledged to the banks.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2006

16. INTAGIBLE ASSETS

The Group

	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
At 1 January 2006	35,784,375	10,000,000	45,784,375
Addition (a)	–	60,855,100	60,855,100
Addition through internal development	5,338,983	–	5,338,983
At 31 December 2006	41,123,358	70,855,100	111,978,458
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
At 1 January 2006	5,184,683	5,333,333	10,518,016
Charge for the year	7,419,334	7,761,677	15,181,011
At 31 December 2006	12,604,017	13,095,010	25,699,027
Net book value			
At 31 December 2006	28,519,341	57,760,090	86,279,431
At 31 December 2005	30,599,692	4,666,667	35,266,359

(a) On 30 December 2005, Jia Zai, a 65% owned subsidiary of the Company and Datang Mobile Communication Equipment Co. Ltd. ("Datang Mobile") entered into a TD-SCDMA technology licence agreement. Pursuant to the agreement, Datang Mobile agreed to grant the non-exclusive licence to Jia Zai for using its TD-SCDMA mini-cellular base station technology for nine years commencing from the date of the agreement. The consideration was RMB60,855,100.

On 30 December 2005, Jia Zai also entered in a manufacturing agreement with Datang Mobile. Pursuant to the agreement, Jia Zai is able to sell the TD-SCDMA mini-cellular base stations manufactured by Jia Zai to Datang Mobile on an exclusive basis for a period of six years commencing from the date of manufacturing agreement.

The details of the TD-SCDMA technology licence agreement and manufacturing agreement were outlined in the circular dated 23 August 2006.

The development costs represent product development expenditure incurred by the Company.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2006

16. INTANGIBLE ASSETS *(continued)*

The Group *(continued)*

Intangible assets are amortised on a straight line basis over the following periods:

Development costs	5 years
Technological know-how	9–10 years

The Company

	Development costs	Technological know-how	Total
	RMB	*RMB*	*RMB*
Cost			
At 1 January 2005	24,249,090	10,000,000	34,249,090
Addition through internal development	11,535,285	–	11,535,285
At 31 December 2005	35,784,375	10,000,000	45,784,375
At 1 January 2006	35,784,375	10,000,000	45,784,375
Addition through internal development	5,338,983	–	5,338,983
At 31 December 2006	41,123,358	10,000,000	51,123,358
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
At 1 January 2006	5,184,683	5,333,333	10,518,016
Charge for the year	7,419,334	1,000,000	8,419,334
At 31 December 2006	12,604,017	6,333,333	18,937,350
Net book value			
At 31 December 2006	28,519,341	3,666,667	32,186,008
At 31 December 2005	30,599,692	4,666,667	35,266,359

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 on 16 June 2000, 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.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2006

17. PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings	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
At 1 January 2006	55,284,337	39,205,830	17,857,221	5,248,808	27,000	11,436,086	129,059,282
Additions	–	1,850,651	316,537	–	252,710	52,659,083	55,078,981
Transfer	38,172	–	–	–	–	(38,172)	–
Disposals	–	(147,176)	(563,888)	–	–	–	(711,064)
At 31 December 2006	55,322,509	40,909,305	17,609,870	5,248,808	279,710	64,056,997	183,427,199
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
Eliminated 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
At 1 January 2006	3,948,773	17,762,837	7,473,597	1,886,974	7,559	–	31,079,740
Charge for the year	1,725,169	2,958,847	3,228,913	624,694	39,758	–	8,577,381
Eliminated on disposals	–	(31,982)	(378,370)	–	–	–	(410,352)
At 31 December 2006	5,673,942	20,689,702	10,324,140	2,511,668	47,317	–	39,246,769
Net book value							
At 31 December 2006	49,648,567	20,219,603	7,285,730	2,737,140	232,393	64,056,997	144,180,430
At 31 December 2005	51,335,564	21,442,993	10,383,624	3,361,834	19,441	11,436,086	97,979,542

The buildings are situated on land held under medium-term land use right in mainland China, and the amount of RMB49,648,567 (2005: RMB51,335,564) has been pledged to the banks.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2006

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

The Company

	Buildings	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Properties under construction	Total
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
At 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	2,074,260	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)
At 31 December 2005	55,284,337	35,409,353	16,858,984	5,024,960	11,436,086	124,013,720
At 1 January 2006	55,284,337	35,409,353	16,858,984	5,024,960	11,436,086	124,013,720
Additions	–	3,862,222	131,801	–	52,659,083	56,653,106
Transfer	38,172	–	–	–	(38,172)	–
Inter-company transfer	–	(4,875,979)	(375,035)	–	–	(5,251,014)
Disposals	–	(28,544)	(536,966)	–	–	(565,510)
At 31 December 2006	55,322,509	34,367,052	16,078,784	5,024,960	64,056,997	174,850,302
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	5,247,570	2,748,223	596,882	–	10,018,585
Inter-company transfer	–	(875,702)	(306,322)	–	–	(1,182,024)
Eliminated on disposals	–	(625,812)	(245,745)	–	–	(871,557)
At 31 December 2005	3,948,773	16,411,789	7,077,503	1,870,400	–	29,308,465
At 1 January 2006	3,948,773	16,411,789	7,077,503	1,870,400	–	29,308,465
Charge for the year	1,725,169	4,284,891	3,116,187	596,966	–	9,723,213
Inter-company transfer	–	(2,361,656)	(137,450)	–	–	(2,499,106)
Eliminated on disposals	–	(22,187)	(363,612)	–	–	(385,799)
At 31 December 2006	5,673,942	18,312,837	9,692,628	2,467,366	–	36,146,773
Net book value						
At 31 December 2006	49,648,567	16,054,215	6,386,156	2,557,594	64,056,997	138,703,529
At 31 December 2005	51,335,564	18,997,564	9,781,481	3,154,560	11,436,086	94,705,255

18. INTEREST IN SUBSIDIARIES

	2006	2005
	RMB	*RMB*
Unlisted shares	**92,747,500**	7,897,500

The following list contains only the particulars of the subsidiaries which principally affected the results, assets and liabilities of the Group. The class of shares held are ordinary unless otherwise stated.

Name of subsidiary	Place of operation/ incorporation	Issued and fully paid share capital	Percentage of equity interest held by the Company	Principal activities
XAHT Antenna Technologies (Hong Kong) Limited	Hong Kong	1,500,000 shares of HK$1 each	100%	Trading of base station antennas and related products
Xian Haitian Communication System Engineering Co. Ltd.*	mainland China	5,000,000 shares of RMB1 each	100%	Design and installation of the antennas and related products
Xian Hi-tech Communication Software Co., Ltd.*	mainland China	1,500,000 shares of RMB1 each	90%	Development, manufacturing and trading of computer software and hardware
嘉載通信設備有限公司 (the "Jia Zai')**	mainland China	130,258,800 shares of RMB1 each RMB160,000,000 registered capital	65%	Development, manufacturing and consulting services of TD-SCDMA

* *Limited company established in mainland china*
** *Sino-foreign equity joint venture registered in mainland China*

On 15 November 2005, the Company, XAHT Antenna Technologies (Hong Kong) Limited and Datang Mobile Communication Equipment Co. Ltd. ("Datang Mobile") entered into a joint venture agreement, the details of which were outlined in the circular dated 7 December 2005. Pursuant to the agreement, Jia Zai was established in mainland China on 30 December 2005 with registered capital of RMB160,000,000. As at 31 December 2006, Datang Mobile injected RMB45,458,800 of capital contribution, whereas the Company injected RMB84,800,000 to Jia Zai. The capital injection by both Datang Mobile and the Company were confirmed and certified by Yuehua Certified Public Accountants Co., Ltd. Shaanxi Branch. The outstanding capital contribution from XAHT Antenna Technologies (Hong Kong) Limited to Jia Zai was RMB19,200,000.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2006

19. TRADE RECEIVABLES

Generally, the Group allows a credit period from 90 days to 240 days to its trade customers. For receivables from certain 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	
	2006	2005	**2006**	2005
	RMB	*RMB*	***RMB***	*RMB*
Aged:				
0 – 60 days	**22,515,225**	73,158,574	**16,306,919**	70,057,598
61 – 120 days	**11,431,889**	21,807,846	**10,498,764**	21,412,092
121 – 180 days	**11,924,240**	18,538,087	**8,897,776**	18,538,087
181 – 240 days	**9,396,942**	9,699,794	**8,636,957**	8,549,794
241 – 365 days	**6,220,530**	16,494,814	**6,192,355**	16,494,814
Over 365 days	**40,193,090**	36,173,418	**37,908,764**	36,173,418
	101,681,916	175,872,533	**88,441,535**	171,225,803
Gross total	**118,591,718**	186,441,892	**105,351,337**	181,795,162
Less: Impairment losses for bad and doubtful debts	**(16,909,802)**	(10,569,359)	**(16,909,802)**	(10,569,359)
	101,681,916	175,872,533	**88,441,535**	171,225,803

20. AMOUNTS DUE FROM DIRECTORS

	The Group and the Company	
	2006	2005
	RMB	*RMB*
Liang Zhijun	**536,680**	1,166,589
Xiao Bing	**818,758**	695,651
Zhou Tianyou	**49,263**	–
	1,404,701	1,862,240
Maximum balance during the year		
Liang Zhijun	**1,166,589**	1,166,589
Xiao Bing	**818,758**	695,651
Zhou Tianyou	**49,263**	–

Mr. Liang Zhijun, Xiao Bing and Zhou Tianyou are the executive directors of the Company.

The amount represents a loan advance to the directors and advance for operation. The amount is unsecured, non-interest bearing and no fixed term of repayment.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2006

21. INVENTORIES

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB	*RMB*	***RMB***	*RMB*
Raw materials	**10,330,563**	9,162,340	**8,038,264**	9,162,340
Work in progress	**7,720,630**	5,351,762	**193,054**	2,040,630
Finished goods	**19,208,504**	21,182,583	**12,243,784**	21,182,583
	37,259,697	35,696,685	**20,475,102**	32,385,553
Less: Provision for obsolete stock	**3,219,479**	–	**3,219,479**	–
	34,040,218	35,696,685	**17,255,623**	32,385,553

22. AMOUNTS DUE FROM RELATED PARTIES

			The Group		The Company	
Name of related parties	**Relationship**		**2006**	2005	**2006**	2005
		Notes	***RMB***	*RMB*	***RMB***	*RMB*
陝西海通天綫有限責任公司(「海通天綫」)	Close family member of the company directors of both companies	*i & ii*	**448,557**	371,164	**448,557**	371,164
西安海天投資控股有限責任公司(「海天投資」)	Common director and shareholder	*i & iii*	**2,352,741**	1,714,800	**2,352,741**	1,714,800
Fang Xi	Financial controller	*i & iv*	**224,000**	214,000	**224,000**	214,000
Zong Ruiliang	General manager of research and development department	*i & v*	**–**	130,000	**–**	130,000
Xiao Liangyong	Father of Mr. Xiao Bing, an executive director of the Company	*i & v*	**380,405**	–	**380,405**	–
Mei Jie	Minority shareholder	*i & vi*	**799,943**	805,756	**–**	–
			4,205,646	3,235,720	**3,405,703**	2,429,964

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2006

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

Notes:

i) The amount is unsecured, non-interest bearing and no fixed term of repayment.

ii) The amount included receivable arising from sales of goods of RMB147,947 (2005: RMB360,000) to 海通天綫. The selling price was determined after arm's length negotiation between the parties concerned.

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

iv) The amount included a loan to Mr. Fang of RMB150,000 (2005: RMB150,000) and cash advance of RMB74,000 (2005: RMB64,000).

v) The amount represents cash advance.

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

23. TRADE PAYABLES

The aged analysis of trade payables is as follows:

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB	*RMB*	***RMB***	*RMB*
Aged:				
0 – 60 days	**18,831,616**	39,850,104	**16,092,045**	39,758,321
61 – 120 days	**6,351,353**	14,107,757	**4,892,359**	14,107,757
121 – 365 days	**27,695,887**	14,727,264	**27,241,887**	14,727,264
Over 365 days	**8,971,254**	1,244,833	**8,879,470**	1,244,833
	61,850,110	69,929,958	**57,105,761**	69,838,175

24. INTEREST BEARING BORROWINGS

The Group and the Company

	2006	2005
	RMB	*RMB*
Bank loans (i)		
Secured	**139,600,343**	91,565,460
Unsecured	**–**	30,000,000
	139,600,343	121,565,460
Other short-term loans, unsecured (ii)	**24,000,000**	–
Total	**163,600,343**	121,565,460

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2006

24. INTEREST BEARING BORROWINGS *(continued)*

	2006	2005
	RMB	*RMB*
The loans are repayable as follows:		
Within one year	**163,600,343**	51,565,460
More than one year, but not exceeding two years	**–**	50,000,000
More than two years, but not exceeding five years	**–**	20,000,000
	163,600,343	121,565,460
Less: Amount repayable within one year shown under current liabilities	**(163,600,343)**	(51,565,460)
	–	70,000,000

(i) As at 31 December 2006, the bank loans bore interest at rates ranging from 5.22% to 7.61% per annum.

(ii) Other short-term loans bore interest at 6% per annum, were unsecured and repayable on 21 May 2007.

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:

	2006	2005
	RMB	*RMB*
Bank deposits	**1,753,393**	2,985,226
Buildings	**49,648,567**	51,335,564
Land lease premium held for own use	**11,356,265**	11,615,250
Trade receivables	**20,600,343**	21,565,460
	83,358,568	87,501,500

Personal guarantees are provided by a director of the Company and related parties for the banking facilities of RMB10,000,000 granted the Group.

25. LOANS FROM A SUBSIDIARY

The Company

	2006	2005
	RMB	*RMB*
Loans from a subsidiary	**7,415,000**	–

The loans from a subsidiary bore interest at rates ranging from 5.22% to 6.12% per annum, were unsecured and fall due as at balance sheet date. Overdue interests of additional 30% per annum were charged for the default payments.

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2006

26. DEFERRED TAXATION

The Group and the Company

	2006	2005
	RMB	*RMB*
At 1 January	**600,000**	600,000
Deferred taxation charged for the year	**–**	–
At 31 December	**600,000**	600,000

The amount represented deferred tax liability at balance sheet date in relation to deferred development costs.

27. SHARE CAPITAL

Share of RMB0.10 each

	Number of shares		**Registered,**
	Domestic		**issued and**
	shares	**H shares**	**fully paid**
			RMB
At 31 December 2005 and 2006	485,294,118	161,764,705	64,705,882

28. RESERVES

The Group

	Share premium	**Statutory surplus reserve**	**Statutory public welfare fund**	**Retained profits**	**Total**
	RMB	*RMB*	*RMB*	*RMB*	*RMB*
		(Note 28(a))	*(Note 28(b))*		
At 1 January 2005	71,228,946	9,805,345	5,325,656	81,639,107	167,999,054
Dividend	–	–	–	(9,705,882)	(9,705,882)
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
Loss for the year	–	–	–	(68,109,460)	(68,109,460)
Transfer	–	410,835	–	(410,835)	–
At 31 December 2006	71,228,946	10,623,775	5,529,453	18,264,675	105,646,849

28. RESERVES *(continued)*

The Company

	Share premium	Statutory surplus reserve	Statutory public welfare fund	Retained profits	Total
	RMB	*RMB*	*RMB*	*RMB*	*RMB*
		(Note 28(a))	*(Note 28(b))*		
At 1 January 2005	71,228,946	9,805,345	5,325,656	81,646,551	168,006,498
Dividend	–	–	–	(9,705,882)	(9,705,882)
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
Loss for the year	–	–	–	(49,792,333)	(49,792,333)
At 31 December 2006	71,228,946	10,212,940	5,529,453	36,809,828	123,781,167

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 distributable 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 2006 were nil (2005: RMB53,863,513).

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2006

29. OPERATING LEASE COMMITMENTS

The Group and the Company

At 31 December 2006, the Group had outstanding commitments payable under non-cancellable operating leases in respect of rented premises which fall due as follows:

	2006	2005
	RMB	*RMB*
Within one year	**2,789,559**	422,249
In the second to fifth year inclusive	**3,952,907**	21,630
	6,742,466	443,879

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.

30. CAPITAL COMMITMENTS

The Group and the Company

	2006	2005
	RMB	*RMB*
Capital expenditure contracted for but not provided in the financial statements in respect of construction cost on properties under construction and acquisition of property, plant and equipment	**6,941,322**	1,931,870

Notes to the Financial Statements *(continued)*

For the year ended 31 December 2006

31. RELATED PARTY TRANSACTIONS

(a) The following is a summary of the significant transactions with a related party during the year.

	2006	2005
	RMB	*RMB*
Rent paid to 西安海天投資控股有限責任公司 for the lease of land	**2,630,000**	–

Mr. Xiao Bing, an executive director of the Company owns 75% of the shares of 西安海天投資控股有限責任公司, 5% by Mr. Liang Zhijun, a director of the Company and Mr. Fang Xi, the financial controller of the Company owns 5%. The lease was for three years and was negotiated at arms-length basis in accordance with common commercial terms in the same manner as other outsiders. The details were outlined in the circular dated 6 July 2006.

(b) During the year, Mr. Xiao Bing, an executive director of the Company and Ms. Chen Jing, wife of Mr. Xiao Bing, Mr. Fang Xi, financial controller of the Company and Ms. Zhang Dandan, wife of Mr. Fang Xi, gave personal guarantees to a bank, through a third party, to secure a bank loan amounting to RMB10,000,000 granted to the Company.

(c) The key management personnel are the directors of the Company. The details of the remuneration paid to them are set out in note 9.

32. 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 2005 and 2006, the Group had no significant obligation apart from the contribution as stated above.

33. GOVERNMENT GRANTS

During the year, government grants of RMB189,300 (2005: RMB1,644,786) have been received to subsidise 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 Group received government grants of RMB150,000 (2005: RMB4,750,000) 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.

33. GOVERNMENT GRANTS *(continued)*

As at 31 December 2006, the development and industrialisation of antenna for the 3G and TD-SCDMA mobile communication are not fully completed, the respective government grants of RMB219,915 (2005: RMB551,457) and RMB2,288,542 (2005: RMB2,412,902) have not yet been recognised in the income statement and are included as other payables.

During the year 2005, the Group received governments grants of RMB8,000,000 for technology improvement of base station antenna and the improvement were not fully completed, the amounts of RMB4,567,314 (2006: RMB3,543,820) had not yet been recognised in the income statement and were included as other payables.

34. POST BALANCE SHEET EVENT

On 2 March 2007, the Company and two joint placing agents (the "Joint Placing Agents") entered into a non-legally binding preliminary placing agreement, pursuant to which the Joint Placing Agents have agreed in principle to, on a best effort basis, severally procure placees to subscribe for and purchase an aggregate of not more than 177,941,177 H shares at an agreed-upon placing price. The details of the placing arrangement are set out in Note 2(a).

35. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE, FOR THE YEAR ENDED 31 DECEMBER 2006

The Group has not early applied the following amendments, new standards and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards or interpretations will have no material impacts on the financial statements of the Group.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKFRS 7	Financial Instruments Disclosures[1]
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[2]
HK(IFRIC)-Int 8	Scope of HKFRS 2[3]
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives[4]
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment[5]
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transations[6]

[1] Effective for annual periods beginning on or after 1 January 2007
[2] Effective for annual periods beginning on or after 1 March 2006
[3] Effective for annual periods beginning on or after 1 May 2006
[4] Effective for annual periods beginning on or after 1 June 2006
[5] Effective for annual periods beginning on or after 1 November 2006
[6] Effective for annual periods beginning on or after 1 May 2007

Financial Summary

	Year ended 31 December				
	2002	2003	2004	2005	**2006**
	RMB	*RMB*	*RMB*	*RMB*	***RMB***
RESULTS					
Turnover	164,525,831	226,731,785	200,999,236	176,889,046	**117,119,020**
Profit/(loss) before taxation	44,561,815	53,526,916	17,096,606	16,004,066	**(73,311,767)**
Income tax (expense)/credit	(8,168,467)	(10,518,081)	(2,079,248)	(611,391)	**268,451**
Net profit/(loss) for the year	36,393,348	43,008,835	15,017,358	15,392,675	**73,043,316**

	As at 31 December				
	2002	2003	2004	2005	**2006**
	RMB	*RMB*	*RMB*	*RMB*	***RMB***
ASSETS AND LIABILITIES					
Total assets	247,549,634	446,648,882	477,089,046	469,291,553	**469,823,149**
Total liabilities	(155,570,425)	(225,726,010)	(244,384,110)	(230,699,824)	**(258,865,936)**
Shareholders' funds	91,979,209	220,922,872	232,704,936	238,591,729	**210,957,213**

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