西安海天天綫科技股份有限公司

Xi'an Haitian Antenna Technologies Co., Ltd.*

(a joint stock limited company incorporated in the People's Republic of China)

(Stock Code: 8227)

Xi'an Haitian Antenna Technologies

2011 Annual Report

*for identification purposes only

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

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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

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 Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.*

* *For identification purposes only*

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Corporate Information

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PEOPLE'S REPUBLIC OF CHINA (THE "PRC")

No.66 Jinye Road
National Hi-tech Industrial Development Zone
Xi'an, Shaanxi Province
The People's Republic of China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room B, 16th Floor, Yam Tze Commercial Building
23 Thomson Road, Wanchai
Hong Kong

GEM STOCK CODE

8227

WEBSITE

www.xaht.com
www.htantenna.com

LEGAL ADVISERS AS TO HONG KONG LAW

K&L Gates
44/F., Edinburgh Tower, The Landmark
15 Queen's Road Central, Hong Kong

AUDITOR

SHINEWING (HK) CPA Limited
43/F., The Lee Gardens, 33 Hysan Avenue
Causeway Bay, Hong Kong

COMPANY SECRETARY

Mr. Lun Ka Chun (倫家俊先生)

MEMBERS OF AUDIT COMMITTEE

Mr. Lei Huafeng (雷華鋒先生) (Chairman)
Professor Gong Shuxi (龔書喜教授)
Mr. Li Wenqi (李文琦先生)

MEMBERS OF REMUNERATION COMMITTEE

Mr. Qiang Wenyu (強文郁先生) (Chairman)
Mr. Lei Huafeng (雷華鋒先生)
Mr. Sun Wenguo (孫文國先生)

MEMBERS OF NOMINATION COMMITTEE

Professor Gong Shuxi (龔書喜教授) (Chairman)
Mr. Qiang Wenyu (強文郁先生)
Mr. Xie Yiqun (解益群先生)

AUTHORISED REPRESENTATIVES

Mr. Xiao Bing (肖兵先生)
Mr. Lun Ka Chun (倫家俊先生)

AUTHORISED PERSON TO ACCEPT SERVICE OF PROCESS AND NOTICE

Mr. Lun Ka Chun (倫家俊先生)

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Hopewell Centre, 17M Floor
183 Queen's Road East
Wan Chai, Hong Kong

PRINCIPAL BANKERS

China Construction Bank

No. 42 Gao Xin Road
National Hi-tech Industrial Development Zone
Xi'an, Shaanxi Province, The People's Republic of China

Shanghai Pudong Development Bank

No. 29 Bei Da Jie
Xin Cheng District
Xi'an, Shaanxi Province, The People's Republic of China

Bank of Ningxia

Tang Yan International Center, No. 3 Tang Yan Road
National Hi-tech Industrial Development Zone
Xi'an, Shaanxi Province, The People's Republic of China

Bank of China

No. 52 Gao Xin Road
National Hi-tech Industrial Development Zone
Xi'an, Shaanxi Province, The People's Republic of China

Bank of Communications

Level 1, Block A, Chuangye Plaza, No. 48 Keji Road
National Hi-tech Industrial Development Zone
Xi'an, Shaanxi Province, The People's Republic of China

Chairman's Statement

Dear Shareholders,

On behalf of the board of Directors (the "Board"), I am pleased to present the annual report of Xi'an Haitian Antenna Technologies Co., Ltd. together with its subsidiaries (the "Group") for the year ended 31 December 2011.

The Group has been seeking for development through various business strategies in 2011, however, our cash flow was still in a relatively tight condition, dragged by the weak performance in the previous two years. To secure the future development of our brand, the Group has made ever greater investment in the research and development (R&D) of the follow-up 3.5G and 4G products, which has resulted in a continuous loss to the Group in 2011.

The Group has made great efforts to research and develop new mobile communication related services, and has disposed of some idle or non-performing assets to raise funds and maintain its current business scope, in order to optimise our resources allocation and create new sources of profits through diversified operation.

The Group plans to improve its performance by making ongoing investment on antenna products with higher gross profit margin, as well as network optimisation and network inspection and maintenance. Meanwhile, we will seek to achieve significant growth of results by concentrating our resources on the research and manufacturing of 3G follow-up evolution products and 4G products with high rate of return.

On behalf of the Board, I would like to express our heartfelt gratitude to all the valuable and closely-related customers, business partners and staff of the Group, and sincerely express thanks to our shareholders for their continuous support since the listing of the Group. With your loyalty to and confidence in the Group, the Group will certainly continue to deliver superior returns to investors.

Professor Xiao Liangyong
Chairman

Xi'an, the PRC
28 March 2012

Management Discussion and Analysis

BUSINESS REVIEW

Revenue

Approximately RMB50.9 million revenue was recorded for the year ended 31 December 2011, representing a decrease of approximately 25.7% from the year of 2010. Although the growth in service income was more than 20% for the year, the decrease in revenue was mainly attributable to reduction in prices and decline in sales volume of antennas and related products.

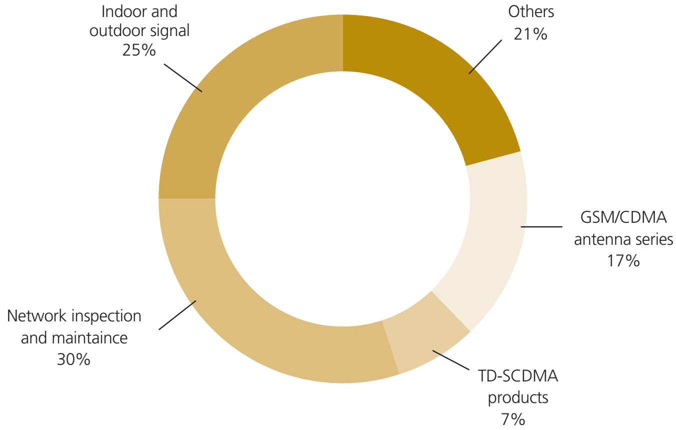
Over 61% of revenue was generated from service income in 2011 whereas only approximately 38% in 2010. Due to the increasing demand for network improvement, revenue from indoor and outdoor signal services was increased from 8% in 2010 to 25% in 2011. Together with stable revenue from network inspection and maintenance services, and success in products testing laboratory services to telecommunication operators and products suppliers, service income accounted for approximately RMB31.5 million for the year.

Sales from TD-SCDMA products accounted for 7% of revenue compared to 40% in 2010 as a result of intense price competition in the market. Although revenue from GSM/CDMA antenna series was increased by 7% in revenue during the year by lower price strategy, approximately RMB19.4 million was recognised as sales of antennas and related products for the year, representing a significant decrease of approximately 54.3% from last year.

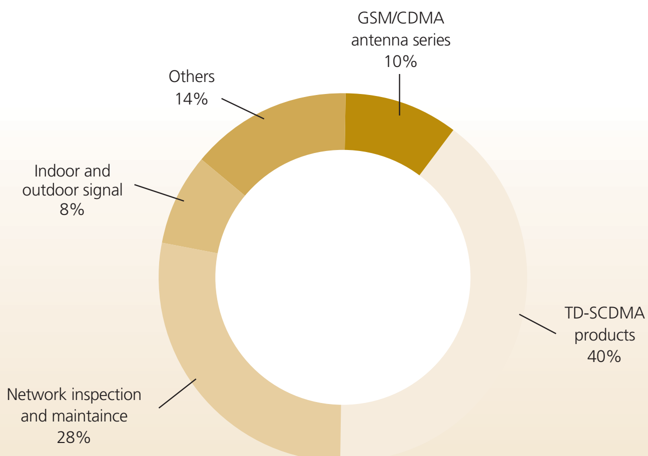
During the year, the Group continued to diversify its customer base to local agents and international suppliers for telecommunication facilities in order to expand its market share and establish its brand name. Revenue generated from the three major telecommunication operators was merely 45% of revenue in 2011, compared to 48% in 2010.

Composite of sales by product line for the year ended 31 December 2011, together with the comparative figures for the year ended 31 December 2010, are provided as follows:

For the year ended 31 December 2011 (by product line)



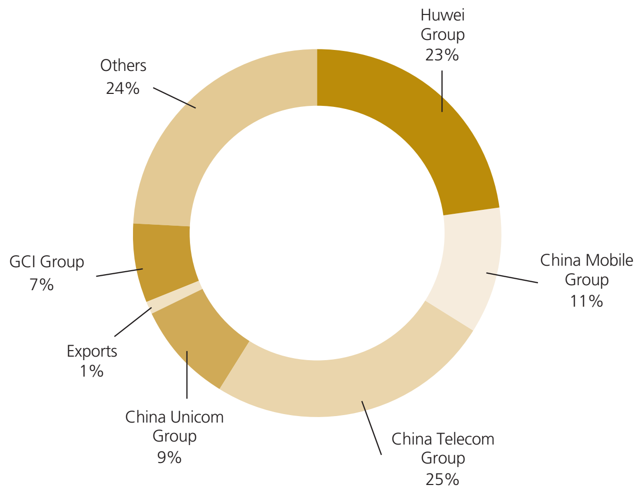
For the year ended 31 December 2010 (by product line)



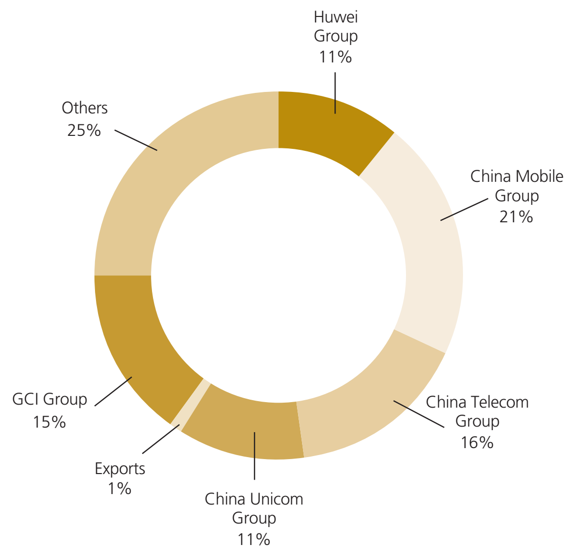
Management Discussion and Analysis

Composite of turnover by major customers for the year ended 31 December 2011, together with the comparative figures for the year ended 31 December 2010, are provided as follows:

For the year ended 31 December 2011 (by major customers)



For the year ended 31 December 2010 (by major customers)



Legend:

China Telecom Group: 中國電信集團公司 (China Telecommunications Corporation) and its subsidiaries and branch companies (collectively "China Telecom 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")

Huawei Group: 華為技術有限公司 (Huawei Technologies Co., Ltd.) and its subsidiaries and branch companies (collectively "Huawei Group")

GCI Group: 廣州傑賽科技股份有限公司 (GCI Science & Technology Co., Ltd.) and its subsidiaries and branch companies (collectively "GCI Group")

Management Discussion and Analysis

Gross Profit (Loss)
The Group had a gross profit of RMB4.3 million for the year with gross profit margin of 8.5%, compared to gross loss of RMB4.4 million in 2010. This favourable change was mainly attributable to scale-down of excess production capacity and close-down of non-profitable operations during the year. In turn, the gross profit margin was negatively affected by recognition of net allowance for inventories amounted to RMB4.7 million during the year, compared to RMB1.9 million in 2010, and reduction in product prices for market competition and expansion.

Other Revenue
Further government grants were received for two projects (the "Two Projects") of "TD-LTE base station antenna research and development*" ("TD-LTE基站天綫的研發") and "Efficient energy source integrated antenna*" ("高效節能的有源一體化天綫") under the National Major Project 3 of "New generation of mobile, broadband and wireless communication network*" ("新一代移動寬帶無綫通訊網") and approximately RMB2.3 million was recognised as other revenue during the year, compared to approximately RMB2.5 million in 2010.

Recovery from impaired debts is poor that reversal of impairment loss on trade receivables, other receivables and payment merely accounted for approximately RMB6.0 million in 2011, compared to approximately RMB11.1 million in 2010. Gain on debts restructuring in respect of waiver of trade and other payables amounted to approximately RMB5.1 million was recorded, representing an increase of RMB2.6 million or 95.5% comparing to the year 2010.

Rental income of approximately RMB1.3 million was generated from leasing of excess office premises during the year.

Operating Costs and Expenses
Distribution costs for the year were approximately RMB10.5 million, representing a significant decrease of RMB5.3 million or 33.7% comparing to the year 2010. Such decrease was greater than the percentage decrease in revenue because of huge drop in transportation costs for product sales by RMB2.8 million and cost savings from new strategy of concentration on mainland China market development by more than RMB2.7 million during the year. Under this new marketing strategy, less construction and operating cost for sales representative offices, and overseas agency, exhibition and business fees were incurred for the year. In additions, over RMB0.6 million staff costs were saved under newly adopted performance evaluation and incentive management approach.

Decrease in administrative expenses by approximately RMB14.1 million or 29.6% comparing to the year 2010 reflected the effectiveness of the new cost control strategy over the Group's operations for the current year. During 2011, no debts were written off and no material loss was recorded, which accounted for approximately RMB7.5 million in 2010. Nevertheless, more resources were put into the Two Projects which incurred high research and development expenses for the year, decrease in amortised development costs resulted in net decrease in total expenses by RMB1.2 million. Bank charges incurred for the year was RMB1.2 million less than that for the previous year as bank and other borrowings were kept at low level during the year.

More than RMB80 million interest-bearing bank and other borrowings were repaid in 2011 which was the main reason for RMB3.3 million finance costs incurred during the year, representing merely 41.2% of finance costs in 2010.

Impairment loss on trade receivables amounted to RMB9.0 million was recognised during the year that total impairment was nearly 35.1% of trade receivables as at 31 December 2011, compared to 16.3% as at 31 December 2010. But total impairment of other receivables and prepayments decreased from 34.0% in 2010 to 19.3% in 2011 after recognition of RMB2.8 million during the year. As a result, trade receivables, other receivables and prepayment, net of impairment, provided a better picture on future cash flows.

Impairment loss amounted to RMB4.3 million was provided in respect of buildings to be disposed of under sales and purchases agreement signed during the year to reflect the foreseeable loss on completion after year end.

Operating results of an associate, newly incorporated in the last quarter of 2011, were shared by the Group in according to equity interest held. Since the associate was only at its early stage of business, loss of close to RMB0.2 million was shared.

Loss for the year
Consequently, loss attributable to shareholders of approximately RMB42.5 million was reported by the Group for the year which represented an improvement in operating results by 47.1% comparing to RMB80.4 million in the year 2010.

Management Discussion and Analysis

PROSPECTS

The gross profit margin of 2G and 2.5G products will fall sharply in 2012, due to ongoing lower price of the concentrated tendering procurement by mobile communication operators in the PRC, and the introduction of tighter product manufacturing standards and incoming quality inspection standards. Therefore, the Group will cease our own production of such products, and resort to the engagement of third party contractors.

Leveraging on its technical strengthen which was accumulated throughout previous years, the Group will continue to improve its performance by making ongoing investment on landscaping antenna, electric tilt antenna products with higher gross profit margin, as well as network optimisation and network inspection and maintenance. On the other hand, we will seek to achieve significant growth of results by concentrating our resources on the research and manufacturing of 3G follow-up evolution products and 4G products with high rate of return, upon the issuance of 4G licenses by the PRC government. Furthermore, the Group will also seek for new sources of profits through the achievement of business diversification by dedicating great efforts to research and develop new mobile communication related services.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

During the year, the Group was mainly financed by cash from banking facilities and borrowings. As at 31 December 2011, the Group had other loans of approximately RMB23 million of which all were repayable within one year. These borrowings were mainly used for the Group's daily operations.

During the year, all of the Group's interest-bearing borrowings borne interest rates ranging from 5.3% to 10%. Since all the borrowings were denominated in RMB, the Directors consider that exposure to foreign exchange risk was minimal.

The Group's gearing ratio is calculated based on total interest bearing borrowings and total shareholders' funds. As at 31 December 2011, gearing ratio was not applicable to the Group because there was no interest bearing borrowings (2010: 184.3%). Cash and cash equivalents decreased from approximately RMB30.3 million to RMB2.1 million. Most of the Group's bank deposits were deposited with banks as short-term deposits and were denominated in RMB, which are directly related to the Group's businesses in the areas of the currencies concerned.

PURCHASES, SALE OR REDEMPTION OF SHARES

During the year ended 31 December 2011, neither the Company or any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CHARGES ON GROUP ASSETS

As at 31 December 2011, the Group pledged bank deposits of approximately RMB3.8 million for banking facilities.

CONTINGENT LIABILITIES

As at 31 December 2011, the Group did not have any material contingent liabilities.

Management Discussion and Analysis

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 2011, the Group had approximately 329 full-time employees. Total staff costs for the year 2011 amounted to approximately RMB19.8 million (2010: RMB26.2 million), including remuneration of the Directors and members of the supervisory committee (the "Supervisors"). The Group reviews employee remuneration from time to time and increases in remuneration are normally granted annually or by special adjustment depending on length of service and performance when warranted. In addition to salaries, the Group provides employee benefits including medical insurance and retirement benefits scheme. Bonuses are also available to employees of the Group at the discretion of the Directors and depending upon the financial performance of the Group. The Group has not granted any share options to the Directors and its employees.

SIGNIFICANT INVESTMENT HELD

Except for investment in subsidiaries and acquisition of 13.77% equity interests in a PRC private limited company as an associate, the Group did not hold any significant investment for the year ended 31 December 2011.

FUTURE PLANS FOR MATERIAL INVESTMENTS

As at 31 December 2011, the Group had capital expenditure contracted for but not provided in the financial statements in respect of construction cost on properties under construction and acquisition of property, plant and equipment, and capital investment in an associate amounted to approximately RMB2.6 million (2010: RMB3.1 million) and approximately RMB1.8 million (2010: nil) respectively.

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

MATERIAL ACQUISITIONS AND DISPOSALS

Save as disclosed in the paragraph headed "Significant Investment Held" above, the Group did not have any other material acquisitions and disposals of subsidiaries, associates and affiliated companies during the year ended 31 December 2011.

TOP FIVE SUPPLIERS AND CUSTOMERS

For the year ended 31 December 2011, sales to the top five customers and the largest customer accounted for approximately 74.8% (2010: 74.8%) and 24.9% (2010: 20.6%) respectively of the Group's revenue.

For the year ended 31 December 2011, purchases from the top five suppliers and the largest supplier accounted for approximately 20.9% (2010: 89.4%) and 5.0% (2010: 49.4%) respectively of the Group's total purchases.

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

* *for identification purposes only*

Corporate Governance Report

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Board, the Company has complied the requirements of with the code provisions in the Code on Corporate Governance Practice (the "Code") as set out in Appendix 15 of the GEM Listing Rules throughout the financial year ended 31 December 2011.

THE BOARD OF DIRECTORS

Composition and function

The Board is responsible for overseeing the preparation of accounts of each financial period, which shall give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. It is also responsible for formulating the Group's long-term strategy and supervising the management to ensure thorough implementation of the Group's policies and effective performance of their duties. As at 31 December 2011, the Board comprised eleven Directors, including the chairman of the Board (the "Chairman") (who was also an executive Director), two executive Directors, three independent non-executive Directors and five non-executive Directors. Biographies of the Directors are set out in the paragraph headed "Directors, Supervisors and Senior Management" of this annual report.

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

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

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

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

Board meetings and attendance

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

Corporate Governance Report

Details of Directors' attendance records in 2011:

	Number of meetings attended/Total
Executive Directors	
Professor Xiao Liangyong (Chairman)	6/7
Mr. Xiao Bing	7/7
Mr. Zuo Hong	7/7
Non-Executive Directors	
Mr. Liu Ruixuan	3/7
Mr. Sun Wenguo	4/7
Mr. Li Wenqi	7/7
Mr. Cong Chunshui	1/7
Mr. Xie Yiqun	6/7
Independent Non-Executive Directors	
Professor Gong Shuxi	7/7
Mr. Lei Huafeng	4/7
Mr. Qiang Wenyu	3/7

DIRECTORS' SECURITIES TRANSACTIONS

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

INDEPENDENCE

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

REMUNERATION COMMITTEE

The Remuneration Committee was established in December 2005 and consists of three members, majority of which being independent non-executive Directors. The Chairman of the committee is Mr. Qiang Wenyu, an independent non-executive Director, and other members include Mr. Lei Huafeng and Mr. Sun Wenguo.

The Remuneration Committee met once in 2011 and was attended by all committee members. The policy for the remuneration of executive Directors and senior management was reviewed by the committee. Remuneration, including basic salary and performance bonus, of the executive Directors and senior management is based on skills, knowledge, involvement and performance of the individuals by reference to the Company's performance and profitability, as well as industry practice. The committee ensures that no Director is involved in deciding his own remuneration.

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

Corporate Governance Report

NOMINATION COMMITTEE

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

The Nomination Committee is responsible for formulating nomination policy, reviewing the structure, size and composition of the Board on a regular basis and making recommendations to the Board on selection and appointment of Board members. The committee met once in 2011 and was attended by all committee members for the selection and recommendation of candidates for directorship having regard to the relevance of skills and experience appropriate to the Group's business.

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

AUDIT COMMITTEE

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

The Audit Committee is responsible for reviewing accounting policies and practices adopted by the Group. It also reviews and discusses matters related to financial reporting, internal control, audit and performs other duties as assigned by the Board, and reports its work, findings and recommendations to the Board after each meeting in respect of the above matters as well as to the operating risks faced by the Group. The Audit Committee has reviewed the audited financial results of the Group for the year ended 31 December 2011.

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

The Audit Committee held seven meetings in 2011 discussing the Group's annual results for 2010, quarterly results for 2011, and reviewing internal control matters. The individual attendance record of each member is as follows:

	Number of meetings attended/Total
Non-Executive Directors	
Mr. Li Wenqi	7/7
Independent Non-Executive Directors	
Professor Gong Shuxi	7/7
Mr. Lei Huafeng	4/7

AUDITOR'S REMUNERATION

During 2011, the fees paid and payable to external auditor for audit services and other services amounted to RMB420,000 and RMB20,000 respectively.

INTERNAL CONTROL

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

Directors, Supervisors and Senior Management

DIRECTORS

Executive Directors

Professor Xiao Liangyong (肖良勇教授), aged 76, graduated from 張家口解放軍通訊工程學院 (Zhangjiakou PLA Communication Engineering College) (now known as 西安電子科技大學 (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. Professor Xiao was an executive director and the general manager of 西安海天通訊設備有限公司 (Xi'an Haitian Communications Equipment Company Limited), the predecessor of the Company, from January 2000 to October 2000. Besides, Professor Xiao was the Chairman of the Company from October 2000 to August 2004 and was an executive Director from the date of listing of the Company in November 2003 to March 2005 and was re-appointed as an executive Director from September 2007. Professor Xiao is the father of and a person acting in concert with Mr. Xiao Bing. Professor Xiao was elected as the chairman of the Board on 30 November 2007.

Mr. Xiao Bing (肖兵先生), aged 46, he is a son of Professor Xiao Liangyong, the founder of the Company. Mr. Xiao studied in the college of continuous education of 西安電子科技大學 (Xidian University). He worked in 西安石油勘探儀器總廠 (Xi'an General Factory of Oil Instruments) from 1988 to 1991 and was the deputy general manager of 西安海天通訊設備有限公司 (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 the chairman of the Board from August 2004 to November 2007.

Mr. Zuo Hong (左宏先生), aged 48, graduated from 西安電子科技大學 (Xidian University) and obtained the qualification of Senior Engineer in 2005. He had been the instructor of Armed Police Force of Xi'an. He took the position of trainer and chief technical director of engineering and technology department in 西安慧良電子科技有限公司 (Xi'an Huiliaing Electronic Technologies Co., Ltd.) in 1995 and 1997 respectively. Since September 1999, he had been the chairman and general manager of 西安天地通通信發展有限公司 (Xi'an Tianditong Communication Development Co., Ltd.). Mr. Zuo was appointed as the general manager of 西安海天通訊系統工程公司 (Xi'an Haitian Communication System Engineering Co., Ltd.), a subsidiary of the Company, in July 2006. In December 2006, he served as assistant to the chief executive director of 西安海泰科通訊設備有限公司 (Xi'an Hi-tech Communication Equipment Co., Ltd.), a subsidiary of the Company, since December 2006 and the head of the sales and marketing department of the Company since 2007.

Non-executive Directors

Mr. Liu Ruixuan (劉瑞軒先生), aged 42. He was graduated from Shanxi Jing Mao Guan Li Xue Yuan (陝西經貿管理學院) in 1990 and worked in Xi'an Minsheng Group (西安民生集團) as a Financial Supervisor until 1998. During the years from 1998 to 2005, he was appointed as Internal Audit Manager and Financial Controller of Xi'an Gaoxin Hospital (西安高新醫院) From 2005, Mr. Liu joined Xi'an Kaiyuan Holding Group Co., Ltd. (西安開元控股集團股份有限公司) and served as Vice President and Financial Controller.

Mr. Sun Wenguo (孫文國先生), aged 36, graduated from the Department of International Finance of 陝西財經學院 (Xi'an Financial and Economic Institute) in 1998 with a bachelor degree. Mr. Sun previously worked in international section of Industrial and Commercial Bank of China, Dalian Branch and 西安高新醫院有限公司 (Xi'an Gaoxin Hospital Co., Ltd.). Currently, he holds the positions of the head of investment department and chairman of the 6th supervisory committee of 西安開元控股集團股份有限公司 (Xi'an Kaiyuan Holding Group Co., Ltd.) which is previously known as 西安解放集團股份有限公司 (Xi'an Jiefang Group Joint Stock Co., Ltd.) and he is also the supervisor of 西安開元商城有限公司 (Xi'an Kaiyuan Shopping Mall Co., Ltd.). 西安開元控股集團股份有限公司 (Xi'an Kaiyuan Holding Group Co., Ltd.) is a shareholder of the Company interested in approximately 15.45% of the issued share capital of the Company.

Directors, Supervisors and Senior Management

Mr. Li Wenqi (李文琦先生), aged 46, 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, "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.

Mr. Cong Chunshui (叢春水先生), aged 39, graduated from Dalian University of Technology (大連理工大學). Mr. Cong was in charge of the research and development department of Dragon Pharm in Beijing from July 1997 to July 1999. From July 1999 to July 2000, he served as patent agent of Zhongke Patents and Trademarks Agency Company Limited (中科專利商標代理有限責任公司). From July 2000 to July 2001, he served as manager of investment department of Beijing Zhongguancun Qingnian Chuangye Company Limited (北京中關村青年創業有限公司). From July 2001 to August 2003, he served as manager of the research department of Singapore Bioprocessing Technology Centre (新加坡國家生物技術中心). From December 2003 to May 2005, he served as Assistant to General Manager and general manager of investment department of Shanghai Fosun Pharmaceutical Co., Ltd. (上海復星醫藥股份有限公司). From December 2005 to January 2006, he served as manager of investment management department of Beijing Holdings Investment Management Co., Ltd. (北京京泰投資管理中心). Mr. Cong served as deputy manager from February 2006 to January 2007 and has served as manager of operation management department of Beijing Holdings Investment Management Co., Ltd. (北京京泰投資管理中心) since January 2007.

Mr. Xie Yiqun (解益群先生), aged 53. He was graduated from Northwest University of Politics & Law (西北政法學院) in 1985 and worked in the Municipal Bureau of Finance of Xi'an (西安財政局) until 1988. Since August 1988, Mr. Xie joined Xi'an International Trust Co., Ltd. (西安國際信託有限公司). He was appointed as Internal Assistant Manager in 2000 and served as Asset Management Assistant General Manager in 2003.

Independent non-executive Directors

Professor Gong Shuxi (龔書喜教授), aged 54, graduated from 西北電訊工程學院 (Northwest Institute of Communications Engineering, now known as Xidian University) with a bachelor degree, and from Xi'an Jiantong University with master and doctorate degrees in electromagnetic and microwave technology and is a professor. Professor Gong became the professor in Antenna Research Institute of Xidian University in 1997. Since October 2000, he was elected as an independent non-executive Director.

Mr. Lei Huafeng (雷華鋒先生), aged 48, had obtained a MBA from 西北大學 (Northwest University). Mr. Lei worked as vice general manager of 西安產權交易中心 (Xi'an Property Rights Exchange Center) in 1992 and general manager of 西安正衡資產評估公司 (Xi'an Zenith Assets Evaluation Co., Ltd.) in 1997. He has been the chairman of Xi'an Zenith Assets Co., Ltd. and Shaanxi Zenith Group (陝西正衡集團公司) since 2000. In 2003, Mr. Lei was elected as 陝西省政協 (the commissioner of the ninth session of CPPCC Shaanxi Committee). Besides, Mr. Lei also holds various positions including the vice-chairman of 陝西省註冊會計師協會 (Shaanxi CPA); the member of 陝西省審計學會 (Shaanxi Audit Committee); the independent director of China Dairy Group (中國乳業), a company listed on the Singapore Stock Exchange; 天地源股份有限公司 (Tande Co., Ltd.), a listed company with its domestic A shares trading on the Shanghai Stock Exchange; and 西安旅遊（集團）股份有限公司 (Xi'an Tourism Group), a listed company with its domestic A shares trading on the Shenzhen Stock Exchange. He is the director of Cartell of 陝西省股份制企業聯合會 (Shaanxi Joint Stock Company Union); the vice-chairman of 西安市體制改革研究會 (Xi'an System Reform Research Committee); and the counselor of 西安市國有資產監督管理委員會 (State-owned Assets of Supervision and Administration Commission of Xi'an Municipal Peoples Government).

Directors, Supervisors and Senior Management

Mr. Qiang Wenyu (強文郁先生), aged 38, graduated from the School of Management and Economics of 北京理工大學 (Beijing Institute of Technology) in 1994 and joined the service of 中國北方工業公司 (China North Industries Corporation) in 1995. In 1998, he served as general manager of NIC Sports Inc. In 2003, Mr. Qiang assumed office as the deputy general manager of Silver City International (Holdings) Limited and the general manager of Throne Star International Limited. Mr. Qiang is a non-executive director of Raymond Industrial Ltd., a company listed on the main board of the Stock Exchange. He was elected as an independent non-executive Director since December 2005.

SUPERVISORS

Mr. Liu Yongqiang (劉永強先生), aged 72, 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 Xi'an International Trust Co., Ltd., a substantial shareholder, in 1999 and joined the Company as a non-executive Director from October 2000.

Professor Shi Ping (師萍教授), aged 62, holds a doctorate degree. Professor Shi has started working as a professor, tutor of doctorate students, deputy manager of the Institute of Economics and Management in 西北大學 (Northwest University) since December 1985. Currently, she is an independent non-executive director of Xi'an Jiefang Group. She was elected as a Supervisor in October 2002.

Mr. Bai Fubo (白伏波先生), aged 54, possesses the qualification of engineer. In 1981 to 1985, he served consecutively as office secretary and deputy office supervisor of Xi'an Sewing Machine Factory (西安縫紉機廠). In October 1985 to February 1994, he served as deputy supervisor of technology department of Xi'an First Bureau of the Light Industry (西安市第一輕工業局). Since March 1994, he worked in Xi'an International Trust Co., Ltd. and served consecutively as office secretary, deputy supervisor of sales department and manager of trust department. Mr. Bai currently serves as deputy general manager of sales department of Xi'an International Trust Co., Ltd..

Ms. Chen Hua (陳華女士), aged 48, graduated from Shaanxi Radio and TV University (陝西廣播電視大學) in 1987. In 1990 to 1991, she completed a self-study bachelor degree in business accounting in Xi'an University of Finance and Economics (西安財經學院). In 1992 to 1996, she worked in Shaanxi Wenbo Advertising Co., Ltd. (陝西文博廣告公司) as accountant. In 1996 to 1999, she served as finance supervisor of Guangdong Aoxiang Industrial Co., Ltd. (廣東翱翔實業有限公司). In 1999 to 2003, she served as finance manager of Xi'an Yixin Industrial Co., Ltd. (西安怡欣實業有限公司). In 2003 to 2006, she served as chief finance officer of Shaanxi Tianditong Communication Development Co., Ltd. (陝西天地通通信發展有限公司). Since August 2006, Ms. Chen has served as deputy general manager and chief finance officer of Xi'an Haitian Communication System Engineering Co., Ltd. (西安海天通信系統工程有限公司).

Mr. Xu Hao (徐浩先生), aged 40, graduated from Shaanxi Financial Technological College (陝西財政專科學校) with a major in finance and possesses the qualification of accountant. In 1994 to 2000, he worked in the finance division of Xi'an State-owned Tractor factory (國營西安拖拉機製造廠). In January 2001 to September 2003, he served as finance supervisor of Xi'an Tianhao Plastic Steel Product Limited Liability Company (西安添好塑鋼製品有限責任公司). In October 2003 to February 2005, he served as project manager of Xi'an Pengguang Tax Agent & Bureau Co., Ltd. (西安鵬光稅務師稅務所有限責任公司). Since March 2005, Mr. Xu has worked in the finance department of the Company.

Directors, Supervisors and Senior Management

SENIOR MANAGEMENT

Mr. Pan Zhiqing (潘志青先生), aged 49, graduated from 清華大學 (Tsinghua University) in August 1984 with a bachelor degree in Computer Science and Engineering, in 1987 with a master degree from 中國科學院數學研究所 (Institute of Mathematics in Chinese Academy of Sciences). Mr. Pan worked for 深圳安科公司 (Analogic Scientific Inc.) as team leader and assistant manager in MRI Department during August 1987 to July 1994, and as vice general manager in 深圳市聯宜九天電子技術有限公司 (Shenzhen Topsky Electronic Co., LTD.) and 深圳市泰立康電子有限公司 (Shenzhen Telecom Electronic Co., LTD.) during August 1994 to July 1997 and during August 1997 to July 1999 respectively. Before joining the Group, Mr. Pan worked as a general manager in 深圳市海天泰通訊設備有限公司 (Shenzhen Haitian-Tech Communications Co., LTD.). Mr. Pan was appointed as the Vice President of the Group in October 2006.

Mr. Wang Yun (王贇先生), aged 31, graduated from School of Economics and Management of Northwest University (西北大學) majoring in investment and economics in 2002, and obtained a minor diploma from Northwest University in e-commerce in the same year. In 2009, he obtained a master's degree in engineering in project management from Northwestern Polytechnical University. Since joining the Group in September 2002, he has served in the Securities Department, Finance Department and Administration Department as project manager as well as deputy director and director of the Administration Department. Since 2011, he served as secretary to the Board and CEO of the Group.

COMPANY SECRETARY

Mr. Lun Ka Chun (倫家俊先生), graduated from the Bachelor of Business Administration in the Chinese University of Hong Kong with membership of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. Mr. Lun had worked in the practice of certified public accountants over 14 years in the field of auditing, taxation and company secretarial role.

Report of the Supervisory Committee

To the Shareholders,

During the year ended 31 December 2011, the supervisory committee of the Company (the "Supervisory Committee") thoroughly performed its duties faithfully in accordance with the provisions of the Company Laws of the PRC, GEM Listing Rules 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 2011 complied with the relevant laws and regulations of the state and local governments of the PRC and the Articles;

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

3. The connected transactions of the Company, which have fully complied with the relevant provisions of the GEM Listing Rules, were fair and reasonable. We have not discovered any act that prejudiced the interests of the Company;

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

5. The Supervisory Committee has verified the financial information such as the financial and performance reports and was satisfied with the report of the Board, the audited financial statements to be submitted to the forthcoming annual general meeting by the Board of Directors. We are of the opinion that the audited financial statements for the year ended 31 December 2011 have reflected truly and fairly the conditions of the operating results and the assets of the Company and of the Group.

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

On behalf of the Supervisory Committee

Ms. Chen Hua
Chairman

Xi'an, the PRC
28 March 2012

Directors' Report

The Directors have pleasure in presenting their report for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES

The Group is principally engaged in research and development, manufacture and sale of base station antennas and related products.

The principal activities of its subsidiaries are set out in note 41 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2011 are set out in the consolidated statement of comprehensive income on page 27 of this annual report.

The Directors do not recommend the payment of any final dividend for the year ended 31 December 2011.

DISTRIBUTABLE RESERVES

In accordance with the Articles of Association of the Company, the reserve available for distribution is the lower of amount determined under accounting principles generally accepted in the PRC and the amount determined under the principles generally accepted in Hong Kong. Based on the financial statements of the Company prepared in accordance with the relevant accounting principles and financial regulations applicable to companies established in the PRC, the Company does not have any reserves available for distribution to its equity holders as at 31 December 2011.

FINANCIAL SUMMARY

A summary of the results of the Group for each of the five years ended 31 December 2011 is set out on page 84 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group spent approximately RMB1.2 million on plant and equipment and approximately RMB1.1 million on construction in progress 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 16 to the consolidated financial statements.

Directors' Report

DIRECTORS AND SUPERVISORS

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

Executive directors:
Professor Xiao Liangyong (Chairman)
Mr. Xiao Bing
Mr. Zuo Hong

Non-executive directors:
Mr. Liu Ruixuan
Mr. Sun Wenguo
Mr. Li Wenqi
Mr. Cong Chunshui
Mr. Xie Yiqun

Independent non-executive directors:
Professor Gong Shuxi
Mr. Lei Huafeng
Mr. Qiang Wenyu

Supervisors:
Mr. Liu Yongqiang
Professor Shi Ping
Mr. Bai Fubo
Ms. Chen Hua
Mr. Xu Hao

1. Directors' and Supervisors' Service Contracts

Each of the Directors and the Supervisors has entered into a service contract with the Company for a term valid until 19 May 2013 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 of Association, the term of office of the Directors shall be three years commencing from the date of appointment or re-election and renewable upon re-appointment or re-election. In accordance with the provisions of the PRC Company Law, the term of office of the Supervisors shall also be three years and renewable upon re-appointment or re-election.

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

2. Independent non-executive Directors

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

Directors' Report

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

As at 31 December 2011, the interests and short positions of the Directors, Supervisors (as if the requirements applicable to the Directors under the Securities and Futures Ordinance ("SFO") (Chapter 571 of the Laws of Hong Kong) had applied to the Supervisors) and chief executives of the Company, including their respective associates, in the shares (the "Shares"), underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise required, pursuant to Rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Long positions in domestic shares of the Company (the "Domestic Shares")

Name of Director	Type of interest	Capacity	Number of Domestic Shares held in the Company	Approximate percentage in the total issued Domestic Shares of the Company	Approximate percentage in the total issued share capital of the Company
Professor Xiao Liangyong (肖良勇教授)	Personal	Parties acting in concert	180,000,000 *(Note 1)*	37.09%	27.82%
Mr. Xiao Bing (肖兵先生)	Personal	Held by controlled corporation	180,000,000 *(Note 1)*	37.09%	27.82%
Mr. Zuo Hong (左宏先生)	Personal	Held by controlled corporation	75,064,706 *(Note 2)*	15.47%	11.60%

Notes:

1. The Domestic Shares were held by 西安天安投資有限公司 (Xi'an Tian An Investment Co., Ltd.*), ("Tian An Investment"), which is beneficially owned as to 60% by Mr. Xiao Bing and 40% by Ms. Yao Wenli. Professor Xiao Liangyong is the father of and a person acting in concert with Mr. Xiao Bing. By virtue of the SFO, Professor Xiao Liangyong and Mr. Xiao Bing were deemed to be interested in the same 180,000,000 Domestic Shares held by Tian An Investment.

2. The Domestic Shares were held by 深圳市匯泰投資發展有限公司 (Shenzhen Huitai Investment Development Co., Ltd.*) ("Shenzhen Huitai"), which is beneficially owned by Mr. Zuo Hong and Ms. Yi Li in equal share. By virtue of the SFO, each of Mr. Zuo Hong and Ms. Yi Li was deemed to be interested in the same 75,064,706 Domestic Shares held by Shenzhen Huitai.

Other than as disclosed above, none of the Directors, Supervisors and chief executive of the Company nor their respective associates had any interests or short positions in any Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as at 31 December 2011 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' Report

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' RIGHTS TO ACQUIRE H SHARES OF THE COMPANY (THE "H SHARES")

As at 31 December 2011, so far as is known to the Directors, Supervisors and chief executives of the Company, none of the Directors, Supervisors or chief executives of the Company or any of their respective associates including spouses and children under 18 years of age had any interest in, or has been granted, or exercised, any rights to subscribe for H Shares (or warrants or debentures, if applicable) or to acquire H Shares.

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

As at 31 December 2011, the following persons or entities (other than the Directors, Supervisors and chief executives of the Company) had interests or short positions in the Shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO:

(A) Substantial shareholders of the Company

Long positions in Domestic Shares of the Company

Name of 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
Tian An Investment	Corporate	Beneficial owner	180,000,000 *(Note 1)*	37.09%	27.82%
Ms. Yao Wenli (姚文俐女士)	Personal	Held by controlled corporation	180,000,000 *(Note 1)*	37.09%	27.82%
西安開元投資集團股份有限公司 (Xi'an Kaiyuan Investment Group Co., Ltd.*) (formerly 西安開元控股集團股份有限公司 (Xi'an Kaiyuan Holding Group Co., Ltd.*))	Corporate	Beneficial owner	100,000,000	20.61%	15.45%
Shenzhen Huitai	Corporate	Beneficial owner	75,064,706 *(Note 2)*	15.47%	11.60%
Ms. Yi Li (易麗女士)	Personal	Held by controlled corporation	75,064,706 *(Note 2)*	15.47%	11.60%

Directors' Report

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
長安國際信託股份有限公司 (Chang'an International Trust Co., Ltd.*) (formerly 西安國際信託有限公司(Xi'an International Trust Co., Ltd.*))	Corporate	Beneficial owner	70,151,471 *(Note 3)*	14.46%	10.84%
西安市財政局 (Xi'an Finance Bureau*)	Corporate	Held by controlled corporation	70,151,471 *(Note 3)*	14.46%	10.84%
上海証大投資管理有限公司 (Shanghai Zendai Investment Management Co., Ltd.*)	Corporate	Held by controlled corporation	70,151,471 *(Note 3)*	14.46%	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. The Domestic Shares were held by Shenzhen Huitai, which is beneficially owned by Mr. Zuo Hong and Ms. Yi Li in equal share. By virtue of the SFO, each of Mr. Zuo Hong and Ms. Yi Li was deemed to be interested in the same 75,064,706 Domestic Shares held by Shenzhen Huitai.

3. The Domestic Shares were held by Chang'an International Trust Co., Ltd. ("CITC"). By virtue of the SFO, Xi'an Finance Bureau and Shanghai Zendai Investment Management Co., Ltd., which respectively holds more than one third of voting rights of CITC, were deemed to be interested in the same 70,151,471 Domestic Shares held by CITC.

Directors' Report

(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.*)	Corporate	Beneficial owner	54,077,941 *(Note 1)*	11.14%	8.36%
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%	8.36%

Long positions in H Shares of the Company

Name of substantial 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 2)*	8.04%	2.01%
Carlson Fund Equity Asian Small Cap	Corporate	Investment manager	10,520,000 *(Note 2)*	6.50%	1.63%
Ms. Song Ying	Personal	Beneficial owner	8,800,000 *(Note 2)*	5.44%	1.36%

Notes:

1. The Domestic Shares were held by Beijing Holdings Investment Management Co., Ltd. ("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 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 31 December 2011, 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.

Directors' Report

ARRANGEMENTS TO PURCHASE SHARES

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

CONNECTED TRANSACTION

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

Continuing connected transaction

On 10 August 2009, the Company, as a tenant, entered into lease agreements with 西安海天投資控股有限責任公司 (Xi'an Haitian Investment Holdings Limited*) ("Haitian Investment"), as a landlord, for the lease of land for daily operation and production purposes.

Haitian Investment is a connected person of the Company within the meaning of the GEM Listing Rules by virtue of its being owned as to 75% and 5% by 肖兵先生 (Mr. Xiao Bing) and 左宏先生 (Mr. Zuo Hong) respectively. For the year ended 31 December 2011, rent paid to Haitian Investment amounted to RMB5,958,690.

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

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

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

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

The Company had received a letter from the auditor in respect of the transactions mentioned above confirming that the transaction:

(a) had received the approval of the board of directors of the Company;

(b) had been entered into in accordance with the terms of the relevant agreement governing such transaction; and

(c) had not exceeded the expected cap amount of RMB5,958,690 disclosed in the Company's announcements dated 10 August 2009.

Directors' Report

DIRECTORS' AND SUPERVISORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

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

COMPETING INTERESTS

None of the Directors, 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.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2011.

CONTINGENT LIABILITIES

The Group did not have any material contingent liability as at 31 December 2011.

CORPORATE GOVERNANCE

A report on the principal corporate governance practices adopted by the Company is set out on pages 9 to 11 of the annual report.

PRE-EMPTIVE RIGHTS

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

AUDITOR

A resolution will be submitted to the annual general meeting of the Company to re-appoint SHINEWING (HK) CPA Limited as auditor of the Company.

On behalf of the Board

Professor Xiao Liangyong
Chairman

Xi'an, the PRC
28 March 2012

* *for identification purposes only*

Independent Auditor's Report

信永中和
ShineWing

SHINEWING (HK) CPA Limited
43/F., The Lee Gardens
33 Hysan Avenue
Causeway Bay, Hong Kong

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

We have audited the consolidated financial statements of Xi'an Haitian Antenna Technologies Co., Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 27 to 83, which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

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

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

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

Independent Auditor's Report

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2011, and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

EMPHASIS OF MATTER

Without qualifying our opinion, we draw attention to Note 2 to the consolidated financial statements which indicate that the Group had net current liabilities of RMB75,144,059 as at 31 December 2011 and incurred loss of RMB42,478,833 for the year then ended. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

SHINEWING (HK) CPA LIMITED
Certified Public Accountants
Wong Hon Kei Anthony
Practising Certificate Number: P05591

Hong Kong
28 March 2012

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	NOTES	**2011 RMB**	2010 RMB
Revenue	8	**50,886,381**	68,469,673
Cost of sales		**(46,538,013)**	(72,889,995)
Gross profit (loss)		**4,348,368**	(4,420,322)
Other revenue	9	**16,179,488**	16,494,976
Distribution costs		**(10,517,533)**	(15,862,204)
Administrative expenses		**(33,509,604)**	(47,607,508)
Impairment losses recognised in respect of goodwill	18	**–**	(4,836,763)
Impairment losses recognised in respect of intangible assets	19	**–**	(3,042,544)
Impairment losses recognised in respect of trade receivables	23	**(8,986,356)**	(8,610,631)
Impairment loss recognised in respect of other receivables and prepayments	24	**(2,811,540)**	(5,525,774)
Impairment loss on property, plant and equipment	16	**(4,338,993)**	–
Share of result of an associate	20	**(164,132)**	–
Finance costs	10	**(3,278,531)**	(7,962,991)
Loss before tax		**(43,078,833)**	(81,373,761)
Income tax credit	11	**600,000**	1,008,690
Loss and total comprehensive expense for the year	12	**(42,478,833)**	(80,365,071)
Loss per share – Basic and diluted	15	**(6.56 cents)**	(12.42 cents)

Consolidated Statement of Financial Position

At 31 December 2011

	NOTES	2011 RMB	2010 RMB
Non-current assets			
Property, plant and equipment	16	**66,827,445**	115,960,417
Prepaid lease payments	17	**–**	807,162
Goodwill	18	**–**	–
Intangible assets	19	**8,227,570**	9,832,743
Pledged bank deposits	21	**–**	2,200,000
Interest in an associate	20	**10,054,947**	–
		85,109,962	128,800,322
Current assets			
Inventories	22	**29,185,554**	31,269,778
Trade and bills receivables	23	**44,720,974**	90,536,927
Other receivables and prepayments	24	**18,280,130**	17,280,839
Prepaid lease payments	17	**–**	20,777
Amount due from a director	25	**317,042**	–
Amount due from a related company	26	**91,204**	400,604
Tax recoverable		**677,390**	677,390
Pledged bank deposits	21	**3,800,000**	3,888,300
Bank balances and cash	21	**2,144,129**	30,280,358
		99,216,423	174,354,973
Assets classified as held for sale	30	**28,901,234**	–
		128,117,657	174,354,973
Current liabilities			
Trade payables	27	**58,262,282**	84,607,436
Other payables and accrued charges	28	**60,182,944**	24,332,226
Dividend payables		**675,971**	1,487,140
Amounts due to directors	25	**3,550,924**	10,242,627
Amounts due to related parties	26	**57,589,595**	44,237,346
Bank and other borrowings	29	**23,000,000**	83,940,584
		203,261,716	248,847,359
Net current liabilities		**(75,144,059)**	(74,492,386)
Total assets less current liabilities		**9,965,903**	54,307,936

Consolidated Statement of Financial Position

At 31 December 2011

	NOTES	**2011** **RMB**	2010 RMB
Non-current liabilities			
Deferred tax liabilities	31	**–**	600,000
Deferred income	32	**6,904,800**	8,168,000
		6,904,800	8,768,000
Net assets		**3,061,103**	45,539,936
Capital and reserves			
Share capital	33	**64,705,882**	64,705,882
Reserves	34	**(61,644,779)**	(19,165,946)
Equity attributable to owners of the Company and total equity		**3,061,103**	45,539,936

The consolidated financial statements on pages 27 to 83 were approved and authorised for issue by the board of directors on 28 March 2012 and are signed on its behalf by:

Professor Xiao Liangyong
Director

Mr. Xiao Bing
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	Attributable to owners of the Company					
	Share capital *RMB*	Share premium *RMB*	Statutory surplus reserve *RMB* *(Note 34(a))*	Other reserve *RMB* *(Note 34(c))*	Accumulated losses *RMB*	Total *RMB*
At 1 January 2010	64,705,882	71,228,946	16,153,228	3,938,899	(30,121,948)	125,905,007
Total comprehensive expense for the year	–	–	–	–	(80,365,071)	(80,365,071)
At 31 December 2010	64,705,882	71,228,946	16,153,228	3,938,899	(110,487,019)	45,539,936
Total comprehensive expense for the year	–	–	–	–	(42,478,833)	(42,478,833)
At 31 December 2011	**64,705,882**	**71,228,946**	**16,153,228**	**3,938,899**	**(152,965,852)**	**3,061,103**

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	2011 RMB	2010 RMB
OPERATING ACTIVITIES		
Loss before tax	**(43,078,833)**	(81,373,761)
Adjustments for:		
Allowance for inventories	**5,216,738**	3,504,913
Reversal of allowance for inventories	**(481,576)**	(1,593,611)
Amortisation of prepaid lease payments	**20,777**	20,777
Amortisation of intangible assets	**3,038,426**	6,148,579
Depreciation of property, plant and equipment	**8,547,899**	9,347,768
Finance costs	**3,278,531**	7,962,991
Government grants	**(650,000)**	(1,702,000)
Government grants amortised	**(1,666,665)**	(821,877)
Bad debts written off in respect of trade receivables	**–**	2,575,418
Bad debts written off in respect of other receivables	**–**	2,226,182
Bad debts recovery	**(846,769)**	–
Impairment loss recognised in respect of trade receivables	**8,986,356**	8,610,631
Impairment loss reversed in respect of trade receivables	**(297,427)**	(2,121,799)
Impairment loss recognised in respect of other receivables and prepayments	**2,811,540**	5,525,774
Impairment loss reversed in respect of other receivables and prepayments	**(5,686,038)**	(8,975,685)
Interest income	**(118,142)**	(58,635)
Impairment loss recognised in respect of intangible assets	**–**	3,042,544
Impairment loss recognised in respect of goodwill	**–**	4,836,763
Impairment loss recognised in respect of property, plant and equipment	**4,338,993**	–
Loss on disposal and written off of property, plant and equipment	**150,375**	193,845
Loss on written off of intangible assets	**–**	200,765
Share of result of an associate	**164,132**	–
Waiver of trade payables	**(2,640,632)**	(2,004,747)
Waiver of other payables	**(2,414,995)**	(581,503)
Operating cash flows before movements in working capital	**(21,327,310)**	(45,036,668)
(Increase) decrease in inventories	**(2,650,938)**	265,107
Decrease in trade and bills receivables	**37,973,793**	36,175,672
Decrease in other receivables and prepayments	**2,563,373**	29,788,537
(Decrease) increase in trade payables	**(23,389,883)**	790,795
Increase (decrease) in other payables and accrued charges	**38,240,373**	(15,736,777)
Cash generated from operations	**31,409,408**	6,246,666
Income tax paid	**–**	(677,390)
NET CASH FROM OPERATING ACTIVITIES	**31,409,408**	5,569,276

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	2011 **RMB**	2010 RMB
INVESTING ACTIVITIES		
Repayment from a related company	**309,400**	9,382,164
New pledged bank deposits raised	**(6,670,000)**	–
Pledged bank deposits released	**8,958,300**	4,099,186
Proceeds on disposal of property, plant and equipment	**117,186**	118,173
Interest received	**118,142**	58,635
Purchases of property, plant and equipment	**(2,334,632)**	(4,243,270)
Expenditure on product development	**(1,433,253)**	(4,525,210)
(Advance to) repayment from a director	**(317,042)**	823,559
NET CASH (USED IN) FROM INVESTING ACTIVITIES	**(1,251,899)**	5,713,237
FINANCING ACTIVITIES		
New bank and other borrowings raised	**23,990,000**	119,990,827
Advances from related parties	**25,352,249**	44,237,346
Government grants received	**76,000**	11,912,000
(Repayment to) advance from directors	**(18,691,703)**	8,406,957
Interest paid	**(3,278,531)**	(8,020,776)
Repayment of bank and other borrowings	**(84,930,584)**	(173,650,243)
Dividend paid	**(811,169)**	–
NET CASH (USED IN) FROM FINANCING ACTIVITIES	**(58,293,738)**	2,876,111
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(28,136,229)**	14,158,624
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR	**30,280,358**	16,121,734
CASH AND CASH EQUIVALENTS AT THE END OF YEAR, represented by bank balances and cash	**2,144,129**	30,280,358

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

1. GENERAL

Xi'an Haitian Antenna Technologies Co., Ltd. (the "Company") is a joint stock limited company established in the People's Republic of China (the "PRC") and the H shares of the Company are listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the section headed "Corporate Information" to the annual report.

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company.

The principal activities of the Company and its subsidiaries (hereinafter collectively referred to as (the "Group") are research and development, manufacture and sale of base station antennas and related products. Details of the principal activities of the subsidiaries are disclosed in Note 41.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements have been prepared on a going concern basis notwithstanding the consolidated net current liabilities of RMB75,144,059 as at 31 December 2011 and the loss of RMB42,478,833 for the year then ended. In the opinion of the directors of the Company, the Group should be able to maintain itself as a going concern in the coming year by taking into consideration the proposed arrangements which include, but are not limited to, the following:

(a) 西安海天投資控股有限責任公司(「海天投資」), a related company has agreed not to demand for repayment of the balance of RMB53,586,036 due from the Group as at 31 December 2011 until it is in a financial position to do so;

(b) Professor Xiao Liangyong, a director of the Company has agreed not to demand for repayment of the balance of RMB3,550,924 due from the Group as at 31 December 2011 until it is in a financial position to do so;

(c) Mr. Xiao Ying, a related party has agreed not to demand for repayment of the balance of RMB4,003,559 due from the Group as at 31 December 2011 until it is in a financial position to do so;

(d) Mr. Ren Yuwen (任玉文), an independent third party, has agreed not to demand for repayment of the balance of RMB23,000,000 due from the Group as at 31 December 2011 within next twelve months, which is interest-free and with no fixed repayment terms. In view of the business strategic relationship, the Group had received long-term financial support from the close business partners;

(e) the directors of the Company anticipate that the Group will continually generate positive cash flows from its businesses;

(f) the directors of the Company have adopted various cost control measures to reduce various distribution costs and administrative expenses; and

(g) subsequent to the end of the reporting period, 西安天安投資有限公司, a substantial shareholder of the Company has advanced RMB33,000,000 to the Group as working capital of the Group for the next twelve months after 31 December 2011 and has agreed not to demand for repayment until it is in a financial position to do so.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

On the basis that the Group obtained the continuing availability of the financial support provided by the related parties and the implementation of other measures with a view to improve its working capital position and net financial position, the directors of the Company consider that the Group will have sufficient working capital to meet its financial obligations as and when they fall due for the twelve months from 31 December 2011. Accordingly, the directors of the Company are satisfied that it is appropriate to prepare these consolidated financial statements on a going concern basis. The consolidated financial statements do not include any adjustments relating to the carrying amount and reclassification of assets and liabilities that might be necessary should the Group be unable to continue as a going concern.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Amendments to HKFRSs	Improvements to HKFRSs issued in 2010
Hong Kong Accounting Standard ("HKAS") HKAS 24 (as revised in 2009)	Related Party Disclosures
Amendments to HKAS 32	Classification of Rights Issues
Amendments to HK (IFRIC) – Interpretation ("Int") Int 14	Prepayments of a minimum Funding Requirement
HK (IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments

Other than as further explained below regarding the impact of the amendment to HKAS 1 included in Improvements to HKFRSs 2010 and HKAS 24 (Revised), the adoption of other new and revised HKFRSs has had no significant financial effect on these financial statements.

Amendments to HKAS 1 Presentation of Financial Statements (as part of Improvements to HKFRSs issued in 2010)

The amendments to HKAS 1 clarify that an entity may choose to disclose an analysis of other comprehensive income by item in the statement of changes in equity or in the notes to the financial statements. In the current year, for each component of equity, the Group has chosen to present such an analysis in the notes to the consolidated financial statements with a single-line presentation of other comprehensive income in the consolidated statement of changes in equity. Such amendments have been applied retrospectively and hence the disclosures in these consolidated financial statements have been modified to reflect the change.

HKAS 24 Related Party Disclosures (as revised in 2009)

HKAS 24 (as revised in 2009) has been revised on the following two aspects:

(a) HKAS 24 (as revised in 2009) has changed the definition of a related party. The application of the revised definition of related party set out in HKAS 24 (as revised in 2009) in the current year has resulted in the identification of related parties that were not identified as related parties under the previous Standard.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

HKAS 24 Related Party Disclosures (as revised in 2009) *(continued)*

(b) In addition, HKAS 24 (as revised in 2009) introduces a partial exemption from the disclosure requirements for government-related entities whilst the previous version of HKAS 24 did not contain specific exemption for government-related entities. The Company and its subsidiaries are government-related entities as defined in HKAS 24 (as revised in 2009). Under HKAS 24 (as revised in 2009), the Group has been exempted from making the disclosures required by paragraph 18 of HKAS 24 (as revised in 2009) in relation to related party transactions and outstanding balances (including commitments) with (a) the PRC government that ultimately has control over the Group and (b) other entities that are controlled, jointly controlled, or significantly influenced by the PRC government. Rather, in respect of these transactions and balances, HKAS 24 (as revised in 2009) requires the Group to disclose (a) the nature and amount of each individually significant transaction, and (b) a qualitative or quantitative indication of the extent of transactions that are collectively, but not individually, significant.

HKAS 24 (as revised in 2009) requires retrospective application. The application of HKAS 24 (as revised in 2009) has had no impact on the Group's financial performance and positions for the current and prior years. However, the related party disclosures set out in note 40 have been changed to reflect the application of HKAS 24 (as revised in 2009).

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRS 1 (Amendment)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[1]
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets[1]
	Disclosures – Offsetting Financial Assets and Financial Liabilities[2]
	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[5]
Amendments to HKAS 12	Deferred Tax – Recovery of Underlying Assets[4]
HKAS 19 (as revised in 2011)	Employee Benefits[2]
HKAS 27 (as revised in 2011)	Separate Financial Statements[2]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[2]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[6]
HK (IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine[2]

[1] Effective for annual periods beginning on or after 1 July 2011
[2] Effective for annual periods beginning on or after 1 January 2013
[3] Effective for annual periods beginning on or after 1 January 2015
[4] Effective for annual periods beginning on or after 1 January 2012
[5] Effective for annual periods beginning on or after 1 July 2012
[6] Effective for annual periods beginning on or after 1 January 2014

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

Amendments to HKFRS 7 Disclosures – Transfers to Financial Assets

The amendments to HKFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The directors of the Company anticipate that the application of the amendments to HKFRS 7 will affect the Group's disclosures regarding transfers of financial assets in the future.

Amendments to HKAS 32 Offsetting Financial Assets and Financial Liabilities and amendments to HKFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities

The amendments to HKAS 32 clarify existing application issues relating to the offsetting requirements. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realisation and settlement".

The amendments to HKFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amended offsetting disclosures are required for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should also be provided retrospectively for all comparative periods. However, the amendments to HKAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

- HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

HKFRS 9 Financial Instruments *(continued)*

- The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

The directors of the Company anticipate that the adoption of HKFRS 9 in the future will not have significant impact on amounts reported in respect of the Group's financial assets and financial liabilities.

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of these five standards are described below.

HKFRS 10 replaces the parts of HKAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements and HK (SIC)-Int 12 Consolidation – Special Purpose Entities. HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 11 replaces HKAS 31 Interests in Joint Ventures and HK (SIC)-Int 13 Jointly Controlled Entities – Non-Monetary Contributions by Venturers. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations.

In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

New and revised Standards on consolidation, joint arrangements, associates and disclosures *(continued)*

These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

The directors of the Company anticipate that these five standards will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013. The application of these five standards may have significant impact on amounts reported in the consolidated financial statements. The application of HKFRS 10 may result in the Group no longer consolidating some of its investees, and consolidating investees that were not previously consolidated (e.g. the Group's investment in associates may become the Group's subsidiaries based on the new definition of control and the related guidance in HKFRS 10). However, the directors of the Company have not yet performed a detailed analysis of the impact of the application of these Standards and hence have not yet quantified the extent of the impact.

HKFRS 13 Fair Value Measurement

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors of the Company anticipate that HKFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard may affect the amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All inter-group transactions, balances, income and expenses are eliminated in full on consolidation.

Business combinations

Acquisition of businesses was accounted for using the purchase method. The cost of the acquisition was measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for the control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that met the relevant conditions for recognition were generally recognised at their fair value at the acquisition date.

Goodwill arising on acquisition was recognised as an asset and initially measured at cost, being the excess of the cost of the acquisition over the Group's interest in the recognised amounts of the identifiable assets, liabilities and contingent liabilities recognised. If, after assessment, the Group's interest in the recognised amounts of the acquiree's identifiable assets, liabilities and contingent liabilities exceeded the cost of the acquisition, the excess was recognised immediately in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the amount of goodwill attributable to capitalisation is included in the determination of the amount of profit or loss on disposal.

Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associates, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of the acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments in associates *(continued)*

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value income and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Where a group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of the Group's interest in the associate that are not related to the Group.

Transactions with related companies under common owners of the Company

The Group applies a policy of treating transactions with related companies under common owners of the Company as transactions with owners of the Company. The gain derived from the waiver of amount due to those related companies is recorded in equity.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rates and other similar allowances.

Revenue from sale of goods is recognised when the goods are delivered and title has passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Service income is recognised when services are provided.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as other payables and accrued charges in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Retirement benefit costs

Payments to state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

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 profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity respectively.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress as described below) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than construction in progress less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Prepaid lease payments

Prepaid lease payments represent lease prepayments paid or payable for the right to use the land on which various plants and buildings are situated for a definite period, are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation of prepaid lease payments is calculated on a straight-line basis over the expected period of the rights.

Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets *(continued)*

Research and development expenditure

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

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, which are measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment losses on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At the end of the reporting period, 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 any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

In addition, intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so 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 (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Cash and cash equivalents

Bank balances and cash in the consolidated statement of financial position comprise of cash at banks and on hand and short-term deposits with a maturity of three months or less. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and bills receivables, other receivables, amount due from a director, amount due from a related company, pledged bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 days to 240 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable or other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are generally classified into other financial liabilities.

Other financial liabilities

Other financial liabilities including trade payables, other payables and accrued charges, dividend payable, amounts due to directors, amount due to related parties and bank and other borrowings are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity instruments *(continued)*

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets.

On derecognition of a financial asset entirely, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 4, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Critical judgements in applying the entity's accounting policies

The following are the critical judgments, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Going concern consideration

The assessment of the going concern assumptions involves making judgments by the management, at a particular point of time, about the future outcome of events or conditions which are inherently uncertain. The management considers that the Group has ability to continue as a going concern and the major events or conditions, which may give rise to business risks, that individually or collectively may cast significant doubt about the going concern assumptions are set out in Note 2.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account their estimated residual value. The determination of the useful lives and residual values involve management's estimation. The Group assesses annually the residual value and the useful life of the property, plant and equipment and if the expectation differs from the original estimate, such a difference may impact the depreciation in the period and the estimate will be changed in the future period.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value-in-use of the cash-generating units to which goodwill has been allocated. The value-in-use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2011, the carrying amount of goodwill was nil (2010: nil), net of accumulated impairment loss of RMB5,016,504 (2010: RMB5,016,504). Details of the recoverable amount calculation are disclosed in Note 18.

Estimated impairment of intangible assets

The management reviews the intangible assets at the end of the reporting period, and determines whether impairments should be recognised, which requires an estimation of the value-in-use. The value-in-use calculation requires the Group to estimate the future cash flows expected to arise. The cash flows used are consistent with the most up-to-date budgets and plans formally approved by management and are based on reasonable and supportable assumptions. Where the actual future cash flows are less than, expected, a material impairment loss may arise. No impairment has been made during the year ended 31 December 2011 (2010: RMB3,042,544).

Allowance for inventories

The management of the Group reviews an ageing analysis at the end of each reporting period, and makes allowance for obsolete and slow-moving inventory items that are identified as not suitable for sales. The management reviews the inventory ageing list on a periodical basis for those aged inventories. This involves comparison of carrying value of the aged inventory items with respective net realisable value. In addition, the Group carries out an inventory review on a product-by-product basis at the end of each reporting period and makes allowance for obsolete items. As at 31 December 2011, the carrying amount of inventories were RMB29,185,554 (2010: RMB31,269,778), net of allowance for inventories of RMB14,958,113 (2010: RMB10,222,951).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

Key sources of estimation uncertainty *(Continued)*

Estimated impairment of trade and bills receivables and other receivables and prepayments

The policy for making impairment loss on trade and bills receivables and other receivables and prepayments of the Group is based on the evaluation of collectability and ageing analysis of accounts and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each debtor. If the financial conditions of debtors of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment loss may be required. As at 31 December 2011, the carrying amount of the trade and bills receivables was RMB44,720,974 (2010: RMB90,536,927), net of allowance for doubtful debts of RMB24,180,821 (2010: RMB16,098,314). While the carrying amount of other receivables and prepayments are RMB18,280,130 (2010: RMB17,280,839), net of allowance for doubtful debts of RMB4,364,093 (2010: RMB8,916,797).

Estimated impairment of property, plant and equipment

Property, plant and equipment are tested for impairment if there is any indication that the carrying value of these assets may not be recoverable and the assets are subject to an impairment loss. The recoverable amount is the value-in-use. The value-in-use calculation requires the directors of the Company to estimate the future cash flows expected to arise from the relevant cash generating unit and a suitable discount rate is used in order to calculate the present value.

As of 31 December 2011, the carrying amount of property, plant and equipment of the Company was RMB66,827,445 (2010: RMB115,960,417) and net of accumulated impairment loss of RMB4,338,993 (2010: nil).

6. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes the bank and other borrowings as disclosed in Note 29, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital and reserves.

The directors of the Company review the capital structure on an annual basis. As part of this review, the directors of the Company consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors of the Company, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

7. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2011 *RMB*	2010 *RMB*
Financial assets		
Loan and receivables (including cash and cash equivalents)	**66,416,685**	133,725,493
Financial liabilities		
Amortised cost	**162,279,809**	239,791,317

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade and bills receivables, other receivables, amount due from a director, amount due from a related company, pledged bank deposits, bank balances and cash, trade payables, other payables and accrued charges, dividend payables, amounts due to directors, amounts due to related parties and bank and other borrowings. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (foreign currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates.

(i) Foreign currency risk

Certain receivables of the Group are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises. The Group's exposure to currency risk is minimal as the foreign currencies balances are insignificant.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

7. FINANCIAL INSTRUMENTS *(continued)*

(b) Financial risk management objectives and policies *(continued)*

Market risk (continued)

(ii) Interest rate risk

During the year ended 31 December 2011, the Group does not have material exposure to interest rate risk, as the Group has no financial assets and liabilities of material amounts with floating interest rates except for deposits held in banks. Cash at bank earns interest at floating rates based on the daily bank deposits rates during the year. Any change in the interest rate promulgated by banks from time to time is not considered to have significant impact to the Group. The Group adopts centralised treasury policies in cash and financial management and focuses on reducing the Group's overall interest expense.

During the year ended 31 December 2010, the Group was exposed to fair value interest rate risk in relation to fixed-rate bank and other borrowings (see Note 29 for details of these borrowings). The Group did not have an interest rate hedging policy. However, the management monitored interest rate exposure and considered other necessary action when significant interest rate exposure was anticipated.

During the year ended 31 December 2010, the Group was also exposed to cash flow interest rate risk in relation to variable-rate bank borrowings (see Note 29 for details of these borrowings). The Group's policy was to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

During the year ended 31 December 2010, the Group was also exposed to cash flow interest rate risk in relation to variable-rate pledged bank deposits and bank balances (see Note 21 for details of these bank deposits and balances) carried at prevailing market rate. However, such exposure was minimal to the Group as the variable-rate pledged bank deposits and bank balances were all short-term in nature.

The Group's exposures to interest rates on financial liabilities were detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk was mainly concentrated on the fluctuation of RMB base lending/deposit rate stipulated by the People's Bank of China arising from the Group's RMB denominated bank borrowings and bank deposits and balances.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for non-derivative instruments. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis points (2010: 50 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points (2010: 50 basis points) higher/lower and all other variables were held constant, the Group's loss for the year ended 31 December 2011 would decrease/increase by RMB19,158 (2010: increase/decrease by RMB93,306). This is mainly attributable to the Group's exposure to interests from deposits held at banks.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

7. FINANCIAL INSTRUMENTS *(continued)*

(b) Financial risk management objectives and policies *(continued)*

Credit risk

As at 31 December 2011, the Group's maximum exposure to credit risk which causes a financial loss to the Group due to failure to discharge an obligation by the counterparties is arisen from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for the determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

With respect to credit risk arising from amounts due from a director and a related company, the Group's exposure to credit risk arising from default of the counterparties are limited as the counterparties have a good history of repayment. The Group does not expect to incur a significant loss for uncollectable amounts due from these parties.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The Group has concentration of credit risk as 40% (2010: 43%) and 82% (2010: 69%) of the total trade receivables, which was due from the Group's largest customer and the five largest customers respectively.

The Group's concentration of credit risk by geographical locations is mainly in the PRC, which accounted for 100% (2010: 100%) of the total trade receivables as at 31 December 2011.

Collateral held as security and other credit enhancement

The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings. The Group has no covenants with banks for the banking facilities granted.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

7. FINANCIAL INSTRUMENTS *(continued)*

(b) Financial risk management objectives and policies *(continued)*

Liquidity risk (continued)

The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period.

The amounts included below for variable interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

Liquidity tables

At 31 December 2011

	On demand or within one year *RMB*	More than one year less than two years *RMB*	Total undiscounted cash flows *RMB*	Carrying amount at 31 December 2011 *RMB*
Non-derivative financial liabilities				
Trade payables	**58,262,282**	**–**	**58,262,282**	**58,262,282**
Other payables and accrued charges	**19,201,037**	**–**	**19,201,037**	**19,201,037**
Dividend payables	**675,971**	**–**	**675,971**	**675,971**
Amount due to a director	**3,550,924**	**–**	**3,550,924**	**3,550,924**
Amounts due to related parties	**57,589,595**		**57,589,595**	**57,589,595**
Bank and other borrowings	**23,000,000**	**–**	**23,000,000**	**23,000,000**
	162,279,809	**–**	**162,279,809**	**162,279,809**

At 31 December 2010

	On demand or within one year *RMB*	More than one year less than two years *RMB*	Total undiscounted cash flows *RMB*	Carrying amount at 31 December 2010 *RMB*
Non-derivative financial liabilities				
Trade payables	84,607,436	–	84,607,436	84,607,436
Other payables and accrued charges	15,276,184	–	15,276,184	15,276,184
Dividend payables	1,487,140	–	1,487,140	1,487,140
Amounts due to directors	10,242,627	–	10,242,627	10,242,627
Amounts due to related parties	44,237,346	–	44,237,346	44,237,346
Bank and other borrowings	87,673,295	–	87,673,295	83,940,584
	243,524,028	–	243,524,028	239,791,317

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

7. FINANCIAL INSTRUMENTS *(continued)*

(c) Fair value

The fair value of bank and other borrowings are estimated as the present value of future cash flows, discounted at the current market interest rates that are available to the Group for similar financial instruments.

The directors of the Company consider that the fair values of other financial assets and financial liabilities recorded at amortised cost in the consolidated statement of financial position approximate their carrying amounts due to short-term maturities.

8. REVENUE AND SEGMENT INFORMATION

The principal activities of the Group are research and development, manufacture and sale of base station antennas and related products.

Revenue represents the amounts received and receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

An analysis of the Group's revenue for the year is as follows:

	2011	2010
	RMB	*RMB*
Sales of antennas and related products	**19,405,853**	42,446,960
Service income	**31,480,528**	26,022,713
	50,886,381	68,469,673

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial data and information provided regularly to the Group's chief operating decision makers, the board of directors, for the purpose of allocating resources to segments and assessing their performance. The Group is organised into a single operating segment as sale of telecommunication products and rendering of related services. Accordingly, no reportable segment is presented.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

8. REVENUE AND SEGMENT INFORMATION *(continued)*

Geographical information

The Group's operations are located in the PRC, Asia excluding PRC and other countries.

The Group's revenue from external customers is presented based on the location of the operations and information about its non-current assets by geographical location of the assets are detailed below:

	Revenue from external customers		Non-current assets	
	2011	2010	**2011**	2010
	RMB	*RMB*	***RMB***	*RMB*
PRC (country of domicile)	**50,624,029**	67,974,240	**75,055,015**	126,600,322
Asia excluding PRC	**160,270**	–	**–**	–
Others	**102,082**	495,433	**–**	–
	50,886,381	68,469,673	**75,055,015**	126,600,322

For the purposes of monitoring segment performance and allocating resources between segments:

All assets are allocated to operating segments other than interest in an associate, pledged bank deposits and other financial assets.

Information about major customers

Revenues from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	2011	2010
	RMB	*RMB*
Customer A	**12,659,636**	11,164,973
Customer B	**11,644,688**	7,828,573
Customer C	**5,846,377**	14,129,732
Customer D	**N/A**	7,685,436
Customer E	**N/A**	10,376,023

All revenue generated from the major customers relate to the sale of telecommunication products and related services. Customer D and E has not contributed over 10% of the total sales of the Group during the year ended 31 December 2011.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

9. OTHER REVENUE

	2011 RMB	2010 RMB
Government grants *(Note)*	**650,000**	1,702,000
Government grants amortised *(Note 32)*	**1,666,665**	821,877
Impairment loss reversed in respect of trade receivables *(Note 23)*	**297,427**	2,121,799
Impairment loss reversed in respect of other receivables and prepayments *(Note 24)*	**5,686,038**	8,975,685
Waiver of trade payables	**2,640,632**	2,004,747
Waiver of other payables	**2,414,995**	581,503
Interest income	**118,142**	58,635
Net foreign exchange gain	**–**	29,135
Sales of raw materials	**450,587**	–
Rental income	**1,258,115**	–
Bad debts recovery	**846,769**	–
Others	**150,118**	199,595
	16,179,488	16,494,976

Note:

Government grants were received from several local government authorities for the Group's contribution to local economies, of which there are no unfulfilled conditions or contingencies relating to those subsidies.

10. FINANCE COSTS

	2011 RMB	2010 RMB
Interests on bank and other borrowings wholly repayable within five years	**3,251,996**	7,933,039
Less: amounts capitalised	**–**	(57,785)
	3,251,996	7,875,254
Interests on discounted bills	**26,535**	87,737
	3,278,531	7,962,991

Borrowing costs capitalised for the year ended 31 December 2010 arose on the general borrowing pool and were calculated by applying a capitalisation rate of 5.88% (2011: nil) per annum to expenditure on qualifying assets.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

11. INCOME TAX CREDIT

	2011	2010
	RMB	*RMB*
Current tax		
PRC Enterprise Income Tax		
– overprovision in prior years	**–**	(1,008,690)
Deferred Tax *(Note 31)*	**(600,000)**	–
	(600,000)	(1,008,690)

No provision for Hong Kong Profits Tax has been made as companies within the Group did not have any assessable profits in Hong Kong for both years.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

During the year ended 31 December 2011, income tax expenses of the Company and its subsidiaries are charged on the estimated assessable profits at the appropriate current rates of taxation ruling in the PRC.

The tax credit for the year can be reconciled to the loss before tax per the consolidated statement of comprehensive income as follows:

	2011	2010
	RMB	*RMB*
Loss before tax	**(43,078,833)**	(81,373,761)
Tax at the domestic income tax rate of 25% (2010: 25%)	**(10,769,708)**	(20,343,440)
Tax effect of share of loss of an associate	**41,033**	–
Tax effect of expenses not deductible for tax purpose	**1,692,437**	5,160,046
Overprovision in prior years	**–**	(1,008,690)
Tax effect on tax losses not recognised	**6,369,998**	17,700,262
Tax effect of deductible temporary differences not recognised	**2,066,240**	–
Utilisation of deductible temporary differences previously not recognised	**–**	(2,516,868)
Income tax credit	**(600,000)**	(1,008,690)

Details of the deferred tax liabilities are set out in Note 31.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

12. LOSS FOR THE YEAR

	2011 *RMB*	2010 *RMB*
Loss for the year has been arrived at after charging (crediting):		
Depreciation for property, plant and equipment	**8,547,899**	9,347,768
Amortisation of prepaid lease payments	**20,777**	20,777
Amortisation of intangible assets (included in administrative expenses)	**3,038,426**	6,148,579
Total depreciation and amortisation	**11,607,102**	15,517,124
Auditor's remuneration		
– audit services	**420,000**	420,000
– other services	**20,000**	20,000
Cost of inventories recognised as an expense	**19,144,794**	37,781,232
Staff costs		
– Directors' and supervisors' remuneration *(Note 13)*	**1,634,764**	1,708,219
– Salaries, wages and other benefits	**16,525,555**	22,952,979
– Severance payment for staff laid off	**419,381**	–
– Retirement benefit scheme contributions (excluding directors and supervisors)	**1,250,631**	1,557,382
Total staff costs	**19,830,331**	26,218,580
Loss on disposal and written off of property, plant and equipment	**150,375**	193,845
Loss on written off of intangible assets	**–**	200,765
Allowance for inventories (included in cost of sales)	**5,216,738**	3,504,913
Reversal of allowance for inventories (included in cost of sales)	**(481,576)**	(1,593,611)
Bad debts written off in respect of trade receivables	**–**	2,575,418
Bad debts written off in respect of other receivables	**–**	2,226,182
Minimum lease payments under operating leases	**6,068,190**	6,456,784
Research and development costs recognised as an expense	**6,604,550**	4,710,171

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

13. DIRECTORS' AND SUPERVISORS' REMUNERATIONS AND FIVE HIGHEST PAID EMPLOYEES

Directors' remunerations

The emoluments paid or payable to each of the eleven (2010: twelve) directors were as follows:

	Fees		Salaries, allowances and other benefits in kind		Retirement benefit scheme contributions		Total	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
	RMB	*RMB*	***RMB***	*RMB*	***RMB***	*RMB*	***RMB***	*RMB*
Executive directors								
Xiao Bing	**–**	–	**409,549**	407,353	**20,578**	18,168	**430,127**	425,521
Professor Xiao Liangyong ("Professor Xiao")	**–**	–	**678,795**	679,275	**–**	–	**678,795**	679,275
Zuo Hong	**–**	–	**139,471**	197,077	**12,744**	12,744	**152,215**	209,821
Non-executive directors								
Cong Chunshui	**–**	–	**6,000**	6,000	**–**	–	**6,000**	6,000
Li Wenqi	**–**	–	**6,000**	6,000	**–**	–	**6,000**	6,000
Sun Wenguo	**–**	–	**6,000**	6,000	**–**	–	**6,000**	6,000
Luo Maosheng (resigned on 14 August 2010)	**–**	–	**–**	4,000	**–**	–	**–**	4,000
Liu Ruixuan	**–**	–	**6,000**	2,000	**–**	–	**6,000**	2,000
Xie Yiqun	**–**	–	**6,000**	4,500	**–**	–	**6,000**	4,500
Independent non-executive directors								
Professor Gong Shuxi	**–**	–	**36,000**	36,000	**–**	–	**36,000**	36,000
Qiang Wenyu	**–**	–	**21,000**	36,000	**–**	–	**21,000**	36,000
Lei Huafeng	**–**	–	**36,000**	36,000	**–**	–	**36,000**	36,000
Total	**–**	–	**1,350,815**	1,420,205	**33,322**	30,912	**1,384,137**	1,451,117

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

13. DIRECTORS' AND SUPERVISORS' REMUNERATIONS AND FIVE HIGHEST PAID EMPLOYEES *(continued)*

Supervisors' remunerations

The emoluments paid or payable to each of the five (2010: five) supervisors were as follows:

	Fees		Salaries, allowances and other benefits in kind		Retirement benefit scheme contributions		Total	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
	RMB	*RMB*	***RMB***	*RMB*	***RMB***	*RMB*	***RMB***	*RMB*
Supervisors								
Professor Shi Ping	**–**	–	**36,000**	36,000	**–**	–	**36,000**	36,000
Bai Fubo	**–**	–	**6,000**	6,000	**–**	–	**6,000**	6,000
Chen Hua	**–**	–	**77,150**	109,150	**7,752**	7,752	**84,902**	116,902
Xu Hao	**–**	–	**80,525**	55,000	**7,200**	7,200	**87,725**	62,200
Liu Yongqiang	**–**	–	**36,000**	36,000	**–**	–	**36,000**	36,000
Total	**–**	–	**235,675**	242,150	**14,952**	14,952	**250,627**	257,102

None of the directors or supervisors of the Company waived or agreed to waive any emoluments paid by the Group and no emoluments have been paid by the Group to the directors or supervisors as an inducement to join or upon joining the Group, or as compensation for loss of office in any of the two years ended 31 December 2011.

Five highest paid employees

Of the five individuals with the highest emoluments in the Group, two (2010: two) were directors of the Company whose emoluments are included in the disclosures as above. The emoluments of the remaining three (2010: three) individuals were as follows:

	2011	2010
	RMB	*RMB*
Salaries and other benefits	**811,153**	652,495
Retirement benefit scheme contributions	**20,578**	26,568
	831,731	679,063

Their emoluments were within the following band:

	2011	2010
	Number of employees	Number of employees
Nil to HK$1,000,000 (equivalent to RMB810,000 (2010: RMB850,000))	**3**	3

No emoluments have been paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office in any of the two years ended 31 December 2011.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

14. DIVIDENDS

No dividend was paid or proposed during 2011, nor has any dividend been proposed since the end of the reporting period (2010: nil).

15. LOSS PER SHARE

The calculation of basic loss per share attributable to the owners of the Company is based on the loss for the year attributable to owners of the Company of RMB42,478,833 (2010: RMB80,365,071) and the weighted average number of 647,058,824 (2010: 647,058,824) ordinary shares in issue during the year.

The diluted loss per share is equal to the basic loss per share as calculated above as the Company did not have any potential shares outstanding for the two years ended 31 December 2011.

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16. PROPERTY, PLANT AND EQUIPMENT

	Buildings *RMB*	Plant and machinery *RMB*	Furniture, fixtures and equipment *RMB*	Motor vehicles *RMB*	Construction in progress *RMB*	Total *RMB*
COST						
At 1 January 2010	96,736,379	58,626,744	12,331,166	4,120,378	6,304,124	178,118,791
Additions	–	2,825,478	39,247	220,692	1,351,198	4,436,615
Transfer	6,484,754	–	–	–	(6,484,754)	–
Disposals/written off	–	(2,459,319)	(636,762)	(1,242,459)	–	(4,338,540)
At 31 December 2010	103,221,133	58,992,903	11,733,651	3,098,611	1,170,568	178,216,866
Additions	98,540	1,113,095	44,813	–	1,078,184	2,334,632
Transfer	709,628	1,539,124	–	–	(2,248,752)	–
Disposals/written off	(735,976)	(31,271,456)	(6,722,717)	–	–	(38,730,149)
Classified as held for sale	(26,995,004)	(16,630,768)	–	(3,098,611)	–	(46,724,383)
At 31 December 2011	76,298,321	13,742,898	5,055,747	–	–	95,096,966
DEPRECIATION AND IMPAIRMENT						
At 1 January 2010	10,904,116	32,318,168	10,386,871	3,190,488	–	56,799,643
Provided for the year	3,528,451	5,106,322	432,602	280,393	–	9,347,768
Eliminated on disposals/written off	–	(2,185,455)	(604,917)	(1,100,590)	–	(3,890,962)
At 31 December 2010	14,432,567	35,239,035	10,214,556	2,370,291	–	62,256,449
Provided for the year	3,188,847	4,750,993	337,133	270,926	–	8,547,899
Eliminated on disposals/written off	(168,997)	(22,018,912)	(6,055,600)	–	–	(28,243,509)
Impairment loss recognised	4,338,993	–	–	–	–	4,338,993
Classified as held for sale	(9,955,004)	(6,034,090)	–	(2,641,217)	–	(18,630,311)
At 31 December 2011	11,836,406	11,937,026	4,496,089	–	–	28,269,521
CARRYING VALUES						
At 31 December 2011	64,461,915	1,805,872	559,658	–	–	66,827,445
At 31 December 2010	88,788,566	23,753,868	1,519,095	728,320	1,170,568	115,960,417

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

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

The above items of property, plant and equipment, other than construction in progress, are depreciated on a straight-line basis, after taking into account of their estimated residual values, over their estimated useful lives as follows:

Buildings	Over the shorter of unexpired term of lease, or 50 years
Plant and machinery	3–10 years
Furniture, fixtures and equipment	5 years
Motor vehicles	8 years

The buildings are situated on land held under medium-term land use rights in the PRC.

Impairment losses recognised in the current year

During the year, as the result of agreement entered into sales and purchase agreement in respect of the disposal of buildings and plants and machinery, the Group carried out a review of the recoverable amount of that building and plant and machinery. The recoverable amount of the relevant assets has been determined on the fair value less cost to sell. The carrying amounts of building and plant and machinery were RMB21,378,993 and RMB11,861,234 respectively and fair value less cost to sell were RMB17,040,000 and RMB23,720,000 respectively. Impairment losses recognised in respect of property, plant and equipment in the year amounted to RMB4,338,993, which has been recognised in profit or loss.

As at 31 December 2010, the Group has not yet obtained the legal title certificates of certain buildings with carrying values of RMB59,528,214 (2011: nil). In the opinion of the directors, the absence of legal title to these buildings does not impair their values to the Group as the Group has paid the full purchase consideration of these buildings and the probability of being evicted on the ground of an absence of legal title is remote.

17. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise land use rights in the PRC which are held under medium-term leases. The prepaid lease payments are amortised over a period of 49 years on a straight-line basis.

	RMB
At 1 January 2010	848,716
Amortisation	(20,777)
At 31 December 2010	827,939
Amortisation	(20,777)
Classified as held for sale (Note 30)	(807,162)
At 31 December 2011	–

	2011 ***RMB***	2010 *RMB*
Analysed for reporting purposes as:		
Non-current asset	–	807,162
Current asset	–	20,777
	–	827,939

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

18. GOODWILL

	2011 RMB	2010 RMB
COST		
At 1 January and 31 December	**5,016,504**	5,016,504
IMPAIRMENT		
At 1 January	**5,016,504**	179,741
Impairment loss recognised	**–**	4,836,763
At 31 December	**5,016,504**	5,016,504
CARRYING VALUES		
At 31 December	**–**	–

For the purposes of impairment testing, goodwill was derived from the acquisition of the additional equity interests in 西安海天無線系統設備有限公司 (formerly known as "嘉載通信設備有限公司") ("Haitian Wireless") and Xian Hi-tech Communication Software Co., Ltd. ("Xian Hi-tech"), respectively. The carrying value of goodwill allocated as at the end of the reporting period is as follows:

	2011 RMB	2010 RMB
Xian Hi-tech	**–**	–
Haitian Wireless	**–**	–
	–	–

During the year ended 31 December 2010, the Group assessed the recoverable amount of goodwill associated with Haitian Wireless and considered that the associated goodwill should be impaired as Haitian Wireless has continuously incurred substantial losses which significantly impaired the net assets value of Haitian Wireless.

During the year ended 31 December 2010, the recoverable amounts of the goodwill from the acquisition of Haitian Wireless had been determined on the basis of value-in-use calculations, which used cash flow projections based on financial budgets approved by management covering a 10-year period which represents the remaining operating period of Haitian Wireless, and a discount rate of 12%. Haitian Wireless's cash flows beyond 5-year period were assumed constant with zero growth rate. The forecast turnover was based on the relevant industry growth forecasts and did not exceed the average long-term growth rate for the relevant industry. Cash flow projections during the budget period for Haitian Wireless was also based on the budgeted sales and expected gross margins during the budget period and the same raw materials price inflation during the budget period. Expected cash inflows/outflows, which included budgeted sales, gross margin and raw material price inflation had been determined based on past performance and management's expectations for the market development. Management believed that any reasonably possible change in any of these assumptions would not cause the aggregate carrying value of Haitian Wireless to exceed the aggregate recoverable amount of Haitian Wireless.

Accordingly, impairment loss of RMB4,836,763 (2011: nil) was recognised for the year ended 31 December 2010.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

19. INTANGIBLE ASSETS

	Development costs RMB (Note a)	Technological know-how RMB (Note b)	Total RMB
COST			
At 1 January 2010	56,929,348	10,000,000	66,929,348
Additions through internal development	4,525,210	–	4,525,210
Written off	(501,911)	–	(501,911)
At 31 December 2010	60,952,647	10,000,000	70,952,647
Additions through internal development	1,433,253	–	1,433,253
At 31 December 2011	62,385,900	10,000,000	72,385,900
AMORTISATION AND IMPAIRMENT			
At 1 January 2010	42,896,594	9,333,333	52,229,927
Provided for the year	5,481,912	666,667	6,148,579
Eliminated on written off	(301,146)	–	(301,146)
Impairment loss recognised	3,042,544	–	3,042,544
At 31 December 2010	51,119,904	10,000,000	61,119,904
Provided for the year	3,038,426	–	3,038,426
At 31 December 2011	54,158,330	10,000,000	64,158,330
CARRYING VALUES			
At 31 December 2011	8,227,570	–	8,227,570
At 31 December 2010	9,832,743	–	9,832,743

During the year ended 31 December 2010, the recoverable amounts of the intangible assets have been determined on the basis of value-in-use calculations, which use cash flow projections based on financial budgets approved by management covering a 6-year period and a discount rate of 10%. The forecast turnover is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Cash flow projections during the budget period is also based on the budgeted sales and expected gross margins during the budget period and the same raw materials price inflation during the budget period. Expected cash inflows/outflows, which include budgeted sales, gross margin and raw material price inflation have been determined based on past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying value to exceed the aggregate recoverable amount.

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19. INTANGIBLE ASSETS *(continued)*

During the year ended 31 December 2010, the Group recognised an impairment loss of RMB3,042,544 (2010: nil) in relation to certain development costs as the directors of the Company considered that the carrying values of those development costs are less than their recoverable amounts due to technological obsolesces.

Notes:

(a) The development costs represent product development expenditure incurred by the Company.

(b) As at 31 December 2011 and 2010, 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, founder and director of the Company. According to the shareholder agreement entered into between the shareholders of the Company on 16 June 2000, it was agreed that the technological know-how held by Professor Xiao be injected into the Company at an amount of RMB10,000,000 as part of his contribution to the increase in paid-up capital in September 2000.

The above intangible assets have definite useful lives. Such intangible assets are amortised on a straight-line basis over the following periods:

Development costs	5 years
Technological know-how	10 years

20. INTEREST IN AN ASSOCIATE

	2011 *RMB*	2010 *RMB*
Cost of investment in an unlisted associate in the PRC	10,219,079	–
Share of post acquisition losses	(164,132)	–
	10,054,947	–

As at 31 December 2011, the Group acquired and held 13.77% equity interest in a PRC private limited company engaged in the manufacturing and sales of base station antennas and related products in PRC.

As at 31 December 2011, the Group had interest in the following associate:

Name	Form of business structure	Place of incorporation and operations	Particulars of issued/paid-up capital	Percentage of effective equity interest attributable to the Group	Principal activity
Xi'an Sunnada Haitian Antenna Technologies Co Ltd ("Xi'an Sunnada")	Limited liability company	PRC	Paid-up capital	13.77%	manufacturing and sales of base station antennas and related products

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20. INTEREST IN AN ASSOCIATE *(continued)*

As at 31 December 2011, the directors of the Company are of the opinion that the Group is able to exercise significant influence over the financing and operating policy decision of Xi'an Sunnada. Accordingly, Xi'an Sunnada is classified as an associate.

The summary of the financial information in respect of the Group's associate is set out below:

	2011 *RMB*
Total assets	**73,917,354**
Total liabilities	**(890,232)**
Net assets	**73,027,122**
Group's share of net assets of the associate	**10,054,947**
Revenue	**–**
Loss for the year	**(1,191,956)**
Group's share of losses of the associate for the year	**164,132**

21. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

Pledged bank deposits represented deposits pledged to banks to secure the quality of the products sold to certain customers. The deposits amounting to RMB3,800,000 (2010: RMB3,888,300) have been pledged of which the expiry date will be within one year and are therefore classified as current assets. No deposits have been pledged by the Group as at 31 December 2011 (2010:RMB2,200,000) which will be expired over one year from the end of reporting period and are therefore classified as non-current assets. The pledged bank deposits will be released upon the expiry of the pledged agreements signed with bank.

Bank balances and pledged bank deposits carry interest at prevailing market rates for both years.

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22. INVENTORIES

	2011 *RMB*	2010 *RMB*
Raw materials	**5,036,341**	4,903,910
Work-in-progress	**7,075,653**	9,818,574
Finished goods	**17,073,560**	16,547,294
	29,185,554	31,269,778

During the year ended 31 December 2011, a reversal of allowance for inventories of RMB481,576 (2010: RMB1,593,611) has been recognised as the corresponding inventories were either sold or used.

23. TRADE AND BILLS RECEIVABLES

	2011 *RMB*	2010 *RMB*
Trade receivables	**68,901,795**	98,747,461
Less: impairment loss recognised	**(24,180,821)**	(16,098,314)
	44,720,974	82,649,147
Bills receivables	**–**	7,887,780
	44,720,974	90,536,927

The Group allows a credit period ranging from 90 days to 240 days to its trade customers. For receivables from certain customers, the amounts are settled by installments which are mutually determined and agreed by the relevant parties. The Group does not hold any collateral over these balances.

The following is an aged analysis of trade receivables net of impairment loss recognised presented based on the invoice date at the end of the reporting period.

	2011 *RMB*	2010 *RMB*
Within 60 days	**6,949,003**	20,740,936
61 to 120 days	**3,024,931**	5,083,297
121 to 180 days	**102,987**	2,586,006
181 to 240 days	**824,589**	1,864,865
241 to 365 days	**6,283,224**	23,300,785
Over 365 days	**27,536,240**	29,073,258
	44,720,974	82,649,147

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23. TRADE AND BILLS RECEIVABLES *(continued)*

The following is an aged analysis of bills receivables presented based on the invoice date at the end of the reporting period.

	2011	2010
	RMB	*RMB*
Within 60 days	–	6,264,500
61 to 120 days	–	1,623,280
	–	7,887,780

Included in the Group's trade receivable balance are trade receivables with aggregate carrying amount of RMB33,819,464 (2010: RMB52,374,043) which are past due as at the reporting date for which the Group has not provided for impairment loss.

Ageing of trade receivables which are past due but not impaired:

	2011	2010
	RMB	*RMB*
241 to 365 days	**6,283,224**	23,300,785
1 to 2 years	**27,004,350**	26,230,601
Over 2 years	**531,890**	2,842,657
Total	**33,819,464**	52,374,043

Receivables that were past due but not impaired related to a number of customers that are the major telecommunication services providers in the PRC and have a good track record with the Group. Based on past experience, the management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

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23. TRADE AND BILLS RECEIVABLES *(continued)*

At the end of each reporting period, the Group's trade receivables were individually determined to be impaired. The individually impaired receivables are recognised based on the credit history of its customers, such as financial difficulties or default in payments, and current market conditions. Consequently, specific impairment loss was recognised. The movement in the impairment of trade receivables is as follows:

	2011	2010
	RMB	*RMB*
At 1 January	**16,098,314**	15,358,797
Impairment loss recognised	**8,986,356**	8,610,631
Amounts written off as uncollectible	**(606,422)**	(5,749,315)
Reversal of impairment loss recognised in previous years	**(297,427)**	(2,121,799)
At 31 December	**24,180,821**	16,098,314

Receivables of RMB10,901,510 (2010: RMB38,162,884) that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default. The Group does not hold any collateral over these balances.

As at 31 December 2010, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB1,279,900 (2011: nil) which were factored to banks to secure certain of its bank borrowings.

As at 31 December 2010, included in bills receivables were bills receivables with aggregate carrying amount of RMB6,264,500 (2011: nil) discounted by the Group to certain banks with recourse by providing a credit guarantee over the expected losses of those receivables, of which all the bills receivables were issued by the Group's debtors. Accordingly, the Group continues to recognise the full carrying amount of the receivables and has recognised the cash received on such discount as a secured borrowing (see Note 29 for details of these borrowings).

24. OTHER RECEIVABLES AND PREPAYMENTS

	2011	2010
	RMB	*RMB*
Other receivables	**19,633,450**	13,598,410
Prepayments	**3,010,773**	12,599,226
	22,644,223	26,197,636
Less: impairment loss recognised	**(4,364,093)**	(8,916,797)
	18,280,130	17,280,839

Included in other receivables and prepayment is an amount of RMB3,842,166 (2010: RMB8,784,144) in respect of advances to employees. The advances are interest-free, unsecured and repayable on demand.

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24. OTHER RECEIVABLES AND PREPAYMENTS *(continued)*

At the end of the reporting period, the Group's other receivables and prepayments were individually determined to be impaired. The individually impaired receivables are recognised based on credit history of its debtors and current business relationship. The Group does not hold any collateral over these balances. The movement in the impairment of other receivables and prepayments is as follows:

	2011 ***RMB***	2010 *RMB*
At 1 January	**8,916,797**	14,375,207
Impairment loss recognised	**2,811,540**	5,525,774
Amounts written off as uncollectible	**(1,678,206)**	(2,008,499)
Reversal of impairment loss recognised in previous years	**(5,686,038)**	(8,975,685)
At 31 December	**4,364,093**	8,916,797

25. AMOUNTS DUE FROM (TO) DIRECTORS

Name of directors	**Balance at 31 December 2011** *RMB*	**Balance at 1 January 2011** *RMB*	**Maximum amount outstanding during the year** *RMB*	**Maximum amount outstanding during the prior year** *RMB*
Due from:				
Zuo Hong	317,042	–	367,830	823,559
Due to:				
Xiao Bing	–	(7,949,480)		
Professor Xiao	(3,550,924)	(1,867,474)		
Zuo Hong	–	(425,673)		
	(3,550,924)	(10,242,627)		

The amounts due from (to) director are unsecured, interest-free and repayable on demand.

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26. AMOUNTS DUE FROM (TO) RELATED COMPANIES/PARTIES

Name of related companies	Relationship	Notes	2011 RMB	2010 RMB
Due from:				
陝西海通天綫有限責任公司（「海通天綫」）	Close family member of the executive directors of both companies	*(i)*	**91,204**	400,604
Due to:				
海天投資	Common director and shareholder	*(i) & (ii)*	**(53,586,036)**	(40,237,346)
Xiao Ying	Close family member of the executive directors of the Company	*(i)*	**(4,003,559)**	(4,000,000)
			(57,589,595)	(44,237,346)

Analysis for reporting purposes as:

	2011 RMB	2010 RMB
Non-current liabilities	**–**	–
Current liabilities	**57,589,595**	44,237,346
	57,589,595	44,237,346

Notes:

(i) The amounts are unsecured, interest-free and are repayable on demand.

(ii) 海天投資 is owned as to 75% and 5% by Mr. Xiao Bing and Mr. Zuo Hong, the executive directors of the Company, respectively for both years.

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27. TRADE PAYABLES

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period.

	2011	2010
	RMB	*RMB*
Within 60 days	**11,062,858**	5,239,512
61 to 120 days	**2,837,209**	3,362,550
121 to 365 days	**8,990,734**	34,955,242
Over 365 days	**35,371,481**	41,050,132
	58,262,282	84,607,436

The average credit period on purchases of goods is 90 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit time frame.

28. OTHER PAYABLES AND ACCRUED CHARGES

	2011	2010
	RMB	*RMB*
Receipt in advance	**37,633,573**	3,745,079
Accrued salaries	**4,845,914**	4,937,871
Other payables (Note i)	**15,776,257**	12,744,611
Deferred income (Note ii)	**1,927,200**	2,904,665
	60,182,944	24,332,226

Notes:

i. Included in other payable is a temporary advance of RMB4,300,000 from an independent third party. The amount is interest-free, unsecured and repayable on demand.

ii. Deferred income were received from several local government authorities for the Group's to the technology improvement of base station antenna and to research and development and industrialisation of antenna.

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29. BANK AND OTHER BORROWINGS

	2011	2010
	RMB	*RMB*
Bank borrowings	**–**	74,076,084
Discounted bills with recourse	**–**	6,264,500
Other borrowings	**23,000,000**	3,600,000
	23,000,000	83,940,584
Secured	**–**	75,940,584
Unsecured	**23,000,000**	8,000,000
	23,000,000	83,940,584
Carrying amount repayable:		
On demand or within one year	**23,000,000**	83,940,584
More than one year, but not exceeding two years	**–**	–
	23,000,000	83,940,584
Less: Amounts due within one year shown under current liabilities	**(23,000,000)**	(83,940,584)
Amounts shown under non-current liabilities	**–**	–

The Group's bank and other borrowings are interest-bearing as follows:

	2011	2010
	RMB	*RMB*
Fixed-rate bank borrowings	**–**	9,076,084
Variable-rate bank borrowings	**–**	65,000,000
Fixed-rate discounted bills with recourse	**–**	6,264,500
Fixed-rate other borrowings	**–**	3,600,000
	–	83,940,584

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29. BANK AND OTHER BORROWINGS *(continued)*

The ranges of effective interest rates per annum on the Group's borrowings are as follows:

	2011	2010
Effective interest rate:		
Fixed-rate bank borrowings	**5.6% to 7.8%**	5.35% to 5.75%
Variable-rate bank borrowings	**5.3% to 7%**	4.63% to 7.02%
Fixed-rate discounted bills with recourse	**7.8%**	5.10% to 5.27%
Fixed-rate other borrowings	**10%**	15%

Other borrowings represent loan from an independent third party. The amount was unsecured, interest-free and repayable on demand.

During the year ended 31 December 2011, the Group obtained new borrowings in the amount of RMB23,990,000 (2010: RMB119,990,827). The proceeds were used to finance the general working capital of the Group.

30. ASSETS CLASSIFIED AS HELD FOR SALE

(i) On 20 August 2011, the Company announced that it had entered into an agreement with Fujian Sunnada Communication Co., Ltd. ("Fujian Sunnada"), an independent third party and Mr. Ren Yuwen (任玉文), an independent third party, pursuant to which the parties agreed to establish a new company namely Xi'an Sunnada in the PRC. In addition, on 20 August 2011, the Group entered into a framework agreement with Fujian Sunnada and Mr. Ren Yuwen pursuant to which the Company conditionally agreed to dispose of certain equipment of RMB10,219,079 for capital investment representing 13.77% equity interest of Xi'an Sunnada as at 31 December 2011.

(ii) Up to 31 December 2011, there are certain assets with carrying amount of RMB457,394 which had not yet disposed of but the Company was committed and contracted for the further capital investment representing 1.23% equity of Xi'an Sunnada.

(iii) On 20 August 2011, the Company had entered into a sales and purchase agreement in respect of the disposal of certain assets with consideration of RMB20,510,000 to Xi'an Sunnada. Up to 31 December 2011, there are certain assets with carrying amount of RMB10,596,678, which had not yet disposed of but the Company was committed and contracted for the disposal.

(iv) On 20 August 2011, the Company had entered into an sales and purchase agreement in respect of the disposal of certain assets with consideration of RMB19,490,000 to an independent third party. Up to 31 December 2011, there are certain assets with carrying amount of RMB17,847,162, which had not yet disposed of but the Company was committed and contracted for the disposal.

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30. ASSETS CLASSIFIED AS HELD FOR SALE *(continued)*

	Notes	**2011** **RMB**
Motor vehicles	*(ii)*	**457,394**
Plant and machinery	*(iii)*	**10,596,678**
Building	*(iv)*	**17,040,000**
Prepaid lease payment *(Note 17)*	*(iv)*	**807,162**
Total assets classified as held for sale		**28,901,234**

31. DEFERRED TAX LIABILITIES

	2011 **RMB**	2010 *RMB*
At 1 January	**600,000**	600,000
Credited during the year	**(600,000)**	–
At 31 December	**–**	600,000

The amount represented deferred tax liability at the end of the reporting period in relation to deferred development costs.

As at 31 December 2011, the Group has unused tax losses of approximately RMB141,246,760 (2010: RMB115,766,769) available to offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. Such tax losses can be carried forward for five years from the year in which the respective loss arose.

As at 31 December 2011, the Group also had deductible temporary differences of RMB43,503,024 (2010: RMB35,238,062). No deferred tax asset has been recognised in relation to the deductible temporary differences as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

32. DEFERRED INCOME

During the year ended 31 December 2011, the Group has received government grants in an aggregate amount of RMB6,000,000 of which RMB650,000 was related to the technology improvement of base station antenna and RMB5,350,000 was related to the research and development and industrialisation of antenna for the TD-SCDMA long term evolution (TD-LTE). Amount of RMB1,927,200 (2010: RMB2,904,665) will be amortised within one year and is therefore classified as current liabilities and included in other payables and the remaining amount of RMB6,904,800 (2010: RMB8,168,000) is classified as non-current liabilities.

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33. SHARE CAPITAL

	Number of shares	Share capital
		RMB
At 1 January 2010, 31 December 2010 and 31 December 2011		
Registered, issued and fully paid:		
Domestic shares of RMB0.10 each	485,294,118	48,529,412
H shares of RMB0.10 each	161,764,706	16,176,470
	647,058,824	64,705,882

34. RESERVES

(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) Distributable reserves

In accordance with the Articles of Association of the Company, the reserve available for distribution is the lower of amount determined under accounting principles generally accepted in the PRC and the amount determined under the HKFRSs. Based on the financial statements of the Company prepared in accordance with the relevant accounting principles and financial regulations applicable to companies established in the PRC, the Company does not have any reserves available for distribution to its owners as at 31 December 2011 and 31 December 2010.

(c) Other reserve

海天投資, a related company of the Company under common shareholders, agreed to waive the rental paid by the Company of RMB3,938,899 for the year ended 31 December 2009. Such waiver is deemed to be a transaction with owners of the Company and therefore recorded in other reserve.

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35. OPERATING LEASES

The Group as lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	2011	2010
	RMB	*RMB*
Within one year	**3,238,872**	5,963,486
In the second to fifth years inclusive	**–**	3,724,179
	3,238,872	9,687,665

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

The Group as lessor

At the end of the reporting period, the Group had contracted with tenants for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as within one year of approximately RMB158,400 (2010: nil).

36. CAPITAL COMMITMENTS

	2011	2010
	RMB	*RMB*
Capital expenditure in respect of construction cost on properties under construction and acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**2,654,561**	3,077,832
Capital expenditure in respect of capital investment in an associate contracted for but not provided in the consolidated financial statement	**1,780,921**	–
	4,435,482	3,077,832

37. RETIREMENT BENEFITS SCHEME

The Group participates in a defined contribution retirement scheme organised by the relevant local government authority in the PRC. 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.

The total cost charged of RMB1,298,905 (2010: RMB1,603,246) represents contributions payable to these schemes by the Group for the year ended 31 December 2011.

As at 31 December 2011 and 2010, the Group had no significant obligation apart from the contribution as stated above.

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38. PLEDGE OF ASSETS

The Group has pledged the following assets to secure bank borrowings and banking facilities granted to the Group by banks and quality of products sold to customers at the end of the reporting period. The carrying values of the assets pledged are as follows:

	2011	2010
	RMB	*RMB*
Buildings	–	22,221,237
Prepaid lease payments	–	827,939
Trade receivables	–	1,279,900
Bills receivables	–	6,264,500
Bank deposits	**3,800,000**	6,088,300
	3,800,000	36,681,876

39. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2011, the Group's major non-cash transactions as follows:

(1) The Group settled a payment of RMB10,219,079 for the consideration of investment in an associate by building, motor vehicles and prepaid land lease with carrying value of RMB9,559,087 held by the Group.

(2) The amount due to a director, Mr. Xiao Bing, RMB12,000,000 was settled by current account with a related company.

During the year ended 31 December 2010, the Group settled payment of RMB135,560 for acquisition of property, plant and equipment by a motor vehicle with a carrying value of RMB90,938 held by the Group.

40. RELATED PARTY TRANSACTIONS

(a) Details of the balances with related parties are set out in the consolidated statement of financial position and Notes 25 and 26 respectively.

(b) During the year ended 31 December 2011, the Group paid rental for the lease of land of RMB5,958,690 to 海天投資 (2010: RMB5,958,690).

(c) During the year ended 31 December 2011, the Group received rental income from the lease of land of RMB7,200 from Xi'an Sunnada (2010: nil).

(d) During the year ended 31 December 2011, the Group entered into a sales and purchase agreement to dispose of the property, plant and equipment amounted RMB25,090,000 and the intangible assets amounted RMB7,420,000 to Xi'an Sunnada (2010: nil).

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40. RELATED PARTY TRANSACTIONS *(continued)*

(e) As at 31 December 2011, included in other payables and accrued charges amounted RMB13,019,000 (2010: nil) was deposits received from Xi'an Sunnada in respect of the disposal of the equipment.

(f) Mr. Xiao Bing, an executive director of the Company and Ms. Chen Jing, wife of Mr. Xiao Bing; Mr. Wang Tianxiong, financial controller of the Company and Ms. Zhang Chaowei, wife of Mr. Wang Tianxiong, and Professor Xiao provided personal guarantees to an independent third party. In return, the independent third party provided a guarantee to secure a bank borrowing amounting to RMB10,000,000 granted to the Group. As at 31 December 2011, the bank borrowings were repaid and the guarantee had been released. During the year ended 31 December 2010, Mr. Xiao Bing, an executive director of the Company and Ms. Chen Jing, wife of Mr. Xiao Bing; Mr. Wang Tianxiong, financial controller of the Company and Ms. Zhang Chaowei, wife of Mr. Wang Tianxiong, and Professor Xiao provided personal guarantees to an independent third party. In return, the independent third party provided a guarantee to secure a bank borrowing amounting to RMB10,000,000 granted to the Group.

(g) During the year ended 31 December 2011, a plot of land which was pledged to a bank to secure the bank borrowings from 海天投資 had been released. For the year ended 31 December 2010, 海天投資 had pledged a plot of land to a bank to secure the bank borrowings amounting to RMB32,000,000 granted to the Group.

(h) As at 31 December 2010, other borrowings amounted RMB3,600,000 (2011: nil) and bank borrowings amounted RMB3,000,000 (2011: nil) were secured by the properties of Professor Xiao, the executive director of the Company. In addition, Professor Xiao also provided a personal guarantee to a bank to secure bank borrowings of RMB45,000,000 (2011: nil) granted to the Group.

(i) For the year ended 31 December 2010, Mr. Xiao Bing, an executive director of the Company, provided a personal guarantee amounting to RMB35,000,000 (2011: nil) to secure the bank borrowings.

(j) Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2011	2010
	RMB	*RMB*
Short-term benefits	**1,586,490**	1,662,355
Other long-term benefits	**48,274**	45,864
	1,637,764	1,708,219

The remuneration of directors and key executives is determined by the Remuneration Committee having regard to the performance of individuals and market trends.

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41. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Name of subsidiary	Place of incorporation/ operation	Class of shares held	Issued share capital/ registered capital	Percentage of equity interest held by the Company Directly 2011	2010	Principal activities
XAHT Antenna Technologies (Hongkong) Limited	Hong Kong	Ordinary shares	HK$1,500,000	**100%**	100%	Inactive
Xian Haitian Communication System Engineering Co. Ltd.*	PRC	Registered capital	RMB5,000,000	**100%**	100%	Design and installation of the antennas and related products
Xian Hi-tech*	PRC	Registered capital	RMB1,500,000	**100%**	100%	Development, manufacturing and trading of computer software and hardware
Haitian Wireless**	PRC	Registered capital	RMB20,000,000	**100%**	100%	Development and consulting services of Time Division – Synchronous Code Division Multiple Access

* Limited company established in the PRC
** Sino-foreign equity joint venture registered in the PRC

None of the subsidiaries had issued any debt securities at the end of both years or during both years.

42. LITIGATION

As at the reporting date, the pending court cases listed below are related to the Group:

On 27 October 2011, 寶雞凌萬雲正電路板有限公司 (the "Plaintiff A") filed a writ at the Xi'an Arbitration Commission, Shaanxi Province (the "Commissioner") against the Company. The Plaintiff A claimed that the Company owes the Plaintiff A trade payable balance of RMB586,556, which aged over one year. The Plaintiff A requested the Commissioner to resolve the contractual dispute by requesting the Company to perform its repayment obligation. On 20 February 2012, the court case was concluded of which the Group was demanded to repay the Plaintiff A of amount RMB516,555 by 5 March 2012.

On 29 November 2011, 珠海漢勝科技股份有限公司 (the "Plaintiff B") filed a writ at the Commissioner against the Company. The Plaintiff B claimed that the Company owes the Plaintiff B trade payable balance of RMB799,583, which aged over one year. The Plaintiff B requested the Commissioner to resolve the contractual dispute by requesting the Company to perform its repayment obligation.

On 20 December 2011, 深圳金信諾高新科技術股份有限公司 (the "Plaintiff C") filed a writ at the Commissioner against the Company. The Plaintiff C claimed that the Company owes the Plaintiff C trade payable balance of RMB6,685,363, which aged over one year. The Plaintiff C requested the Commissioner to resolve the contractual dispute by requesting the Company to perform its repayment obligation.

Financial Summary

	Year ended 31 December				
	2007	2008	2009	2010	**2011**
	RMB	*RMB*	*RMB*	*RMB*	***RMB***
RESULTS					
Revenue	135,011,375	152,020,094	195,410,138	68,469,673	**50,886,381**
Profit (Loss) before tax	886,978	(21,107,861)	(25,794,050)	(81,373,761)	**(43,078,833)**
Income tax credit (expense)	21,867	60,735	(725,868)	1,008,690	**600,000**
Profit (Loss) and total comprehensive income (expense) for the year	908,845	(21,047,126)	(26,519,918)	(80,365,071)	**(42,478,833)**

	As at 31 December				
	2007	2008	2009	2010	**2011**
	RMB	*RMB*	*RMB*	*RMB*	***RMB***
ASSETS AND LIABILITIES					
Total assets	352,607,574	331,882,384	393,688,278	303,155,295	**213,227,619**
Total liabilities	(183,074,422)	(183,396,358)	(267,783,271)	(257,615,359)	**(210,166,516)**
Total equity	169,533,152	148,486,026	125,905,007	45,539,936	**3,061,103**