



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

(Stock Code: 8227)

XI'AN HAITIAN ANTENNA TECHNOLOGIES CO., LTD

2004

Annual Report

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

* For identification purpose only

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Corporate Information

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

34/F., West Tower
Shun Tak Centre
200 Connaught Road Central
Hong Kong

GEM STOCK CODE

8227

WEBSITE ADDRESSES

www.xaht.com, www.htantenna.com

RETAINED LEGAL ADVISERS

Li & Partners

COMPANY SECRETARY

曾如鐵先生 (Mr. TSANG Yu Tit), FCCA, CPA

COMPLIANCE OFFICER

肖兵先生 (Mr. XIAO Bing)

QUALIFIED ACCOUNTANT

曾如鐵先生 (Mr. TSANG Yu Tit), FCCA, CPA

MEMBERS OF AUDIT COMMITTEE

王鵬程先生 (Mr. WANG Pengcheng), chairman
龔書喜教授 (Professor GONG Shuxi), member
李文琦先生 (Mr. LI Wenqi), member

AUTHORISED REPRESENTATIVES

肖兵先生 (Mr. XIAO Bing)
郭渭盛教授 (Professor GUO Weisheng)

AUTHORISED PERSON TO ACCEPT SERVICE OF PROCESS AND NOTICE

曾如鐵先生 (Mr. TSANG Yu Tit), FCCA, CPA

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
46th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

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

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

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

Chairman's Statement

On behalf of the board (the "**Board**") of Directors, we hereby present the annual report of the Company for the year ended 31 December 2004.

Year 2004 was a challenging year to the Company and its subsidiaries (the "**Group**"). The market in general was affected by the austerity measures imposed by the government of the PRC. The Group continued to lower the selling price of its products to create better value of money for customers and compete with other antenna manufacturers and wireless coverage solution providers. Both turnover and gross margin were significantly affected during the year. However, with concerted effort of staff and strong support from all parties, the Group still maintains its leading status in telecommunication equipment industry.

While continuing to dedicate to its main product lines, the Group has also developed its business in the broader market of wireless coverage solution, for example indoor distribution system and network optimization. For this purpose, the Group invested material amount of resources including funds and manpower in exploring the business. Being one of the leading providers of base station antennas and related products in the PRC, the Group considers export sales as one of the growing points in the future and therefore incorporated a subsidiary in Hong Kong in November 2004 to handle international trade business. Export sales for the year ended 31 December 2004 increased by approximately 441.4% comparing with the year 2003.

To make the best use of the opportunities emerged from the expected issuance of new mobile communication network operator licence(s) and the launching of the third generation ("**3G**") mobile communication services, the Group unceasingly enhances its ability in research and development ("**R & D**"), including R & D on technologies and products, especially for the 3G services.

In the coming year, the Group will continue to focus at developing its core business and major product lines. It is expected that the launch of 3G mobile communication services in the PRC will commence a new wave of mobile communication network construction and as a result will provide the Group an opportunity of achieving a significant increase in business.

On behalf of the Board, I would like to extend our sincere gratitude and appreciation to the shareholders (the "**Shareholders**") of the Company and staff for their support and hard working during the year.

XIAO Bing

Chairman

Xi'an, the PRC

29 March 2005

Comparison between Business Objectives and Actual Business Progress

From 1 January 2004 to 31 December 2004

Business objectives as set out in the prospectus of the Company dated 24 October 2003 (the "Prospectus")

Actual business progress

RESEARCH AND DEVELOPMENT OF THE GROUP'S PRODUCTS

Research on 3G base station antennas and repeaters

3G base station antennas and 3G repeaters has reached small batch production stage, whereas optical fibre repeaters have been launched to the market

TD-SCDMA intelligent base station antennas: low volume production

TD-SCDMA intelligent base station antennas has reached production stage

3G base station antennas and repeater in production

3G base station antennas and repeater has reached production stage

PHS intelligent base station antennas commercialization (originally planned to be completed by June 2005)

PHS intelligent base station antennas has reached production stage and started to be launched to the market

FURTHER EMPOWERING OF THE GROUP'S RESEARCH AND DEVELOPMENT

Continue and complete construction of the near field/far field antenna testing system

The system has been installed

Continue set up an anechoic chamber

The building has been constructed and the equipment has reached final testing stage

INCREASE OF PRODUCTION CAPACITY

Set up two production lines

The installation one of the production lines completed but the other has been suspended until the Directors consider necessary

Purchase auxiliary processing and inspecting equipment

Purchase of equipment for the installed production line have been executed whereas for the suspended one have been suspended until the related production line is installed

Comparison between Business Objectives and Actual Business Progress (continued)

From 1 January 2004 to 31 December 2004

Business objectives as set out in the Prospectus

Actual business progress

EXPANSION OF SALES AND MARKETING NETWORK

Set up a sales contact point in Hong Kong (originally planned to be completed by December 2003)

A wholly-owned subsidiary was incorporated in Hong Kong in November 2004

Set up sales contact points in Russia

The setting up of sales contact point in Russia has been deferred until the Directors consider necessary

Four new sales contact points have been set up in the PRC, instead of Russia, because the Directors identified more business opportunities in related markets

Establish information systems for sales and marketing in the PRC

Information systems have been established

COLLABORATION WITH BUSINESS PARTNERS AND ESTABLISHING STRATEGIC ALLIANCES

Monitor if any new licence of mobile telecommunication operator will be issued in the PRC, then establish relationship with the new mobile communication network operators

The PRC government has not yet issued new mobile communication network operator licence. The Group continued to maintain communication with related government authorities and the operators which will possibly be awarded the new mobile communication network operator licence

Establish business collaboration and strategic alliance with the PRC and leading foreign mobile communication equipment vendors

The Group continued to cooperate with 大唐移動通信設備有限公司 (Datang Mobile Communication Equipment Co., Ltd.) in the development and commercialization of smart antenna for TD-SCDMA mobile communication

Collaborate with mobile communication equipment vendors/system integrators for joint development of new generation of mobile telecommunication equipment

The Group continued to cooperate with Datang Mobile Communication Equipment Co., Ltd. in the development and commercialization of smart antenna for TD-SCDMA mobile communication

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

Business objectives		Planned uses of proceeds up to 31 December 2004 as set out in the Prospectus <i>HK\$ million</i>	Actual amount of proceeds used up to 31 December 2004 <i>HK\$ million</i>
Research and development of the Group's antennas and related products	<i>Note</i>	23.5	29.7
Further empowering of the Group's research and development capabilities		13.0	10.8
Increase of production capacity		4.5	1.5
Expansion of sales and marketing network		4.2	2.4
Collaborating with business partners and establishing strategic alliance		2.0	1.2
Total		<u>47.2</u>	<u>45.6</u>

The unused proceeds from the placing of the overseas listed shares of the Company (the "H Shares") included (i) the amount required for achieving business objectives scheduled for the periods after 31 December 2004; (ii) the amount not being utilized as a result of the delay in the progress of certain business objectives; and (iii) saving in costs for achieving business objectives. The aforesaid unused proceeds were placed in banks in the PRC as deposits as at 31 December 2004.

Note:

Actual amount of proceeds used up to 31 December 2004 was larger than planned as set out in the Prospectus because (i) the commercialization of PHS intelligent base station was executed earlier than planned in response to the market demand; and (ii) more models than planned of 3G base station antennas were developed in order to provide full range of products for the anticipated launching of 3G services in the PRC.

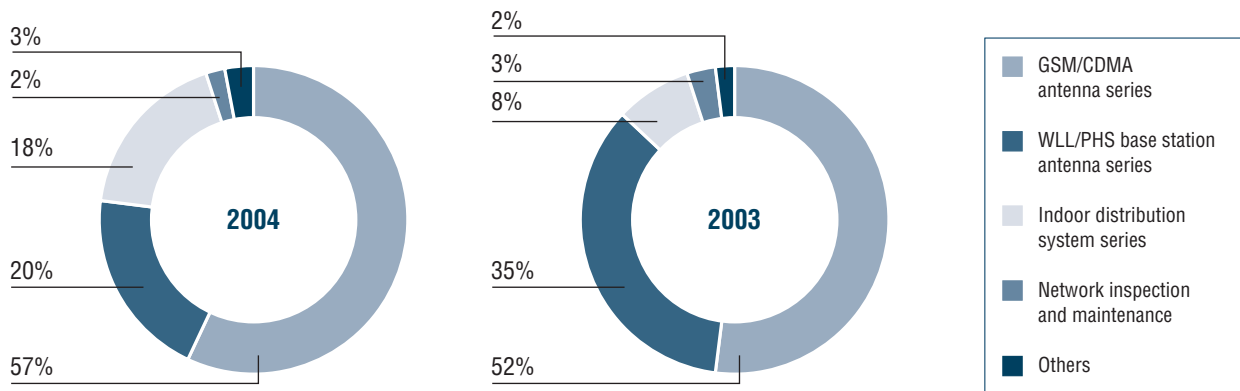
Management Discussion and Analysis

BUSINESS REVIEW

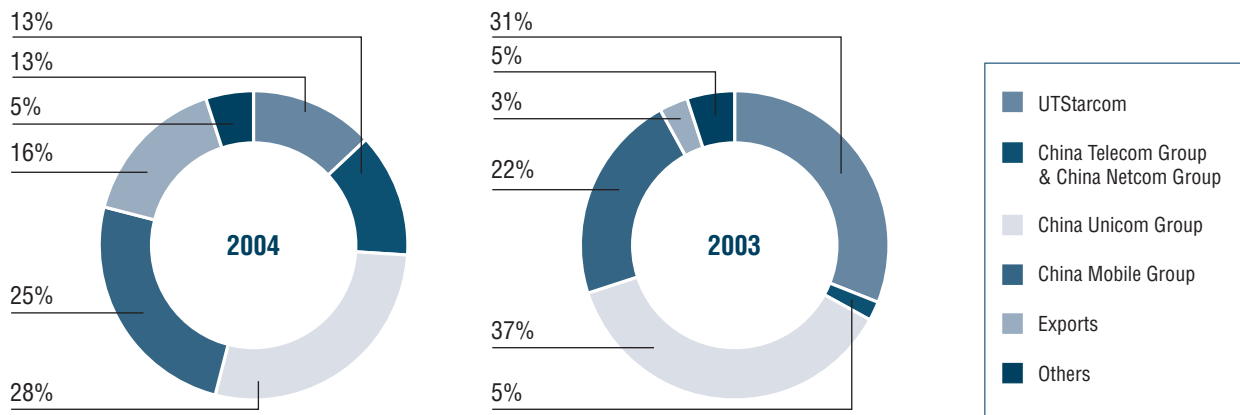
Turnover

The Group recorded a total turnover of approximately RMB201.0 million and a net profit of approximately RMB15.0 million for the year ended 31 December 2004, representing approximately 11.3% and 65.1% lower than that for the year 2003 respectively. It was due to the fact that the market in general were affected by the austerity measures imposed by the government of the PRC. On micro level, the decrease was mainly due to (i) some indoor distribution system constructions had been completed but not yet certified by the customers and therefore amounts received or receivable for the constructions are not qualified for being recognized as income; and the Group had more indoor distribution system construction projects than the year 2003, both recognized as income or not, as the result of the Group's effort in exploring business of the product line; (ii) selling prices of existing product models continuing to be lowered have enlarged the decrease in sales revenue; and (iii) although new models, especially of PHS intelligent base station antennas, have been launched, they were in the process of testing and yet to be certified by the customers and have not been sold in scale. However, export sales increased significantly for the year ended 31 December 2004 and amounted to approximately RMB31.4 million, increased by approximately RMB25.6 million or 441.4% comparing with the year 2003. The increase in export sales was the result of the Group's effort of exploring overseas markets in the past three years.

Composite of turnover by product lines for the year ended 31 December 2004, together with the comparative figures for the year ended 31 December 2003, are provided as follows:



Composite of turnover by major customers for the year ended 31 December 2004, together with the comparative figures for the year ended 31 December 2003, are provided as follows:



Management Discussion and Analysis (continued)

Legend:

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

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

For the year 2004, gross profit amounted to approximately RMB92.3 million. Gross profit margin was 45.9%, decreased by approximately 4 percentage points comparing to 50.2% for the year 2003. The Group continued to adopt the strategy of capturing market share by lowering the selling price of products after they were launched for a period of time. Based on the quantity sold and the total quantity offered by mobile communication network operators for tendering, the Group's market shares in GSM/CDMA base station antenna market increased. At the same time, the Group has also been adopting costs controlling measures including subcontracting certain parts of the production process of its products. As the result, the extent of deterioration of gross profit margin was smaller than that of the selling price.

Other Operating Income

The Group recorded other operating income of approximately RMB2.6 million for the year 2004, which mainly comprised of subsidy for interest expenditure of working capital borrowing and for development of new products and interest income, comparing to the other operating income of approximately RMB3.0 million for the year 2003, which mainly comprised of subsidy for interest expenditure incurred for obtaining external finance by the Group for the construction of property, plant and equipment, for upgrading existing production capacity and to promote export sales.

Operating Costs and Expenses

Distribution costs for the year 2004 amounted to approximately RMB43.4 million, representing an increase of approximately RMB18.9 million or approximately 77.1% comparing with the year 2003. In order to increase its marketing effort in the Group's new products, especially those related to indoor distribution and network optimization, and to enhance the Group's business relation with customers including China Telecom Group and China Netcom Group, the Group employed more salespersons and used more agency services to stimulate sales and provided continuous after-sale service. Hence, there was an increase in salespersons' payroll expenses and travel expenses, agency fees and installation fees, products quality guarantee fees which led to an increase in distribution costs. Furthermore, the increase in freight charges was the result of significant increase of export business.

Administrative expenses decreased by approximately RMB1.7 million or 8.1% comparing with the year 2003, amounting to approximately RMB19.2 million for the year 2004. The decrease in administrative expenses was mainly due to a series of expense control measures which the Group considered effective.

Management Discussion and Analysis (continued)

Other operating expenses decreased by approximately RMB4.4 million, or 33.6%, to approximately RMB8.7 million comparing with the year 2003. It was mainly because product R & D costs of approximately RMB17.8 million (2003: RMB6.4 million) were capitalized during the year 2004. At the same time, allowance for doubtful debts provided for during the year increased by approximately RMB1.7 million to approximately RMB3.3 million. The total product R & D costs, including capitalized and directly charged to income statement as expense, increased because the Group continued its policy of differentiating itself from competitors by maintaining advancement in technologies.

Finance costs, mainly interest expenses, increased by approximately RMB1.5 million, or 30.0% comparing with the year 2003, amounting to approximately RMB6.5 million. The increase was mainly because of the total amounts of short-term borrowings and long-term borrowings were increased during the year 2004. The Group has repaid part of the loans advanced for financing working capital and advanced loans to finance the construction of building for the testing centre and increased interests paid and capitalized for the loans amounted to approximately RMB1.4 million (2003: nil).

Trade receivables

Trade receivables, before allowance for doubtful debts, as at 31 December 2004 amounted to approximately RMB182.9 million, increased by approximately RMB17.5 million or 10.6% from the balance as at 31 December 2003. As sales to China Mobile Group, China Unicom Group and China Telecom Group were mainly made during the third and fourth quarters in a year, and such effect was even more significant for the year 2004, and the three groups of customers settled trade debts by instalments of which settlement time are mutually agreed by the relevant parties. Such instalments are usually agreed to be settled in a period of time longer than the 90 days to 240 days credit terms granted to other customers, trade receivable balance at the year end is usually higher than at other month ends. Further, according to the sale and purchase contracts with the abovementioned three groups of customers, 10% of sale price are kept by the customers as retention monies for quality assurance. Such retention monies will be released after the network, where the Group's antennas and/or indoor distribution devices are installed, the final testing is being passed. As sales to the three groups of customers was increasing and retention monies accumulated as the final testing condition of releasing the monies had not yet been fulfilled, long aged trade receivable due from the three groups of customers increased. For prudence, approximately RMB3.3 million of allowance for doubtful debt has been made in addition to the allowance made in previous accounting periods for trade receivables. As at 31 December 2004, total allowance for doubtful debts amounted to approximately RMB10.6 million. Considering that the Group's major customers such as China Unicom Group, China Mobile Group, China Telecom Group and UTStarcom are well-financed listed companies or companies affiliated to listed companies and that repayment history of trade debts including those balances for which allowance for doubtful debts had been provided before were satisfactory, the Directors consider that the current level of allowance for doubtful debts is sufficient.

PROSPECTS

For the year 2004, sales to China Telecom Group and China Netcom Group increased. The Group's customer base has been becoming diversified. Although selling price and gross profit margin decreased on average and distribution costs increased, based on the actual quantity sold and the total quantity offered by mobile communication network operators for tendering, the Group maintains its leading position in the market. The Directors believe that sales to telecommunication network operators will increase. It will not only mean that the Group's market share will increase, but also will help the Group's new products getting a bigger market.

For the year 2004, the Group's export sales increased significantly and cooperation with global telecommunication equipment vendors/integrators was strengthened. Settlement of trade receivable from export sales is generally quicker and selling price of export sales is relatively more stable than sales in the PRC. The Directors believe that the trend of export sales increase will continue and it helps diversifying the Group's market to the global market.

For the year 2004, although amount received or receivable for some indoor distribution system constructions completed but not yet accepted by the customers were not recognized as income, the Group's sales of indoor distribution system series resumed growth. The Directors expect that the sales of this product line will continue to increase and form a bigger portion in the Group's sales revenue.

Management Discussion and Analysis (continued)

The Group on one hand will continue to lower selling prices of existing product models to maintain and expand its market share, and on the other will continue to improve gross profit margin or at least reduce the decreasing rate of gross profit margin by measures of launching new products and increasing the proportion of sales of products with higher profit margin in the total turnover.

The Directors have identified areas of improvement in management of the Group and have been taking measures to solve the problems identified. Measures taken included (i) improving procedures of credit sales to control trade receivables; and (ii) improving budgeting system and restructuring the Group's organization to control and cut expenses, especially the distribution costs.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

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

As at 31 December 2004, the Group's short-term borrowings increased from approximately RMB54.7 million as at 31 December 2003 to approximately RMB90.0 million and long term borrowings increased from approximately RMB50.0 million as at 31 December 2003 to RMB70.0 million. These borrowings were mainly used for the Group's daily operation and acquisition of fixed assets.

As at 31 December 2004, all of the Group's borrowings bear interest of fixed rates ranging from 5.04% to 5.49%. Since all the borrowings were denominated in RMB, the Directors consider that the exposure to foreign exchange risk was minimal.

The Group's borrowings are repayable as follows:

	<i>RMB million</i>
Within 1 year	90.0
More than 1 year, but not exceeding 2 years	50.0
More than 2 years, but not exceeding 5 years	20.0
More than 5 years	—
	<hr/>
	160.0
	<hr/>

As at 31 December 2004, the Group's gearing ratio increased to 68.8% (2003: 47.4%), which is calculated based on total bank borrowings of approximately RMB160.0 million and total shareholders' funds of approximately RMB232.7 million. Cash and cash equivalents decreased from approximately RMB113.6 million to RMB107.6 million. Most of the Group's bank deposits were deposited with banks as short-term deposits and were denominated in either Hong Kong dollars or RMB, which are directly related to the Group's businesses in the areas of the currencies concerned.

CHARGES ON COMPANY ASSETS

As at 31 December 2004, the Group pledged bank deposits of approximately RMB8.0 million, buildings of net book value of approximately RMB23.5 million, land use right of net book value of approximately RMB11.9 million and trade receivables of approximately RMB49.8 million for banking facilities.

Management Discussion and Analysis (continued)

CONTINGENT LIABILITIES

As at 31 December 2004, the Group did not have any material contingent liabilities.

FOREIGN EXCHANGE EXPOSURE

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

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2004, the Group had approximately 575 full-time employees. Total staff costs for the year 2004 amounted to approximately RMB26.4 million (2003: RMB29.1 million), including remuneration of the Directors, 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 full-time employees.

SIGNIFICANT INVESTMENT HELD AND PERFORMANCE

During the year ended 31 December 2004, the Group incorporated a wholly owned subsidiary in Hong Kong of which business has not commenced. The subsidiary will be engaged in trading of the Group's products and/or other base station antenna and related products. The incorporation of the Hong Kong subsidiary is to enforce one of the business objectives as set out in the Prospectus. Save as disclosed herein, during the year ended 31 December 2004 and as at the balance sheet date, the Group did not hold other investment in equity interest in any company.

FUTURE PLANS FOR MATERIAL INVESTMENTS

As at 31 December 2004, 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 RMB4.4 million (2003: RMB6.3 million).

The Group plans to incorporate a subsidiary which will provide the service for wireless coverage solution, for example indoor distribution system and network optimization.

Save as disclosed herein and the business objectives set out in the Prospectus, the Group did not have other plans for material investment.

MATERIAL ACQUISITIONS AND DISPOSALS

Save as the incorporation of the wholly-owned subsidiary in Hong Kong, during the year ended 31 December 2004, the Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies.

Management Discussion and Analysis (continued)

DISCLOSURE UNDER CHAPTER 17 OF THE GEM LISTING RULES

As at 31 December 2004, trade receivables due from China Unicom Group, China Mobile Group, China Telecom Group and other trade customers (in aggregate) amounted to approximately RMB92.7 million, RMB35.9 million, RMB15.0 million and RMB39.3 million respectively. Such trade receivables in an aggregate amount of approximately RMB182.9 million were owed by 50 trade customers who are independent third parties not connected with the Directors, chief executives or substantial Shareholders of the Company.

All of the above trade receivables are unsecured and repayable in accordance with terms specified in the contracts governing the relevant transactions. No collateral is required to be made by the three customers and no interest is charged on such balances. The balances due from China Unicom Group, China Mobile Group and China Telecom Group as at 31 December 2004 represented approximately 19.4%, 7.5%, 3.1% respectively, exceeding 8% of the Group's total assets as at 31 December 2004 or representing approximately 50.3%, 19.5% and 8.1% respectively, exceeding 8% of the Group's market capitalization as at 31 December 2004. Both cases constitute disclosure obligations on the part of the Group pursuant to Rule 17.15 of GEM Listing Rules.

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

Save for the above, as at 31 December 2004, so far as is known to the Directors, there is no other advance which would give rise to disclosure obligations under Rules 17.15 and 17.17 of GEM Listing Rules.

TOP FIVE SUPPLIERS AND CUSTOMERS

For the year ended 31 December 2004, sales to the top five customers and the largest customer accounted for approximately 84.0% (2003: 94.7%) and 27.9% (2003: 37.3%) respectively of the Group's total turnover.

For the year ended 31 December 2004, purchases from the top five suppliers and the largest supplier accounted for approximately 58.9% (2003: 59.1%) and 21.0% (2003: 23.0%) respectively of the Group's total purchases.

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

ORDERS RECEIVED AND PROSPECTS FOR NEW BUSINESS

The Group's customers give short delivery period to the Group when orders are placed. Therefore, there was no material order received as at 31 December 2004.

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

Directors, Supervisors and Senior Management

DIRECTORS

Executive Directors

肖兵先生 (Mr. XIAO Bing), aged 39, is an executive Director. He is a son of Professor Xiao Liangyong, a substantial Shareholder and an executive Director. Mr. XIAO Bing studied in the college of continuous education of 西安電子科技大學 (“**Xidian University**”). He worked in 西安石油勘探儀器總廠 (Xi'an General Factory of Oil Instruments*) from 1988 to 1991 and was the deputy general manager of 西安海天通訊設備有限公司 (Xi'an Haitian Communications Equipment Company Limited*) (“**Xi'an Haitian Communications**”) from 1999 to 2000. He joined the Group as an executive Director and first assumed the post of the president of the Company since October 2000. Mr. XIAO Bing was elected the chairman of the Board in August 2004.

肖良勇教授 (Professor XIAO Liangyong), aged 69, is an executive Director and a substantial Shareholder. He graduated from 張家口解放軍通訊工程學院 (Zhangjiakou PLA Communication Engineering College*, now known as Xidian University) in 1957 with a degree in radio engineering. He took positions as the tutor, lecturer, associate professor, professor and dean of the sixth department (currently the electronic engineering college) and antenna development centre of Xidian University from January 1957 to January 1998. Besides, Professor XIAO was an executive director and the general manager of Xi'an Haitian Communications from January 2000 to October 2000 and joined the Group as the chairman of the Board from October 2000 to 5 August 2004. Professor XIAO resigned on 29 March 2005.

郭渭盛教授 (Professor GUO Weisheng), aged 73, is an executive Director. He graduated from 西北電訊工程學院 (Northwest Institute of Communications Engineering, now known as Xidian University) in 1963 and is a professor. He worked as lecturer, associate professor, professor, deputy dean and dean of the electromagnetic engineering department of Xidian University from 1960 to 1992. He was the deputy general manager of Xi'an Haitian Communications from 1999 to 2000 and joined the Group as an executive Director and first assumed the post of the vice president of the Company in October 2000. Professor GUO resigned on 29 March 2005.

Non-executive Directors

王科先生 (Mr. WANG Ke), aged 58, is a non-executive Director. He graduated from 黑龍江商學院 (Heilongjiang Commerce College) in December 1968 and obtained the qualification of senior economist in July 1989. He joined the Group as a non-executive Director since May 2004. Mr. WANG Ke has been the chairman of the board of directors of 西安解放集團股份有限公司 (Xi'an Jiefang Group Co. Ltd.*, “**Xi'an Jiefang Group**”), a substantial Shareholder of the Company and a listed company with its domestic A shares trading on the Shenzhen Stock Exchange, since January 1995.

劉永強先生 (Mr. LIU Yongqiang), aged 65, is a non-executive Director. He graduated from the 西北新聞刊授學院 (Northwest Journalism Institute) in 1987 and became the deputy secretary-general of Xi'an Municipal People's Government in 1989. Mr. LIU became the chairman of the board of 西安國際信託投資有限公司 (Xi'an International Trust & Investment Co., Ltd.*, “**XITIC**”), a substantial Shareholder, in 1999 and joined the Company as a non-executive Director since October 2000.

王全福先生 (Mr. WANG Quanfu), aged 41, is a non-executive Director. He graduated from 中共陝西省委黨校 (Party School of the Shaanxi Provincial Committee of the Chinese Communist Party) in 1997. He started working in Xi'an Jiefang Group since 1988 and is an assistant to the general manager of Xi'an Jiefang Group from May 2001 to date and was elected as a non-executive Director since October 2000.

Directors, Supervisors and Senior Management (continued)

李文琦先生 (Mr. LI Wenqi), aged 39, is a non-executive Director. He graduated from 陝西財經學院 (Shaanxi College of Finance and Economics, now known as 西安交通大學 (Xi'an Jiaotong University)). He worked for 陝西絲綢進出口公司 (Shaanxi Silk Import & Export Corporation, one of the substantial Shareholders, "Shaanxi Silk") as the deputy chief and manager of Planning and Finance Department from October 1987 to April 1994 and from April 1994 to October 1997 respectively and the assistant to general manager and manager of Planning and Finance Department from October 1997 to May 2001. He is an accountant and the chief accountant and manager of Planning and Finance Department of Shaanxi Silk since May 2001. He joined the Company as a non-executive Director since October 2000.

王京女士 (Ms. WANG Jing), aged 33, is a non-executive Director. She graduated from 北京財貿學院 (Beijing Finance and Trade College) in September 1988. Ms. Wang was the vice general manager of 北京京泰投資管理中心 (Beijing Holdings Investment Management Co., Ltd.), one of the Shareholders, since February 2004 and was elected as a non-executive Director since May 2004.

Independent non-executive Directors

周天游先生 (Mr. ZHOU Tianyou), aged 42, is an independent non-executive Director. He graduated from the electronics and computer science department of 上海交通大學 (Shanghai Jiao tong University) with a bachelor degree in automatic control engineering in 1983 and is an engineer. Mr. ZHOU was awarded a Certificate of Siemens Training Centre for Communication Techniques in Germany and is a certified instructor for operation. During his service in the international cellular infrastructure division of Motorola Group, he was awarded a certificate of appreciation for his contribution to the success of Motorola cellular infrastructure business in the PRC in 1994. In October 1998, he was awarded a certificate of completion in respect of the Iridium Communications System by the ground systems division of Motorola Satellite Communications Group. He worked as the marketing manager in 北京長信嘉信息技術有限公司 (Beijing Digipro Information Technology Co. Ltd.) for the period between 1 December 1999 and 1 December 2001. Since October 2000, he was elected as an independent non-executive Director.

龔書喜教授 (Professor GONG Shuxi), aged 47, is an independent non-executive Director. He graduated from 西北電訊工程學院 (Northwest Institute of Communications Engineering, now known as Xidian University) with a bachelor degree, and from Xi'an Jiaotong University with master and doctorate degrees in electromagnetic and microwave technology and is a professor. Professor GONG became the professor in Antenna Research Institute of Xidian University in 1997. Since October 2000, he was elected as an independent non-executive Director.

王鵬程先生 (Mr. WANG Pengcheng), aged 37, is an independent non-executive Director. He graduated from 陝西財經學院 (Shaanxi Finance College*) in December 1988 with a certificate of tertiary education majored in accountancy and obtained a master degree in business administration from the Open University of Hong Kong in December 2000. Mr. WANG joined the 西安財政局 (Xi'an Finance Bureau*, a shareholder of XITIC which in turn is a substantial Shareholder of the Company). He then joined 西安西格瑪有限責任會計師事務所 (Xi'an Zigma Accountants, LLC*) as the vice chief executive of the firm until present. He was elected as an independent non-executive Director since 30 September 2004.

鄧元明教授 (Professor DENG Yuanming), aged 66, was an independent non-executive Director graduated in 1960 with a bachelor degree in 西北大學 (Northwest University). He was a professor in industrial economics of Xi'an Jiaotong University and retired in 2003. In 1996 and 1998, Professor DENG was a member of the standing committee of the People's Congress of Shaanxi Province. Since October 2000, he was elected as an independent non-executive Director. Professor DENG has ceased to be an independent director of Xi'an Jiefang Group with effect from 12 May 2003. Professor DENG has resigned on 30 September 2004.

*Directors, Supervisors and Senior Management (continued)***SUPERVISORS**

胡暉先生 (Mr. HU Hui), aged 37, 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 the Supervisor in July 2002.

孫桂蓮小姐 (Ms. SUN Guilian), aged 40, 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 the Supervisor in July 2002.

劉激揚先生 (Mr. LIU Jiyang), aged 37, 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 the Supervisor in October 2002.

師萍教授 (Professor SHI Ping), aged 55, 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 the Supervisor in October 2002.

谷林強先生 (Mr. GU Linqiang), aged 38, 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 and assumed the posts of deputy manager and manager. Mr. GU was elected as the Supervisor in October 2002.

SENIOR MANAGEMENT

梁志軍先生 (Mr. LIANG Zhijun), aged 40, graduated from 陝西機械學院 (Shaanxi Institute of Mechanical Engineering, now known as 西安理工大學 (Xi'an University of Technology)) in 1985 and was a lecturer in Xidian University from 1985 to 1993. Mr. LIANG worked in 中國電子進出口總公司海南公司 (China National Electronics Import & Export Corporation, Hainan Branch) from 1988 to 1989 and 西安大唐電信有限公司 (Xi'an Datang Telecom Company Limited) from 1993 to 2000. He joined the Group in July 2000. He was appointed as the secretary of the Board since October 2000 and was appointed as the vice president of the Company in April 2004. Mr. LIANG is responsible for the secretarial work of the Board. Mr. LIANG has been nominated by the Board as an executive Director and an authorised representative of the Company on 29 March 2005 and the appointment shall take effect in April 2005 until the forecoming annual general meeting of the Company.

方曦先生 (Mr. FANG Xi), aged 34, 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 國營黃河機器製造廠 (State-owned Huanghe Machinery Plant) from 1993 to 2001, before he joined. Currently, he is responsible for the finance function of the Group. Mr. FANG

Directors, Supervisors and Senior Management (continued)

has been nominated by the Board as an executive Director on 29 March 2005 and the appointment shall take effect in April 2005 until the forecoming annual general meeting of the Company.

劉鵬先生 (Mr. LIU Peng), aged 37, graduated from the Changsha Railway College in 1989, and has finished the master of business administration courses in 北方交通大學 (Northern Jiaotong University) in 2000 and is an engineer. He worked in the equipment factory of 中國有色二十三冶二公司工業設備廠 (China Nonferrous Metal 23 Metallurgy Corporation Second Branch) from July 1989 to March 1997. From April 1997 to February 2001, he worked as the assistant to president of 湖南金正方企業集團 (Hunan Gold Zhengfang Enterprise Group*) as well as the general manager of 華麗服裝批發大市場 (Huali Garment Wholesale Market). He joined the Group in April 2001 and was appointed as a vice president of the Company in May 2002. Mr. LIU is responsible for human resource management and administration of the Company.

宗瑞良博士 (Dr. ZONG Rui liang), aged 40, graduated from the 西北工業大學 (Northwestern Polytechnical University) in July 1986 with a bachelor of engineering degree major in applied electronic techniques, in September 1993 with a master of engineering degree major in control theory and engineering and in February 2000 with a doctor of philosophy degree major in signal and information processing. Dr. ZONG worked for faculty of marine engineering of Northwestern Polytechnical University as lecturer and associate professor during September 1993 to May 2000 and for Xi'an research institute, division of technology development, 深圳市中興通訊股份有限公司 (Shenzhen ZTE Corporation) as project manager, director of R & D department and as second level chief engineer during May 2000 to September 2003. Dr. ZONG joined the Group in July 2003 and currently is the general manager for research and development division of the Company.

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

曾如鐵先生 (Mr. TSANG Yu Tit), aged 35, is a qualified accountant with over ten years of experience in accounting, auditing and financial management. He is also the company secretary of the Company. Mr. TSANG graduated with a bachelor degree in accountancy from the Hong Kong Polytechnic University. He is an associate member of the Hong Kong Society of Accountants and a fellow member of the Association of Chartered Certified Accountants. Mr. TSANG joined the Group in November 2002. Before joining the Group, he worked for an international certified public accountants firm, Deloitte Touche Tohmatsu, for three years and subsequently joined a private company which engaged in manufacturing and trading.

Report of the Supervisory Committee

To the Shareholders,

During the year ended 31 December 2004, the Supervisory Committee of the Company (the “**Committee**” or the “**Supervisors**”) thoroughly performed its duties faithfully in accordance with the provisions of the Company Laws and the articles of association (the “**Articles**”) of the Company. Adhering to the principles of safeguarding interests of the Shareholders and benefits of the staff of the Company, the Supervisors attended Board meetings, acquiring first-hand information of the Board's decision on marking important issues and effectively monitoring the Board and senior management of the Company in performing their duties, and providing reasonable recommendation and advice on the operations and development plans of the Company.

The Supervisory Committee considers that:

1. The Company's operation for the year 2004 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. Based on the principles of prudence, the Company effectively prevented and diverted the risks of loss of assets through setting up internal control systems;
4. Asset acquisitions and disposals of the Company were transacted at reasonable prices, there was no insider trading which prejudiced the interests of certain Shareholders or caused any loss of assets of the Company;
5. The Committee's role in monitoring the management was strengthened by attending Board meetings, participating in the decision-making process of the management and reviewing regularly the Company's financial statements and accounts. The Supervisors believe that the financial management of the Company was performed in strict accordance with the relevant accounting principles, that the financial statements and accounts were prepared timely and properly and that no improper disclosures were identified; and
6. The Supervisors have carefully examined the financial statements of the Company to be submitted to the annual general meeting of the Company and believe that during the reporting period, the operating results of the Company truly and fairly reflect its state of affairs; all expenses and costs were incurred reasonably.

Report of the Supervisory Committee (continued)

The Committee would like to extend its appreciation to all the Shareholders, 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

29 March 2005

Directors' Report

The Directors present the annual report and the audited financial statements for the year ended 31 December 2004.

PRINCIPAL ACTIVITIES

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

RESULTS AND APPROPRIATIONS

The audited financial results of the Group for the year ended 31 December 2004 are set out in the income statement on page 28 of this annual report.

The Directors do not recommend the payment of final dividend for the year ended 31 December 2004.

DISTRIBUTABLE RESERVES

In accordance with 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 Group prepared in accordance with the relevant accounting principles and financial regulations applicable to companies established in the PRC, the Group's distributable reserves were RMB64,938,808 as at 31 December 2004 (2003: RMB64,606,117).

The Group has reserve amounting to RMB64,938,808 available for distribution to Shareholders as at 31 December 2004 (2003: RMB64,606,117).

FINANCIAL SUMMARY

A summary of the results of the Group for each of the four years ended 31 December 2004, and the assets and liabilities of the Group as at 31 December 2001, 2002, 2003 and 2004 are set out on page 54 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group spent approximately RMB14.6 million on plant and equipment and approximately RMB18.3 million on properties under construction to expand and upgrade its production capacity.

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

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 21 to the financial statements.

During the period from 1 January 2004 to 31 December 2004, the Company did not purchase, sell or redeem any of the Company's listed securities.

Directors' Report (continued)

DIRECTORS AND SUPERVISORS AND SERVICE CONTRACTS

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

Executive directors:

Mr. XIAO Bing (*Chairman/ President*)
Professor XIAO Liangyong (resigned on 29 March 2005)
Professor GUO Weisheng (resigned on 29 March 2005)

Non-executive directors:

Mr. WANG Ke (appointed on 20 May 2004)
Mr. LIU Yongqiang
Mr. WANG Quanfu
Mr. LI Wenqi
Ms. WANG Jing (appointed on 20 May 2004)
Mr. LUO Maosheng (resigned on 25 March 2004)
Mr. MI Yunpoing (resigned on 25 March 2004)

Independent non-executive directors:

Mr. ZHOU Tianyou
Professor GONG Shuxi
Mr. WANG Pengcheng (appointed on 30 September 2004)
Professor DENG Yunming (resigned on 30 September 2004)

Supervisors:

Mr. HU Hui
Ms. SUN Guilian
Mr. LIU Jiyang
Professor SHI Ping
Mr. GU Linqiang

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

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

Directors' Report (continued)

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.

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 they are independent under Rules 5.09 of the GEM Listing Rules.

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 31 December 2004, the interests and short positions of the Directors, Supervisors (as if the requirements applicable to Directors under the Securities and Futures Ordinance ("SFO") (Chapter 571 of the Laws of Hong Kong) had applied to the Supervisors) or chief executives of the Company, including their respective associates, in the shares (the "Shares"), underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or when required, 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 GEM Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Long positions in the shares of the Company

Name of director	Type of interest	Capacity	Number of the issued domestic shares of RMB0.10 each held	Approximate percentage of the issued share capital of the Company
Professor XIAO Liangyong	Personal	Beneficial owner	180,000,000	27.8%

Other than as disclosed above, none of the Directors, the Supervisors and chief executives of the Company nor their respective associates had any interests or short positions in any Shares, underlying shares or 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 under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules as at 31 December 2004.

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

So far as is known to the Directors, Supervisors and chief executives of the Company, as at 31 December 2004, none of the Directors, Supervisors or chief executives of the Company or any of their 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.

Directors' Report (continued)

SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY**(A) Substantial Shareholders**

As at 31 December 2004, the following person or entities (other than a Director, Supervisor or chief executive of the Company) 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:

Name of Substantial Shareholder	Type of interest	Capacity	Number of the issued Shares of RMB0.10 each held in the Company	Approximate percentage in the total issued share capital of the Company
Domestic Shares				
Professor XIAO	Personal	Beneficial owner	180,000,000(L)	27.8%
Xi'an Jiefang Group	Corporate	Beneficial owner	100,000,000(L)	15.5%
XITIC	Corporate	Beneficial owner	70,151,471(L)	10.8%
Xi'an Finance Bureau*	Corporate	Held by controlled corporation	70,151,471(L) (Note2)	10.8%
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(L) (Note2)	10.8%

* for identification purpose only

Notes:

- The letter "L" represents the entity's long position in the Shares.
- The domestic Shares were held by XITIC. By virtue of the SFO, Xi'an Finance Bureau and Shaanxi Baosheng International Investment Company Limited, which respectively holds more than one third of voting right of XITIC, were deemed to be interested in the same 70,151,471 domestic Shares held by XITIC.

Directors' Report (continued)

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

As at 31 December 2004, save of the person or entities disclosed in sub-section (A) above, the following person or entities (other than a Director, Supervisor or chief executive of the Company) had an interest or a short position in the Shares and underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO:

Name of Substantial Shareholder	Type of interest	Capacity	Number of the issued Shares of RMB0.10 each held In the Company	Approximate percentage in the total issued share capital of the Company
Domestic Shares				
Beijing Holdings Investment Management Co., Ltd.*	Corporate	Beneficial owner	54,077,941(L)	8.4%
京泰實業(集團)有限公司 Beijing Holdings (Group) Limited*	Corporate	Held by controlled corporation	54,077,941(L) (Note 2)	8.4%
Shaanxi Silk	Corporate	Beneficial owner	45,064,706(L)	7.0%
陝西省財政廳 Shaanxi Finance Bureau*	Corporate	Held by controlled corporation	45,064,706(L) (Note 3)	7.0%
H Shares				
Shenyin Wanguo (H.K.) Limited	Corporate	Held by controlled corporation	24,264,706(L) (Note 9)	3.8% (Note 4)
Taicom Capital Ltd.	Corporate	Investment manager	13,004,000(L) (Note 9)	2.0% (Note 5)
Atlantis Investment Management Limited	Corporate	Investment manager	13,000,000(L) (Note 9)	2.0% (Note 6)
Carlson Fund Equity Asian Small Cap	Corporate	Investment manager	10,520,000(L) (Note 9)	1.6% (Note 7)
Ms. SONG Ying	Personal	Beneficial Owner	8,800,000(L)	1.4% (Note 8)

* for identification purpose only

*Directors' Report (continued)**Notes:*

1. The letter "L" represents the entity's/person's interests in the Shares.
2. The domestic Shares were held by Beijing Holdings Investment Management Co., Ltd.* ("BJ Holdings"). By virtue of the SFO, Beijing Holdings (Group) Limited, which holds more than one third of voting rights of BJ Holdings, was deemed to be interested in the same 54,077,941 domestic Shares held by BJ Holdings.
3. 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.
4. The H Shares held by Shenyin Wanguo (H.K.) Limited were equivalent to approximately 15.0% of H Shares total in issued.
5. The H Shares held by Taicom Capital Ltd. were equivalent to approximately 8.0% of H Shares total in issued.
6. The H Shares held by Atlantis Investment Management Limited were equivalent to approximately 8.0% of H Shares total in issued.
7. The H Shares held by Carlson Fund Equity Asian Small Cap were equivalent to approximately 6.5% of H Shares total in issued.
8. The H Shares held by Ms. Song Ying were equivalent to approximately 5.4% of H Shares total in issued.
9. The details of the substantial Shareholders were based on information as set out in the web site of the Stock Exchange. The Company has not been notified by the relevant Shareholders and has not received any Corporate Substantial Shareholder Notice from the relevant Shareholders.

Save as disclosed above, as at 31 December 2004, the Directors 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 record on 31 December 2004 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 a party to any arrangement to enable the Directors and Supervisors to acquire benefits by means of the acquisition of Shares in the Company or any other body corporate.

DIRECTORS' AND SUPERVISORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

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

COMPETING INTEREST

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

Directors' Report (continued)

CORPORATE GOVERNANCE

The Group has complied in the period between 1 January 2004 and 31 December 2004 with the Board Practices and Procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules, which applied before the amendments to the GEM Listing Rules relating to the Code on Corporate Governance Practices and Rules on Corporate Governance Report on 1 January 2005. The Company will prepare a Corporate Governance Report in accordance with Rule 18.44 of the GEM Listing Rules for the financial year ending 31 December 2005.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company did not purchase, sell or redeem any of its listed securities during the year. Neither the Company or any of its subsidiaries has purchased, or sold or redeemed any of the Company's Shares during the year.

MATERIAL LITIGATION

The Group was not involved in any material litigation during the year.

EMPLOYEE RETIREMENT BENEFITS

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

BANK LOANS

Details of bank loans and bank facilities of the Group are set out in note 20 to the financial statements.

AUDIT COMMITTEE

An audit committee was established since 4 April 2003 with terms of reference in compliance with GEM Listing Rules. As at 31 December 2004, the audit committee of the Company comprised Mr. WANG Pengcheng and Professor GONG Shuxi, independent non-executive Directors, and Mr. LI Wenqi, a non-executive Director. The Company's annual operating results for the year ended 31 December 2004 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles and there was no restriction against such rights under the laws of the PRC.

INTERESTS OF THE COMPLIANCE ADVISER

As notified and updated by Core Pacific-Yamaichi Capital Limited ("**CPY Capital**"), the Company's compliance adviser, pursuant to Rules 6.36 and 18.63 of GEM Listing Rules, as at 31 December 2004, neither CPY Capital nor its directors or employees or associates had any interests in share capital of the Company.

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

Directors' Report (continued)

AUDITORS

On 8 March 2005, Deloitte Touche Tohmatsu resigned as the auditors of the Company. The Board appointed CCIF CPA Limited as the auditors of the Company to fill the causal vacancy arising from the resignation with effect from 8 March 2005. A resolution will be proposed at the annual general meeting of the Company to re-appoint CCIF CPA Limited as the auditors of the Company.

On behalf of the Board

Mr. XIAO Bing

Chairman

Xi'an, the PRC

29 March 2005

Auditor's Report



CCIF

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**AUDITORS' REPORT TO THE SHAREHOLDERS OF
XI'AN HAITIAN ANTENNA TECHNOLOGIES COMPANY LIMITED***

西安海天天线科技股份有限公司

(Established as a joint stock limited company in The People's Republic of China with limited liability)

We have audited the financial statements on pages 28 to 53 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

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

BASIS OF OPINION

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

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

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2004 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

CCIF CPA Limited

Certified Public Accountants

Hong Kong

29 March 2005

Chan Wai Dune, Charles

Practising Certificate Number P00712

* for identification purpose only

Consolidated Income Statement

For the year ended 31 December 2004

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

The notes on pages 36 to 53 form an integral part of these financial statements.

Consolidated Balance Sheet

As at 31 December 2004

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

Consolidated Balance Sheet (continued)

As at 31 December 2004

	Note	2004 RMB	2003 RMB
CAPITAL AND RESERVES			
Share capital	21	64,705,882	64,705,882
Reserves	22	167,999,054	156,216,990
		232,704,936	220,922,872
NON-CURRENT LIABILITIES			
Bank and other borrowings			
— due after one year	20	70,000,000	50,000,000
Deferred taxation	23	600,000	500,000
		303,304,936	271,422,872

Approved and authorised for issue by the board of directors on 29 March 2005.

On behalf of the board

Mr. XIAO Bing
Director

Mr. WANG Pengcheng
Director

The notes on pages 36 to 53 form an integral part of these financial statements.

Balance Sheet

As at 31 December 2004

	Note	2004 RMB	2003 RMB
NON-CURRENT ASSETS			
Land use right	13	11,874,270	12,133,359
Intangible assets	14	27,847,149	12,870,942
Property, plant and equipment	15	103,481,851	80,080,735
Interest in a subsidiary	16	1,597,500	–
Club debenture		280,000	280,000
Deposits for acquisition of land use right/property, plant and equipment		28,940	526,980
Pledged bank deposits		623,579	270,496
		145,733,289	106,162,512
CURRENT ASSETS			
Inventories - at cost	17	25,554,557	27,059,721
Trade receivables	18	172,292,300	158,131,100
Bills receivables		7,373,378	200,000
Other receivables and prepayments		12,739,401	16,963,142
Pledged bank deposits		7,379,589	24,544,369
Bank balances and cash		107,614,032	113,588,038
		332,953,257	340,486,370
CURRENT LIABILITIES			
Trade payables	19	28,469,290	27,419,900
Bills payable		35,400,777	47,626,722
Other payables and accrued charges		12,650,811	28,672,359
Taxation		8,853,288	16,833,149
Bank and other borrowings – due within one year	20	90,000,000	54,673,880
		175,374,166	175,226,010
NET CURRENT ASSETS		157,579,091	165,260,360
		303,312,380	271,422,872

Balance Sheet (continued)

As at 31 December 2004

	<i>Note</i>	2004 RMB	2003 <i>RMB</i>
CAPITAL AND RESERVES			
Share capital	21	64,705,882	64,705,882
Reserves	22	168,006,498	156,216,990
		232,712,380	220,922,872
NON-CURRENT LIABILITIES			
Bank and other borrowings			
– due after one year	20	70,000,000	50,000,000
Deferred taxation	23	600,000	500,000
		303,312,380	271,422,872

Approved and authorised for issue by the board of directors on 29 March 2005.

On behalf of the board

Mr. XIAO Bing
Director

Mr. WANG Pengcheng
Director

The notes on pages 36 to 53 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2004

	Share capital	Share premium	Statutory surplus reserve	Statutory public welfare fund	Retained profits	Total
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
	<i>(Note 21)</i>		<i>(Note 22(a))</i>	<i>(Note 22(b))</i>		
At 1 January 2003	50,000,000	–	5,831,071	3,338,519	32,809,619	91,979,209
Issue of H shares upon listing on the GEM of the Stock Exchange	16,176,470	–	–	–	–	16,176,470
Conversion of certain state-owned domestic shares to H shares	(1,470,588)	–	–	–	–	(1,470,588)
Premium arising on issue of shares	–	93,924,637	–	–	–	93,924,637
Expenses incurred in connection with the issue of shares	–	(22,695,691)	–	–	–	(22,695,691)
Net profit for the year	–	–	–	–	43,008,835	43,008,835
Transfer	–	–	3,672,040	1,836,020	(5,508,060)	–
At 31 December 2003	64,705,882	71,228,946	9,503,111	5,174,539	70,310,394	220,922,872
Dividend paid	–	–	–	–	(3,235,294)	(3,235,294)
Net profit for the year	–	–	–	–	15,017,358	15,017,358
Transfer	–	–	302,234	151,117	(453,351)	–
At 31 December 2004	64,705,882	71,228,946	9,805,345	5,325,656	81,639,107	232,704,936

Consolidated Cash Flow Statement

For the year ended 31 December 2004

	2004 RMB	2003 RMB
OPERATING ACTIVITIES		
Profit from operations	23,556,368	58,481,397
Adjustments for:		
Depreciation of property, plant and equipment	5,462,448	4,950,870
Amortisation of land use right	259,089	259,089
Amortisation of development costs	1,871,789	196,819
Amortisation of technological know-how	1,000,000	1,000,000
Loss on disposal of property, plant and equipment	301,402	19,495
Allowance for doubtful debts	3,263,979	1,696,472
Write back of allowance for inventories	-	(114,135)
OPERATING CASH FLOWS BEFORE MOVEMENTS IN WORKING CAPITAL	35,715,075	66,490,007
Decrease in inventories	1,505,164	5,813,878
Increase in trade and bills receivables	(24,598,557)	(61,433,644)
Decrease / (increase) in other receivables and prepayments	4,223,741	(5,434,532)
Increase/(decrease) in trade payables	1,049,390	(6,580,188)
(Decrease)/increase in bills payable	(12,225,945)	33,870,642
(Decrease)/increase in other payables and accrued charges	(17,611,604)	15,097,540
CASH GENERATED FROM OPERATIONS	(11,942,736)	47,823,703
Interest received	(572,684)	(143,230)
Dividend paid	(3,235,294)	(13,299,158)
Mainland China taxation paid	(9,959,109)	(1,001,715)
NET CASH GENERATED FROM OPERATING ACTIVITIES	(25,709,823)	33,379,600
INVESTING ACTIVITIES		
Interest received	572,684	143,230
Proceeds from disposals of property, plant and equipment	315,338	460
Purchase of land use right/property, plant and equipment	(32,878,343)	(34,422,638)
Decrease/(increase) in pledged bank deposits	16,811,697	(13,623,363)
Expenditure on product development	(13,054,582)	(4,881,296)
Decrease/(increase) in deposits for purchase of land use right/property, plant and equipment	498,040	(526,980)
NET CASH USED IN INVESTING ACTIVITIES	(27,735,166)	(53,310,587)

Consolidated Cash Flow Statement (continued)

For the year ended 31 December 2004

	2004	2003
	RMB	RMB
FINANCING ACTIVITIES		
Proceeds from issue of shares, net of expenses	-	85,934,828
New bank and other borrowings raised	110,000,000	156,339,158
Repayment of bank and other borrowings	(54,673,880)	(124,788,775)
Interest paid	(7,855,137)	(4,954,481)
NET CASH GENERATED FROM FINANCING ACTIVITIES	47,470,983	112,530,730
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(5,974,006)	92,599,743
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	113,588,038	20,988,295
CASH AND CASH EQUIVALENTS AT END OF YEAR		
Represented by bank balances and cash	107,614,032	113,588,038

Notes to the Financial Statements

31 December 2004

1. REORGANISATION AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS

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

Upon its establishment, the Company continued to carry on the business activities of the Predecessor for research and development, manufacture and sale of base station antennas and related products. Accordingly, for the purposes of preparation of the financial statements, the Company and the Predecessor is regarded as one continuing entity.

Following the consent from the China Securities Regulatory Commission ("CSRC") on 22 April 2003, the Company's overseas-listed foreign shares ("H shares") were listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 5 November 2003.

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

2. PRINCIPAL ACCOUNTING POLICIES

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

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

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

a) Basis of Consolidation

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

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

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

b) Subsidiary

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

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

Notes to the Financial Statements (continued)

31 December 2004

2. PRINCIPAL ACCOUNTING POLICIES (continued)**c) Revenue Recognition**

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

Service income is recognised when services are provided.

Subsidy income from government authority is recognised when the conditions relating to the subsidy have been fulfilled.

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

d) Land Use Right

Land use right is stated at cost less accumulated amortisation and identified impairment losses. The cost of land use right is amortised on a straight-line basis over the period of the right.

e) Technological Know-how

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

Amortisation is calculated to write off the cost of the technological know-how over their estimated useful lives, using the straight line method, up to ten years.

f) Property, Plant and Equipment

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

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

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

Buildings	3 $\frac{1}{3}$ %
Plant and machinery	10% – 33 $\frac{1}{3}$ %
Furniture, fixtures and equipment	20%
Motor vehicles	12 $\frac{1}{2}$ %

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

Notes to the Financial Statements (continued)

31 December 2004

2. PRINCIPAL ACCOUNTING POLICIES (continued)

g) Club Debenture

Club debenture is stated at cost less identified impairment losses.

h) Impairment of Assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of the asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

i) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average cost method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

j) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Notes to the Financial Statements (continued)

31 December 2004

2. PRINCIPAL ACCOUNTING POLICIES (continued)

k) Research and Development Costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally generated intangible asset arising from the development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight line basis over its useful life, which is usually no more than five years.

Where no internally generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

l) Foreign Currencies

Transactions in currencies other than Renminbi ("RMB") are translated at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on translation are dealt with in the income statement.

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

m) Government Grants

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

n) Operating Leases

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

o) Retirement Benefits Costs

Payments to a state-managed retirement benefit scheme are charged as an expense as they fall due. Payments made to state-managed retirement benefit scheme are dealt with as payments to defined contribution benefit where the Group's obligations under the scheme are equivalent to those arising in a defined contribution retirement benefit scheme.

Notes to the Financial Statements (continued)

31 December 2004

3. TURNOVER AND REVENUE

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

GROUP AND COMPANY

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

4. SEGMENT INFORMATION

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

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

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

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.

Notes to the Financial Statements (continued)

31 December 2004

5. PROFIT FROM OPERATIONS

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

Notes to the Financial Statements (continued)

31 December 2004

6. DIRECTORS' AND SUPERVISORS' REMUNERATION

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

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

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

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

Notes to the Financial Statements (continued)

31 December 2004

7. EMPLOYEES' REMUNERATION

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

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

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

8. FINANCE COSTS

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

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

9. INCOME TAX EXPENSES

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

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

Notes to the Financial Statements (continued)

31 December 2004

9. INCOME TAX EXPENSES (continued)

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

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

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

10. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

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

11. DIVIDENDS

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

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

12. EARNINGS PER SHARE

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

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

Notes to the Financial Statements (continued)

31 December 2004

13. LAND USE RIGHT**THE GROUP AND THE COMPANY**

RMB

Cost

At 1 January 2004 and 31 December 2004	12,695,357
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Amortisation

At 1 January 2004	561,998
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Provided for the year	259,089
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At 31 December 2004	821,087
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Net book value

At 31 December 2004	<u>11,874,270</u>
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At 31 December 2003	<u>12,133,359</u>
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The cost of land use right is amortised over a period of 49 years on a straight line basis. As at 31 December 2004, land use right with carrying value of RMB11,874,270 (2003: RMB12,133,359) has been pledged.

14. INTANGIBLE ASSETS**THE GROUP AND THE COMPANY**

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

Notes to the Financial Statements (continued)

31 December 2004

14. INTANGIBLE ASSETS (continued)

The technological know-how represents the technological knowledge and skill used for developing and manufacturing WLL/PHS antennas and the base station antenna for GSM/CDMA mobile telecommunication system. The technological know-how was previously held by Professor Xiao Liangyong ("Professor Xiao"), a director and a shareholder of the Company. According to the shareholder agreement entered into between the shareholders of the Company, it was agreed that the technological know-how held by Professor Xiao be injected into the Company at an amount of RMB10,000,000 as part of his contribution to the increase in paid-up capital in September 2000.

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

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

Development costs	5 years
Technological know-how	10 years

15. PROPERTY, PLANT AND EQUIPMENT**THE GROUP AND THE COMPANY**

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

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

Notes to the Financial Statements (continued)

31 December 2004

16. INTEREST IN A SUBSIDIARY

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

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

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

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

17. INVENTORIES – AT COST
THE GROUP AND THE COMPANY

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

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

Notes to the Financial Statements (continued)

31 December 2004

18. TRADE RECEIVABLES

THE GROUP AND THE COMPANY

Generally, the Group allows a credit period from 90 days to 240 days to its trade customers. For receivables from some customers, the amounts are settled by instalments which are mutually determined and agreed by the relevant parties. The aged analysis of trade receivables is as follows:

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

19. TRADE PAYABLES

THE GROUP AND THE COMPANY

The aged analysis of trade payables is as follows:

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

Notes to the Financial Statements (continued)

31 December 2004

20. BANK AND OTHER BORROWINGS**THE GROUP AND THE COMPANY**

	2004	2003
	RMB	RMB
Bank loans		
Secured	70,000,000	100,000,000
Unsecured	90,000,000	4,673,880
	<hr/>	<hr/>
Total	160,000,000	104,673,880
	<hr/>	<hr/>
The bank and other borrowings are repayable as follows:		
Within one year	90,000,000	54,673,880
More than one year, but not exceeding two years	50,000,000	–
More than two years, but not exceeding five years	20,000,000	50,000,000
	<hr/>	<hr/>
	160,000,000	104,673,880
Less: Amount repayable within one year shown under current liabilities	(90,000,000)	(54,673,880)
	<hr/>	<hr/>
	70,000,000	50,000,000
	<hr/>	<hr/>

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

21. SHARE CAPITAL

Share of RMB0.10 each

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

- (a) Pursuant to the approval from the Ministry of Finance of Mainland China regarding the sale of the state-owned shares, the total number of H shares issued in 2003 was 161,764,706 H shares, comprising 147,058,824 new H shares and 14,705,882 H shares converted from 14,705,882 domestic shares.

Notes to the Financial Statements (continued)

31 December 2004

22. RESERVES

THE GROUP

	Share premium <i>RMB</i>	Statutory surplus reserve <i>RMB</i> <i>(Note 22(a))</i>	Statutory public welfare fund <i>RMB</i> <i>(Note 22(b))</i>	Retained profits <i>RMB</i>	Total <i>RMB</i>
At 1 January 2003	–	5,831,071	3,338,519	32,809,619	41,979,209
Premium arising on issue of shares	93,924,637	–	–	–	93,924,637
Expenses incurred in connection with the issue of shares	(22,695,691)	–	–	–	(22,695,691)
Net profit for the year	–	–	–	43,008,835	43,008,835
Transfer	–	3,672,040	1,836,020	(5,508,060)	–
At 31 December 2003	71,228,946	9,503,111	5,174,539	70,310,394	156,216,990
Dividend paid	–	–	–	(3,235,294)	(3,235,294)
Net profit for the year	–	–	–	15,017,358	15,017,358
Transfer	–	302,234	151,117	(453,351)	–
At 31 December 2004	<u>71,228,946</u>	<u>9,805,345</u>	<u>5,325,656</u>	<u>81,639,107</u>	<u>167,999,054</u>

Notes to the Financial Statements (continued)

31 December 2004

22. RESERVES (continued)

THE COMPANY

	Share premium <i>RMB</i>	Statutory surplus reserve <i>RMB</i> <i>(Note 22(a))</i>	Statutory public welfare fund <i>RMB</i> <i>(Note 22(b))</i>	Retained profits <i>RMB</i>	Total <i>RMB</i>
At 1 January 2003	–	5,831,071	3,338,519	32,809,619	41,979,209
Premium arising on issue of shares	93,924,637	–	–	–	93,924,637
Expenses incurred in connection with the issue of shares	(22,695,691)	–	–	–	(22,695,691)
Net profit for the year	–	–	–	43,008,835	43,008,835
Transfer	–	3,672,040	1,836,020	(5,508,060)	–
At 31 December 2003	71,228,946	9,503,111	5,174,539	70,310,394	156,216,990
Dividend paid	–	–	–	(3,235,294)	(3,235,294)
Net profit for the year	–	–	–	15,024,802	15,024,802
Transfer	–	302,234	151,117	(453,351)	–
At 31 December 2004	71,228,946	9,805,345	5,325,656	81,646,551	168,006,498

(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.

Notes to the Financial Statements (continued)

31 December 2004

23. DEFERRED TAXATION**THE GROUP AND THE COMPANY**

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

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

24. MAJOR NON-CASH TRANSACTION

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

25. OPERATING LEASE COMMITMENTS**THE GROUP AND THE COMPANY****The Group as lessee**

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

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

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

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

26. CAPITAL COMMITMENTS**THE GROUP AND THE COMPANY**

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

Notes to the Financial Statements (continued)

31 December 2004

27. PLEDGE OF ASSETS**THE GROUP AND THE COMPANY**

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

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

28. RETIREMENT BENEFITS SCHEME

The Group participates in a defined contribution retirement scheme organised by the relevant local government authority in Mainland China. Certain employees of the Group eligible to participate in the retirement scheme are entitled to retirement benefits from the scheme. The local government authority is responsible for the pension liabilities to these retired employees. The Group is required to make monthly contributions to the retirement scheme up to the time of retirement of the eligible employees, at 20% of the local standard basic salaries.

As of 31 December 2003 and 2004, the Group had no significant obligation apart from the contribution as stated above.

29. GOVERNMENT GRANTS

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

During the year ended 31 December 2003 and the year ended 31 December 2004, the Group received government grants of RMB1,200,000 (2003: RMB1,200,000) and RMB2,100,000 (2003: Nil) research and development and industrialisation of antenna for the 3G and TD-SCDMA mobile communication respectively. The amounts received in respect of the government grants are repayable if the development of antennas fulfilling the technical parameters specified by the Government and establishment of production capacity for the antennas are not completed.

As at 31 December 2003 and at 31 December 2004, the development and industrialisation of antenna for the 3G and TD-SCDMA mobile communication are not fully completed, the respective amounts of RMB683,000 (2003: RMB1,200,000) and RMB886,532 (2003: Nil) have not yet been recognised in the income statement and are included as other payables.

Financial Summary

	Year ended 31 December			2004 RMB
	2001 RMB	2002 RMB	2003 RMB	
RESULTS				
Turnover	74,905,651	164,525,831	226,731,785	200,999,236
Profit before taxation	19,615,594	44,561,815	53,526,916	17,096,606
Income tax expense	—	(8,168,467)	(10,518,081)	(2,079,248)
Net profit for the year	19,615,594	36,393,348	43,008,835	15,017,358
As at 31 December				
	2001 RMB	2002 RMB	2003 RMB	2004 RMB
ASSETS AND LIABILITIES				
Total assets	134,357,184	247,549,634	446,648,882	477,089,046
Total liabilities	(63,771,323)	(155,570,425)	(225,726,010)	(244,384,110)
Shareholders' funds	70,585,861	91,979,209	220,922,872	232,704,936

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