



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)

**THIRD QUARTERLY REPORT**  
**2006**

\* for identification purposes only

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

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

\* for identification purpose only

## HIGHLIGHTS

- During the nine months ended 30 September 2006, the Group recorded an unaudited net loss of approximately RMB26.4 million, representing a decrease by RMB27.0 million as compared to the net profit of approximately RMB0.6 million for the corresponding period in the year 2005.
- The Board does not recommend the payment of a dividend for the three months ended 30 September 2006 (2005: nil).

## CONSOLIDATED RESULT FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2006

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

### Unaudited Consolidated Income Statement

	Notes	(Unaudited) For the three months ended 30 September		(Unaudited) For the nine months ended 30 September	
		2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Turnover	3	34,486	50,475	101,940	114,682
Cost of sales		(26,482)	(27,628)	(75,564)	(62,611)
Gross profit		8,004	22,847	26,376	52,071
Other operating income		393	94	808	361
Distribution costs		(5,882)	(4,318)	(20,326)	(23,021)
Administrative expenses		(6,298)	(5,192)	(21,266)	(14,627)
Other operating expenses		(3,357)	(1,638)	(11,172)	(8,069)
Profit(loss) from operations		(7,140)	11,793	(25,580)	6,715
Finance costs		(2,162)	(1,808)	(4,807)	(6,137)
Profit(loss) before taxation		(9,302)	9,985	(30,387)	578
Income tax credit	4	-	-	525	-
Net profit(loss) for the period		(9,302)	9,985	(29,862)	578
Attributable to:					
Equity holders of the Company		(7,591)	10,056	(26,444)	619
Minority interests		(1,711)	(71)	(3,418)	(41)
		(9,302)	9,985	(29,862)	578
Dividend	5	-	-	-	9,706
Basic earnings(loss) per share (in RMB cents)	6	(1.2)	1.6	(4.1)	0.1

**Notes to the Unaudited Consolidated Financial Results***For the nine months ended 30 September 2006***1. BASIS OF PREPARATION**

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

This unaudited condensed consolidated financial information has been prepared in accordance with the accounting principles generally accepted in Hong Kong and the accounting standards issued by the Hong Kong Institute of Certified Public Accountants.

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

**2. ACCOUNTING POLICIES**

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

**3. TURNOVER**

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

Turnover breakdown by nature of revenue:

	<b>(Unaudited)</b>		<b>(Unaudited)</b>	
	<b>For the three months ended 30 September</b>		<b>For the nine months ended 30 September</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
Sales of goods	<b>33,141</b>	47,017	<b>96,250</b>	108,404
Service income	<b>1,345</b>	3,458	<b>5,690</b>	6,278
	<b>34,486</b>	50,475	<b>101,940</b>	114,682

Turnover breakdown by geographical locations:

	<b>(Unaudited)</b>		<b>(Unaudited)</b>	
	<b>For the three months ended 30 September</b>		<b>For the nine months ended 30 September</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
The People's Republic of China (the "PRC")	<b>23,921</b>	41,623	<b>75,660</b>	98,880
Overseas	<b>10,565</b>	8,852	<b>26,280</b>	15,802
	<b>34,486</b>	50,475	<b>101,940</b>	114,682

#### 4. INCOME TAX CREDIT

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

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

#### 5. DIVIDEND

The Board does not recommend the payment of a dividend for the three months ended 30 September 2006 (2005: nil).

#### 6. BASIC EARNINGS(LOSS) PER SHARE

The calculation of the basic earnings(loss) per share is based on the unaudited net loss for the three months and the nine months ended 30 September 2006 of approximately RMB(7,591,000) and RMB(26,444,000) respectively (unaudited net profit for the three months and nine months ended 30 September 2005: approximately RMB10,056,000 and RMB619,000 respectively) divided by the number of 647,058,824 shares in issue (2005: 647,058,824 shares).

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

**7. RESERVES**

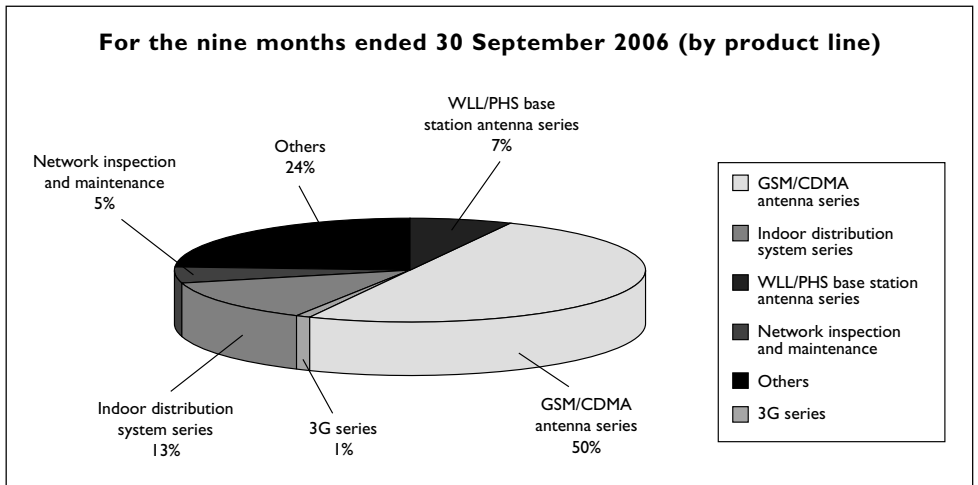
	<b>Share capital</b>	<b>Share premium</b>	<b>Statutory surplus reserve</b>	<b>Statutory public welfare fund</b>	<b>Retained profits</b>	<b>Total</b>	<b>Minority interests</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
At 1 January 2005	64,706	71,229	9,805	5,326	81,639	232,705	-	232,705
Interim dividend	-	-	-	-	(9,706)	(9,706)	-	(9,706)
Minority interests	-	-	-	-	-	-	200	200
Net profit for the period	-	-	-	-	619	619	(41)	578
<b>At 30 September 2005</b>	<b>64,706</b>	<b>71,229</b>	<b>9,805</b>	<b>5,326</b>	<b>72,552</b>	<b>223,618</b>	<b>159</b>	<b>223,777</b>
At 1 January 2006	64,706	71,229	10,213	5,529	86,785	238,462	130	238,592
Minority interests	-	-	-	-	-	-	28,000	28,000
Net loss for the period	-	-	-	-	(26,444)	(26,444)	(3,418)	(29,862)
<b>At 30 September 2006</b>	<b>64,706</b>	<b>71,229</b>	<b>10,213</b>	<b>5,529</b>	<b>60,341</b>	<b>212,018</b>	<b>24,712</b>	<b>236,730</b>

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

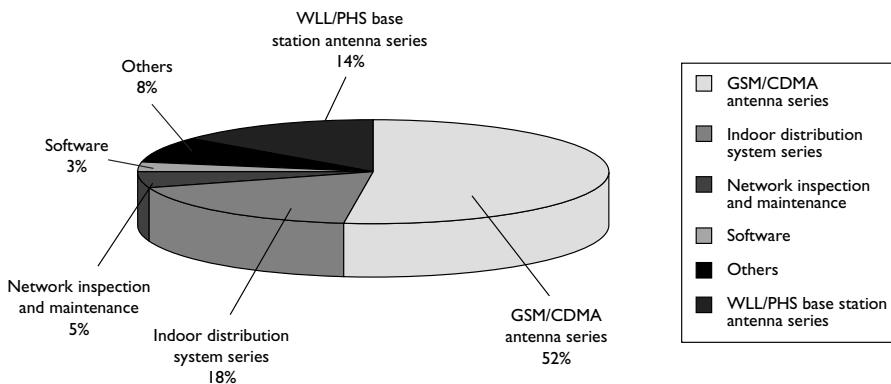
For the nine months ended 30 September 2006, unaudited turnover of the Group was approximately RMB101.9 million, representing a decrease of approximately 11.1% over that of the corresponding period in the year 2005. The decrease was mainly attributable to continuous conservative atmosphere and fierce competition in the PRC wireless telecommunications industry as well as price pressure from the central procurement strategy adopted by China Mobile which lead to sizable drop in sales to China Mobile and UTStarcom. On the other hand, revenue from export sales grew by approximately RMB10.5 million, representing 66.5% increase when compared to the corresponding period in 2005 and accounted for approximately 26.0% of the Group's revenue in the current period. The strong growth in sales to overseas markets demonstrated the effectiveness of the Group's international expansion strategy.

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



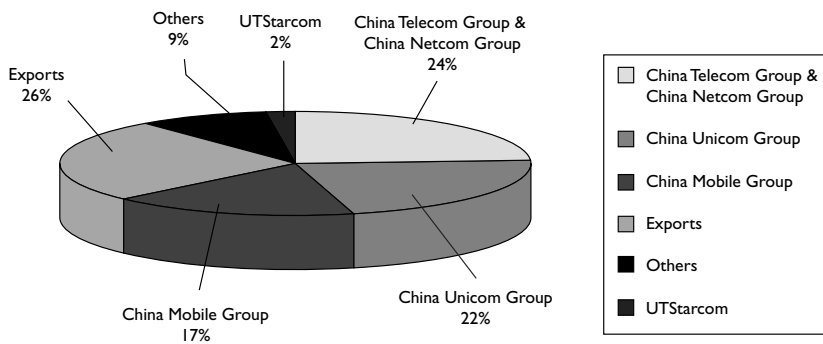


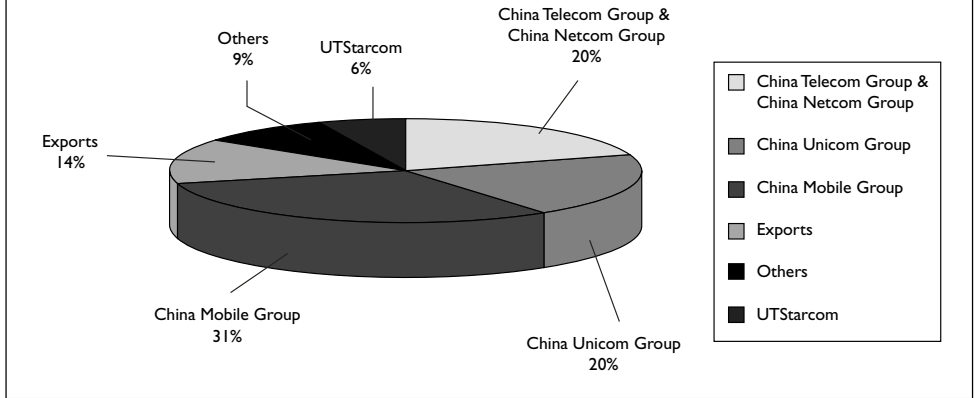
**For the nine months ended 30 September 2005 (by product line)**



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

**For the nine months ended 30 September 2006 (by major customers)**



**For the nine months ended 30 September 2005 (by major customers)****Legend:**

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

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

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

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

**Gross Profit**

During the nine months ended 30 September 2006, unaudited gross profit amounted to approximately RMB26.4 million, gross profit margin was approximately 25.9%, represented a decrease when compared to the gross profit margin of 45.4% for the corresponding period in the year 2005. The declining profit margin reflected that the Group continuously suffered from diminishing demand, price pressure and rising material costs over the past period.

## **Operating Costs and Expenses**

Distribution costs for the nine months ended 30 September 2006 was approximately RMB20.3 million, representing a decrease of 11.7% over the corresponding period in the year 2005. In response to the declining demand in domestic market, the Group implemented more focused sales and marketing efforts on developing international markets which proved to be effective and generated increasing sales to the Group over the period.

Administrative expenses were approximately RMB21.3 million for the nine months ended 30 September 2006, representing an increase of approximately RMB6.7 million comparing with the corresponding period in 2005. Since the Group is expanding its operating scale over the period by assigning different subsidiaries for particular business segments, therefore, general increase in administrative expenses was noted especially for payroll, professional fee and depreciation of property, plant and equipment.

Other operating expenses amounted to approximately RMB11.2 million, representing an increase of approximately RMB3.1 million comparing with the corresponding period in the year 2005. The amount mainly represented research and development cost, amortization of capitalized research and development cost and amortization of intangible assets.

Finance costs were RMB4.8 million for the nine months ended 30 September 2006, representing a decrease of 21.3% over the corresponding period in 2005. The decrease was mainly due to the Group's effort on managing the level of bank borrowing for working capital purpose in response to rising interest rates over the period.

Consequently, during the nine months ended 30 September 2006, the Group recorded an unaudited net loss of approximately RMB26.4 million, representing a decrease by RMB27.0 million as compared to the net profit of approximately RMB0.6 million for the corresponding period in year 2005.

## **PROSPECTS**

Looking to the future, the Group will continue to enhance its product portfolio and to participate in various 3G network trials and testing, in order to prepare for the launch of 3G commercial application and achieve product diversification. At the same time, the Group will actively explore international markets in order to broaden its customer base.

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

As at 30 September 2006, the interests and short positions of the Directors, Supervisors (as if the requirements applicable to the Directors under the Securities and Futures Ordinance ("SFO") (Chapter 571 of the Laws of Hong Kong) had applied to the Supervisors) and chief executives of the Company, including their respective associates, in the shares (the "Shares"), underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise required, pursuant to Rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

### **Long positions in the Domestic Shares of the Company**

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

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

Other than as disclosed above, none of the Directors, Supervisors and chief executive of the Company nor their respective associates had any interests or short positions in any Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as at 30 September 2006 as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise required, pursuant to Rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

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

As at 30 September 2006, so far as is known to the Directors, Supervisors and chief executives of the Company, none of the Directors, Supervisors or chief executives of the Company or any of their respective associates including spouses and children under 18 years of age had any interest in, or has been granted, or exercised, any rights to subscribe for H Shares (or warrants or debentures, if applicable) or to acquire H Shares.

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

As at 30 September 2006, the following persons or entities (other than the Directors, Supervisors and chief executives of the Company) had interests or short positions in the Shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO:

### **(A) Substantial shareholders of the Company**

#### *Long positions in Domestic Shares of the Company*

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

**Notes:**

1. The Domestic Shares were held by Tian An Investment, which is beneficially owned as to 60% by Mr. Xiao Bing and 40% by Ms. Yao Wenli. By virtue of the SFO, Ms. Yao Wenli was deemed to be interested in the same 180,000,000 Domestic Shares held by Tian An Investment.
2. Professor Xiao Liangyong is the father of Mr. Xiao Bing and a person acting in concert with Mr. Xiao Bing. By virtue of the SFO, he was deemed to be interested in the same 180,000,000 Domestic Shares held by Tian An Investment.
3. The Domestic Shares were held by XITIC. By virtue of the SFO, Xi'an Finance Bureau and Shaanxi Baosheng International Investment Company Limited, which respectively holds more than one third of voting rights of XITIC, were deemed to be interested in the same 70,151,471 Domestic Shares held by XITIC.

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

***Long positions in Domestic Shares of the Company***

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

**Long positions in H Shares of the Company**

Name of shareholder	Type of interest	Capacity	Number of H Shares held in the Company	Approximate percentage in the total issued H Shares of the Company	Approximate percentage in the total issued share capital of the Company
Taicom Capital Ltd.	Corporate	Investment manager	13,004,000 (Note 3)	8.03%	2.00%
Carlson Fund Equity Asian Small Cap	Corporate	Investment manager	10,520,000 (Note 3)	6.50%	1.62%
宋穎女士	Personal	Beneficial owner	8,800,000	5.43%	1.35%

\* *for identification purpose only*

**Notes:**

1. The Domestic Shares were held by Beijing Holdings. By virtue of the SFO, Beijing Holdings (Group) Limited, which holds more than one third of voting rights of Beijing Holdings, was deemed to be interested in the same 54,077,941 Domestic Shares held by Beijing Holdings.
2. The Domestic Shares were held by Shaanxi Silk. By virtue of the SFO, Shaanxi Finance Bureau, which holds more than one third of voting rights of Shaanxi Silk, was deemed to be interested in the same 45,064,706 Domestic Shares held by Shaanxi Silk.
3. The details of these shareholders of the Company were based on information as set out in the website of the Stock Exchange. The Company has not been notified by the relevant shareholders and has not received any Corporate Substantial Shareholder Notice from the relevant shareholders.

Save as disclosed above, as at 30 September 2006, the Directors, Supervisors and chief executives of the Company were not aware of any person (other than the Directors, Supervisors and chief executives of the Company) who had an interest or a short position in the Shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

## **COMPETING INTERESTS**

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

## **AUDIT COMMITTEE**

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

## **CODE ON CORPORATE GOVERNANCE PRACTICES**

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

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

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



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

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

By order of the Board

**Xiao Bing**

*Chairman*

Xi'an, the PRC, 10 November 2006

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