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 with limited liability)
(Stock Code: 8227)

Xi'an Haitian Antenna Technologies

2012 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.

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This report, for which the directors (the "Directors") of Xi'an Haitian Antenna Technologies Co., Ltd. (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the 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.*

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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

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www.xaht.com
www.htantenna.com

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Central Building, 3 Pedder Street
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. Chen Ji (陳繼先生) (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. Chen Ji (陳繼先生)
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,

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 2012 on behalf of the board of Directors (the "Board").

Though the Group was affected by the overall slump of the PRC communications industry in 2012 as well as the weakened performance and strained cash flow of the Group in the preceding two years, yet the Group basically achieved a turnaround from loss in 2012 through a series of bold steps and measures including the strengthening internal management, the strict control over corporate scale, the expansion into new sources of income and the reduction of costs, as well as the adjustment of product structure. In addition to our continued R&D efforts on 3G and 4G products, our business operations were also focused on communications-related services including network optimisation and network inspection and maintenance. These moves enabled us to successfully compensate for the deterioration in business performance resulting from a steep fall in sales of antenna products and bounce back from the adverse trend of continued setback in performance, thereby laying a solid foundation for the development of the Group in 2013.

To explore into new profit growth drivers, the Group plans to optimise resources allocation, make active R&D efforts on tapping into new business areas, maintain the existing niche and seek for additional financing channels in 2013, in order to get access to funds, grow into diversified operations and strive for better performance.

On behalf of the Board, I would like to take this opportunity to express heartfelt gratitude to all of the valuable customers, business partners and staff who are closely-related to the Group, and express sincere thanks to our shareholders for their strong enduring support since the listing of the Group. To show our appreciation to all of you for your patronage and confidence, the Group will be dedicated to reaping prominent returns for our investors.

Xiao Bing
Chairman

Xi'an, the PRC
27 March 2013

Management Discussion and Analysis

BUSINESS REVIEW

Revenue

Revenue recorded for the year ended 31 December 2012 was approximately RMB46.6 million, representing a slightly decrease of approximately 8.4% from the year of 2011. Under the pressure of prolonged price competition throughout the year, more effort was concentrated on the high-end products for the sales of antennas and related products and more favourable price was given to customers for related services.

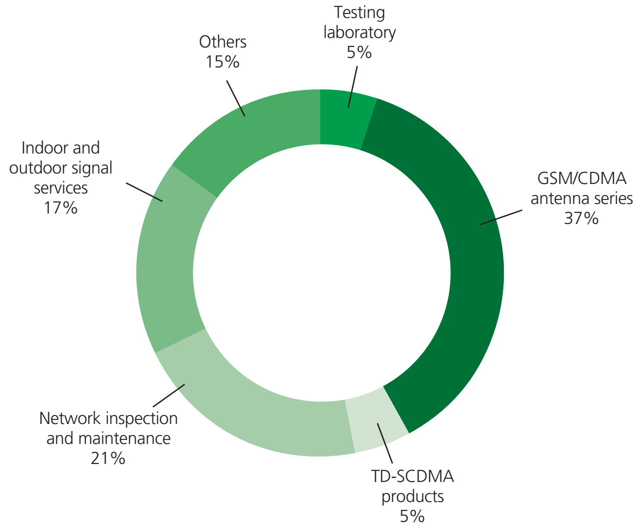
Around 57% of revenue was generated from sales of antenna and related products whereas only approximately 38% in 2011. Sales of TD-SCDMA products remained stable and were decreased approximately from 7% in 2011 to 5% in 2012. Although manufacture of 2G and 2.5G products was terminated during the year, revenue from GSM/CDMA antenna series products for the year was climbed up approximately from 17% in 2011 to 37% in 2012.

Service income was mainly come from network inspection and maintenance services, indoor and outdoor signal services, and testing laboratory services. Facing to intensive price competition, nevertheless increasing demand for network improvement, overall service income was dropped by approximately RMB11.4 million for the year ended 31 December 2012, representing a decrease of approximately 36.3% from last year. Network inspection and maintenance services and indoor and outdoor signal services contributed approximately 21% and 17% respectively to the revenue for the year, compared to approximately 30% and 25% respectively in 2011.

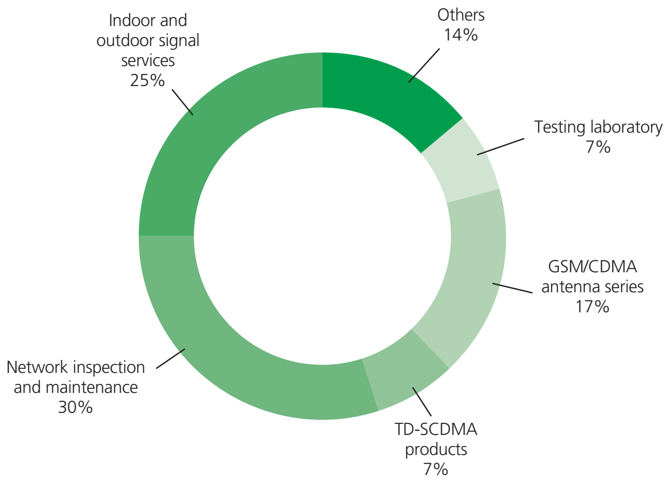
Approximately 73% of revenue was generated from the three major telecommunication operators, compared to approximately 45% in 2011. At the same time, the Group continued to establish its band name and expand its market share by diversifying its customer base to local agents and international suppliers for telecommunication facilities.

Composite of sales by product line for the year ended 31 December 2012, together with the comparative figures for the year ended 31 December 2011, are provided as follows:

For the year ended 31 December 2012 (by product line)

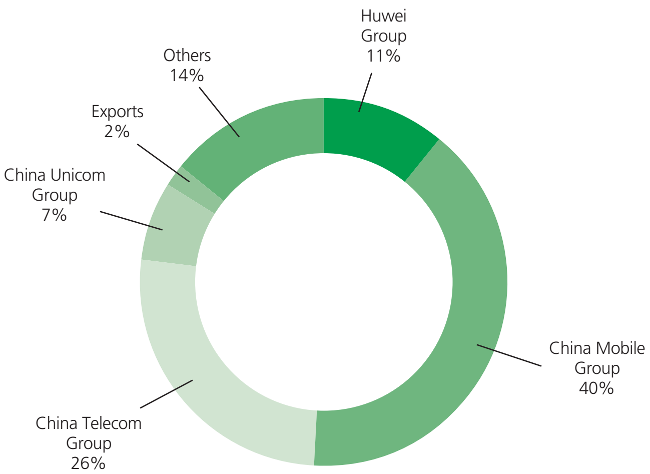


For the year ended 31 December 2011 (by product line)

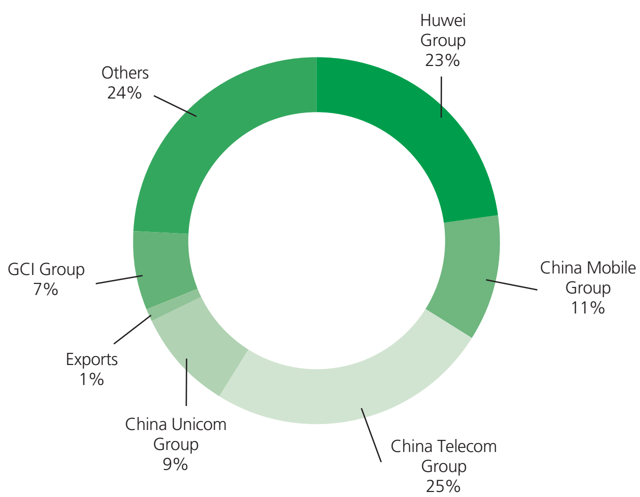


Composite of turnover by major customers for the year ended 31 December 2012, together with the comparative figures for the year ended 31 December 2011, are provided as follows:

For the year ended 31 December 2012 (by major customers)



For the year ended 31 December 2011 (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")

Gross Profit

Gross profit of approximately RMB10.1 million was recorded for the year with gross profit margin of 21.6%, representing over 2.5 times increment as comparing to gross profit margin of 8.5% in 2011. This significant change was attributable to not only the effect of scale-down of excess production capacity and close-down of non-profitable operations throughout the year, but also reversal of the recognition of net allowance for inventories amounted to RMB1.5 million during the year, compared to recognition of net allowance of RMB4.7 million in 2011.

Other Revenue

Other revenue recognised for the year ended 31 December 2012 was approximately RMB25.4 million, representing approximately 157.1% of other revenue in 2011. Gain of approximately RMB6.3 million was recognised in respect of disposal of intellectual property rights which were expensed in previous years but not capitalised as intangible assets. Impairment loss on trade receivables, other receivables and prepayments amounted to approximately RMB7.7 million, compared to approximately RMB6.0 million in 2011, was reversed for the year as a result of recovery from impaired debts. Gain on debts restructuring in respect of wavier of trade and other payables was accounted for approximately RMB6.7 million for the year, compared to approximately RMB5.1 million in 2011, which further reduced the Group's controversial business obligations and liabilities.

Operating Costs and Expenses

Distribution costs for the year were approximately RMB2.5 million, representing a significant decrease of approximately RMB8.0 million or 76.0% comparing to the year 2011. Under the Group's marketing strategy of concentration on mainland China market development, cost savings on construction and operating cost for sales representative offices, and overseas agency, exhibition and business fees were approximately RMB4.5 million. Nearly RMB1.5 million staff costs were saved under performance evaluation and incentive management approach throughout the year.

Success of the new cost control strategy over the Group's operations and disposal of excess office premises resulted in decrease in administrative expenses by approximately RMB20.1 million or 59.8% comparing to the year 2011. Staff costs amounted to approximately RMB2.8 million and utility expenses amounted to approximately RMB1.6 million were saved for the year. Depreciation expenses were reduced by approximately RMB3.0 million after removal of idle and non-operating assets. In additions, approximately RMB6.0 million of rental expenses ware not recognised because of rental wavier and rent-free agreed by landlord.

No significant finance costs were incurred for the year as more than RMB80 million interest-bearing bank and other borrowings were repaid during 2011.

Impairment loss on trade receivables amounted to approximately RMB9.4 million was recognised during the year that accumulated impairment was nearly 37.7% of total trade receivables as at 31 December 2012, which was slightly greater than last year as compared to nearly 35.1% as at 31 December 2011. In turn, accumulated impairment of other receivables and prepayments increased from approximately 19.3% in 2011 to approximately 31.4% in 2012 after further recognition of RMB0.8 million during the year as total other receivables and prepayments were greatly decreased from approximately RMB22.6 million at 31 December 2011 to approximately RMB11.1 million at 31 December 2012.

No impairment loss was provided in respect of buildings to be disposed as no any outstanding sales and purchases agreement signed at the year end date.

Operating results of an associate, newly incorporated in the last quarter of 2011, were shared by the Group in according to equity interest held. The associate was still at its early stage of business, loss of close to RMB1.7 million was shared.

Deferred tax asset of approximately RMB2.7 million was recognised for the year as income tax credit in respect of unused tax losses of approximately RMB10.9 million, out of total unused tax losses of approximately RMB125.4 million. It is believed that the recognised tax losses could be utilised in the foreseeable future.

Profit for the year

Consequently, profit attributable to shareholders of approximately RMB12.4 million was reported by the Group for the year which represented a turnaround from loss of RMB42.4 million in the year 2011.

PROSPECTS

Fuelled by the PRC government's effort on stepping up the construction of TD-LTE network in 13 pilot cities across the country since late 2012, the number of pilot cities is expected to increase to more than 50 in 2013, thus adding fresh impetus to the market demand for TD-LTE antenna products of high margin. In 2013, the Group will continue to reinforce the sales of these categories of products, which will contribute higher rate of return for the Group.

At the same time, to withstand the overall sluggishness of the PRC mobile communications antenna industry in recent years, the Group will adjust its product structure and allocate the available resources on communication-related services including network optimisation and network inspection and maintenance. In addition, the Group plans to extend into new horizons of business, with a view to exploring new profit growth drivers and enhancing the operating performance of the Group.

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 2012, the Group had bank borrowings of approximately RMB10.0 million and other borrowings of approximately RMB6.9 million of which all were repayable on demand or 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 rate of 7.8% per annum. Since all the borrowings were denominated in RMB, the Directors consider that exposure to foreign exchange risk was minimal.

As at 31 December 2012, the Group's gearing ratio was 36.5% (2011: not applicable), which is calculated based on total interest-bearing borrowings of approximately RMB10.0 million over total shareholders' funds of approximately RMB27.4 million. Cash and cash equivalents increased from approximately RMB2.1 million to RMB4.8 million. Most of the Group's pledged bank deposits were deposited with banks to secure the quality of the products sold to certain customers 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 2012, 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 2012, the Group pledged bank deposits of approximately RMB0.5 million for qualify of products sold to customers.

CONTINGENT LIABILITIES

As at 31 December 2012, the Group did not have any material contingent liabilities.

FOREIGN EXCHANGE EXPOSURE

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

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2012, the Group had approximately 93 (2011: 329) full-time employees. Total staff costs for the year 2012 amounted to approximately RMB6.9 million (2011: RMB19.8 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 further acquisition of 1.61% equity interests in an associate, the Group did not hold any significant investment for the year ended 31 December 2012.

FUTURE PLANS FOR MATERIAL INVESTMENTS

As at 31 December 2012, the Group had no material capital expenditure contracted for but not provided in the financial statements. 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 RMB1.5 million and approximately RMB1.8 million 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 2012.

TOP FIVE SUPPLIERS AND CUSTOMERS

For the year ended 31 December 2012, sales to the top five customers and the largest customer accounted for approximately 89.8% (2011: 74.8%) and 39.5% (2011: 24.9%) respectively of the Group's revenue.

For the year ended 31 December 2012, purchases from the top five suppliers and the largest supplier accounted for approximately 71.3% (2011: 20.9%) and 52.5% (2011: 5.0%) respectively of the Group's total purchases.

During the year ended 31 December 2012, the Group purchased from Xi'an Sunnada Haitian Antenna Technologies Co., Ltd. ("Xi'an Sunnada"), an associate of the Group, amounting to RMB21,379,243 (2011: Nil), which represented the largest supplier to the Group. Except for Xi'an Sunnada, 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.

Corporate Governance Report

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The board of directors (the "Board") of the Company is always committed to maintaining high standards of corporate governance. In the opinion of the Board, the Company has complied with the code provisions as set out in the Code on Corporate Governance Practices during the period from 1 January 2012 to 31 March 2012 and the Corporate Governance Code and Corporate Governance Report (the "Code") during the period from 1 April 2012 to 31 December 2012 contained in Appendix 15 of the GEM Listing.

THE BOARD OF DIRECTORS

Composition and function

As at 31 December 2012, the Board comprised nine Directors including Mr. Xiao Bing (chairman) and Mr. Zuo Hong as executive Directors, Mr. Sun Wenguo (vice-chairman), Mr. Li Wenqi, Mr. Yan Feng and Mr. Xie Yiqun (vice-chairman) as non-executive Directors and Professor Gong Shuxi, Mr. Chen Ji and Mr. Qiang Wenyu as independent 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.

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. Also, the Board is responsible for performing the corporate governance duties set out in the Code which included developing and reviewing the Company's policies and practices on corporate governance, training and continuous professional development of the Directors, and reviewing the Company's compliance with the code provision in the Code and disclosures in this report. During the financial year ended 31 December 2012, the Board has performed the corporate governance duties set out in the Code.

Delegation by the Board

The management, consisting of executive Directors along with other senior executives, is delegated with responsibilities for implementing the strategy and direction as adopted by the Board from time to time and conducting the day-to-day operations of the Group. Executive Directors and senior executives meet regularly to review the performance of the businesses of the Group as a whole, co-ordinate overall resources and make financial and operational decisions. The Board also gives clear directions as to their powers of management including circumstances where management should report back, and will review the delegation arrangements on a periodic basis to ensure that they remain appropriate to the needs of the Group.

Professor Xiao Liangyong, who resigned as an executive Director on 31 December 2012, is the father of Mr. Xiao Bing. Save as disclosed herein, Board members have no financial, business, family or other material/relevant relationships with each other.

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.

The Separate Roles of Chairman and Chief Executive Officer

For the financial year ended 31 December 2012, the Company did not have a chief executive officer. The day-to-day management of the Group's business was handled by the executive Directors of the Company collectively. The Board believes that the present arrangement is adequate to ensure an effective management and control of the Group's present business operations. The Board continually reviews the effectiveness of the Group's corporate governance structure to assess whether any changes, including the appointment of a chief executive officer, are necessary.

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. During the financial year ended 31 December 2012, the Board held 5 meetings.

Details of Directors' attendance records in 2012:

	Number of board meeting attended/Total	Number of general meeting attended/Total
Executive Directors		
Professor Xiao Liangyong (resigned on 31 December 2012)	5/5	1/1
Mr. Xiao Bing	5/5	1/1
Mr. Zuo Hong	5/5	0/1
Non-Executive Directors		
Mr. Liu Ruixuan (resigned on 31 December 2012)	2/5	1/1
Mr. Sun Wenguo	4/5	0/1
Mr. Li Wenqi	5/5	1/1
Mr. Cong Chunshui (resigned on 9 November 2012)	0/4	0/1
Mr. Yan Feng (appointed on 9 November 2012)	1/1	0/0
Mr. Xie Yiqun	5/5	1/1
Independent Non-Executive Directors		
Professor Gong Shuxi	5/5	1/1
Mr. Lei Huafeng (resigned on 10 August 2012)	0/3	0/1
Mr. Chen Ji (appointed on 10 August 2012)	1/2	0/0
Mr. Qiang Wenyu	1/5	0/1

CONTINUOUS PROFESSIONAL DEVELOPMENT

All Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The Company has arranged in-house trainings for Directors in the form of seminar and provision of training materials. A summary of training received by the Directors during the financial year ended 2012 according to the records provided by the Directors is as follows:

	Training on corporate governance, regulatory development and other relevant topics
Executive Directors	
Professor Xiao Liangyong (resigned on 31 December 2012)	✔
Mr. Xiao Bing	✔
Mr. Zuo Hong	✔
Non-Executive Directors	
Mr. Liu Ruixuan (resigned on 31 December 2012)	✔
Mr. Sun Wenguo	✔
Mr. Li Wenqi	✔
Mr. Cong Chunshui (resigned on 9 November 2012)	✔
Mr. Yan Feng (appointed on 9 November 2012)	✔
Mr. Xie Yiqun	✔
Independent Non-Executive Directors	
Professor Gong Shuxi	✔
Mr. Lei Huafeng (resigned on 10 August 2012)	✔
Mr. Chen Ji (appointed on 10 August 2012)	✔
Mr. Qiang Wenyu	✔

DIRECTORS’ SECURITIES TRANSACTIONS

The Company adopted a code of conduct regarding securities transactions by Directors on terms which are the 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.

Professor Gong Shuxi, an independent non-executive Director, has been serving the Board for more than 9 years. The Board appreciates Professor Gong's valuable advice given and contribution made in the past years and believes that he continues to be independent in character and judgement as recommended by the Nomination Committee. Professor Gong Shuxi will be proposed for re-election at the forthcoming annual general meeting of the Company.

REMUNERATION COMMITTEE

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

The Remuneration Committee is responsible, among others, to make recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration. The Remuneration Committee has the delegated responsibility to determine the specific remuneration packages of all executive Directors and senior management. Remuneration includes benefits in kind, pension rights and compensation payments, 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.

The Remuneration Committee held 1 meeting in 2012 and was attended by committee members. The individual attendance record of each member is as follows:

	Number of meeting attended/Total
Non-Executive Director	
Mr. Sun Wenguo	1/1
Independent Non-Executive Directors	
Mr. Lei Huafeng (resigned on 10 August 2012)	0/1
Mr. Chen Ji (appointed on 10 August 2012)	0/0
Mr. Qiang Wenyu	1/1

During the financial year ended 2012, the Remuneration Committee has, amongst other things, reviewed the remuneration of executive Directors, assessed performance of executive Directors and approved the terms of executive Directors' service contracts.

NOMINATION COMMITTEE

The Nomination Committee was established in December 2005 and consists of three members, majority of which being independent non-executive Directors. Currently, 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 specific terms of reference of the Nomination Committee is posted on the Company's website.

The Nomination Committee held 1 meeting in 2012 and was attended by 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 individual attendance record of each member is as follows:

	Number of meeting attended/Total
Non-Executive Director	
Mr. Xie Yiqun	1/1
Independent Non-Executive Directors	
Professor Gong Shuxi	1/1
Mr. Qiang Wenyu	1/1

During the financial year ended 2012, the Nomination Committee has, amongst other things, determined the policy for the nomination of directors and adopted the nomination procedures and the process and criteria to select and recommend candidates for directorship during the year.

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. Chen Ji 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 2012.

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

The Audit Committee held 5 meetings in 2012 discussing the Group's annual results for 2011, quarterly results for 2012, and reviewing internal control matters. The individual attendance record of each member is as follows:

	Number of meetings attended/Total
Non-Executive Director	
Mr. Li Wenqi	5/5
Independent Non-Executive Directors	
Professor Gong Shuxi	5/5
Mr. Lei Huafeng (resigned on 10 August 2012)	0/3
Mr. Chen Ji (appointed on 10 August 2012)	1/2

During the financial year ended 2012, the Audit Committee has, amongst other things, reviewed the quarterly, half-yearly and annual results of the Company and reviewed internal control matters of the Company.

The Company has complied with Rules 5.28 of the GEM Listing Rules in that at least one of the members of the Audit Committee (which must comprise a minimum of three members and must be chaired by an independent non-executive Director) is an independent non-executive Director who possesses appropriate professional qualifications or accounting related financial management expertise.

AUDITOR'S REMUNERATION

During 2012, the fees paid and payable to external auditor for audit services and other services amounted to RMB440,000 and RMB25,600 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.

COMPANY SECRETARY

The Company has appointed Mr. Lun Ka Chun as its Company Secretary and is responsible for all the secretarial service. Mr. Lun has confirmed that for the year under review, he has taken no less than 15 hours of relevant professional training.

SHAREHODLERS' RIGHTS

Extraordinary general meeting may be convened by the Board on written requisition of shareholders holding 10% (including 10%) or more of the Company's issued and outstanding shares carrying voting rights pursuant to Article 64 of the articles of association of the Company. According to Article 66 of the articles of association of the Company, when the Company convenes an annual general meeting, shareholders holding 5% (including 5%) or more of the total voting shares of the Company, are entitled to propose new motions in writing to the Company and the Company shall place such motions on the agenda for such meeting if they are matters falling with the scope of duties of the general meeting. Shareholders may propose new motions at general meeting of the Company by sending the same to the Company at the registered office and principal place of business in the People's Republic of China of the Company and the principal place of business in Hong Kong of the Company.

For putting forward any enquiries to the Board, shareholders may send written enquiries to the Company. Shareholders may send their enquiries or requests in respect of their rights to the principal place of business in Hong Kong of the Company.

INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

The Company follows a policy of disclosing relevant information to shareholders in a timely manner. Members of the Board meet and communicate with shareholders at the annual general meeting of the Company. The Chairman proposes separate resolutions for each issue to be considered and put each proposed resolution to the vote by way of a poll. Voting results are posted on the Company's website on day of the annual general meeting.

Our corporate websites which contain corporate information, interim and annual reports, announcements and circulars issued by the Company enables the Company's shareholders to have timely and updated information of the Company.

There is no significant change in the Company's articles of association during the financial year ended 2012.

Directors, Supervisors and Senior Management

DIRECTORS

Executive Directors

Mr. Xiao Bing (肖兵先生), aged 47, 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 49, 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. Sun Wenguo (孫文國先生), aged 37, 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.

Mr. Li Wenqi (李文琦先生), aged 47, 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. Yan Feng (閆鋒先生), aged 39, obtained Master of Economics from Nankai University (南開大學) in 1998. Mr. Yan Feng worked for Beijing Municipal Public Bureau Education Center* (北京市公用局教育中心) from July 1998 to February 2000. Mr. Yan served as supervisor of business management department, deputy manager of business management department and supervisor of marketing services department of Beijing Gas Group Co., Ltd.* (北京市燃氣集團有限責任公司) from February 2000 to January 2005. He joined Beijing Enterprises Group Company Limited (北京控股集團有限公司) as senior manager of strategic development department since January 2005 and became deputy manager until June 2010. From June 2010, Mr. Yan assumed manager of investment and development department of Jingtai Group (京泰集團).

Mr. Xie Yiqun (解益群先生), aged 54. 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 55, 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. Chen Ji (陳繼先生), aged 37, obtained Bachelor of Economics and Master of Business Administration from Shanghai University of Finance and Economics (上海財經大學) in 1997 and 2003 respectively, and Master of Laws from Fudan University (復旦大學) in 2009. Mr. Chen has sufficient experience in finance, internal control and management. Mr. Chen Ji worked for Air China Limited Shagnhai Branch Office* (中國國際航空股份有限公司上海基地) as office supervisor from July 1997 to August 2001. Mr. Chen served as senior manager and partner of finance department of Xin Zhuo (China) Consulting Co., Ltd.* (信卓(中國)諮詢有限公司金融部) from December 2003 to January 2006. In February 2006, he joined Shanghai Hui Da Feng Law Firm* (上海市匯達豐律師事務所) as lawyer assistant and became lawyer and partner during the period until October 2010. In October 2010, Mr. Chen established Shanghai Henglu Alliance Lawyers (Group) Firm* (上海恒律聯盟律師(集團)事務所) and have since assumed the office of founding partner.

Mr. Qiang Wenyu (強文郁先生), aged 39, 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 73, 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 63, 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 55, 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 49, 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 41, 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. (西安鵬光税務師税務所有限責任公司). Since March 2005, Mr. Xu has worked in the finance department of the Company.

SENIOR MANAGEMENT

Mr. Pan Zhiqing (潘志青先生), aged 50, 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 32, 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 2012, 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 2012 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 2012 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
27 March 2013

Directors' Report

The Directors have pleasure in presenting their report for the year ended 31 December 2012.

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 40 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2012 are set out in the consolidated statement of comprehensive income on page 31 of this annual report.

The Directors do not recommend the payment of any final dividend for the year ended 31 December 2012.

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 2012.

FINANCIAL SUMMARY

A summary of the results of the Group for each of the five years ended 31 December 2012 is set out on page 84 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group spent approximately RMB0.3 million on plant and equipment 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 AND SUPERVISORS

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

Executive directors:

Professor Xiao Liangyong (resigned on 31 December 2012)
Mr. Xiao Bing (Chairman)
Mr. Zuo Hong

Non-executive directors:

Mr. Liu Ruixuan (resigned on 31 December 2012)
Mr. Sun Wenguo
Mr. Li Wenqi
Mr. Cong Chunshui (resigned on 9 November 2012)
Mr. Yan Feng (appointed on 9 November 2012)
Mr. Xie Yiqun

Independent non-executive directors:

Professor Gong Shuxi
Mr. Lei Huafeng (resigned on 10 August 2012)
Mr. Chen Ji (appointed on 10 August 2012)
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', 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 2012, 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
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. By virtue of the SFO, Mr. Xiao Bing was deemed to be interested in the same 180,000,000 Domestic Shares held by Tian An Investment.

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 2012 as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise required, pursuant to Rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

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

As at 31 December 2012, 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 2012, 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%
Professor Xiao Liangyong (肖良勇教授)	Personal	Parties acting in concert	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.*)	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%

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.*)	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. 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 Ms. Yao Wenli 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 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.

(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 2012, the Directors, Supervisors and chief executives of the Company were not aware of any person (other than the Directors, Supervisors and chief executives of the Company) who had an interest or a short position in the Shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

ARRANGEMENTS TO PURCHASE SHARES

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

CONNECTED 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, the executive Directors of the company. On 31 March 2012, Haitian Investment issued a notice to the Company in which it agreed to waive the rental of RMB11,917,380.

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' 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 2012.

CONTINGENT LIABILITIES

The Group did not have any material contingent liability as at 31 December 2012.

CORPORATE GOVERNANCE

A report on the principal corporate governance practices adopted by the Company is set out on pages 10 to 16 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

Xiao Bing
Chairman

Xi'an, the PRC
27 March 2013

* *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 31 to 83, which comprise the consolidated statement of financial position as at 31 December 2012, 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, in accordance with our agreed terms of engagement, 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 as to 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 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.

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 2012, and of the Group's profit 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 RMB47,629,022 as at 31 December 2012. 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
27 March 2013

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	NOTES	**2012** **RMB**	2011 *RMB*
Revenue	*8*	**46,569,471**	50,886,381
Cost of sales		**(36,494,316)**	(46,538,013)
Gross profit		**10,075,155**	4,348,368
Other revenue	*9*	**25,425,620**	16,179,488
Gain on disposal of assets classified as held for sale	*29*	**2,263,963**	–
Distribution costs		**(2,520,968)**	(10,517,533)
Administrative expenses		**(13,454,926)**	(33,509,604)
Impairment loss recognised in respect of trade receivables	*22*	**(9,438,553)**	(8,986,356)
Impairment loss recognised in respect of other receivables and prepayments	*23*	**(795,307)**	(2,811,540)
Impairment loss on property, plant and equipment	*16*	**–**	(4,338,993)
Share of result of an associate	*19*	**(1,666,811)**	(164,132)
Finance costs	*10*	**(199,333)**	(3,278,531)
Profit (loss) before tax		**9,688,840**	(43,078,833)
Income tax credit	*11*	**2,715,121**	600,000
Profit (loss) and total comprehensive income (expense) for the year	*12*	**12,403,961**	(42,478,833)
Earnings (loss) per share – Basic and diluted	*15*	**1.92 cents**	(6.56 cents)

Consolidated Statement of Financial Position

At 31 December 2012

	NOTES	2012 RMB	2011 RMB
Non-current assets			
Property, plant and equipment	16	**63,473,339**	66,827,445
Prepaid lease payments	17	**–**	–
Intangible assets	18	**5,045,820**	8,227,570
Interest in an associate	19	**8,664,357**	10,054,947
Pledged bank deposits	20	**90,429**	–
Deferred tax assets	30	**2,715,121**	–
		79,989,066	85,109,962
Current assets			
Inventories	21	**25,875,803**	29,185,554
Trade receivables	22	**42,632,663**	44,720,974
Other receivables and prepayments	23	**7,649,970**	18,280,130
Amount due from a director	24	**769,071**	317,042
Amount due from a related company	25	**–**	91,204
Tax recoverable		**677,390**	677,390
Pledged bank deposits	20	**400,000**	3,800,000
Bank balances and cash	20	**4,846,130**	2,144,129
		82,851,027	99,216,423
Assets classified as held for sale	29	**–**	28,901,234
		82,851,027	128,117,657
Current liabilities			
Trade payables	26	**22,917,679**	58,262,282
Other payables and accrued charges	27	**19,320,897**	60,182,944
Dividend payables		**675,971**	675,971
Amount due to a director	24	**1,975,648**	3,550,924
Amounts due to related parties	25	**41,668,657**	57,589,595
Amount due to an associate	25	**26,981,197**	–
Bank and other borrowings	28	**16,940,000**	23,000,000
		130,480,049	203,261,716
Net current liabilities		**(47,629,022)**	(75,144,059)
Total assets less current liabilities		**32,360,044**	9,965,903

Consolidated Statement of Financial Position

At 31 December 2012

	NOTES	2012 RMB	2011 RMB
Non-current liabilities			
Deferred income	31	**4,977,600**	6,904,800
Net assets		**27,382,444**	3,061,103
Capital and reserves			
Share capital	32	**64,705,882**	64,705,882
Reserves	33	**(37,323,438)**	(61,644,779)
Equity attributable to owners of the Company and total equity		**27,382,444**	3,061,103

The consolidated financial statements on pages 31 to 83 were approved and authorised for issue by the board of directors on 27 March 2013 and are signed on its behalf by:

Xiao Bing
Director

Zuo Hong
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

	Attributable to owners of the Company					
	Share capital *RMB*	Share premium *RMB*	Statutory surplus reserve *RMB* *(Note 33 (a))*	Other reserve *RMB* *(Note 33 (c))*	Accumulated losses *RMB*	Total *RMB*
At 1 January 2011	64,705,882	71,228,946	16,153,228	3,938,899	(110,487,019)	45,539,936
Loss and 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
Profit and total comprehensive income for the year	–	–	–	–	12,403,961	12,403,961
Contribution from shareholders	–	–	–	11,917,380	–	11,917,380
At 31 December 2012	**64,705,882**	**71,228,946**	**16,153,228**	**15,856,279**	**(140,561,891)**	**27,382,444**

Consolidated Statement of Cash Flows

For the year ended 31 December 2012

	2012 *RMB*	2011 *RMB*
OPERATING ACTIVITIES		
Profit (loss) before tax for:	**9,688,840**	(43,078,833)
Adjustments for:		
Allowance for inventories	**897,930**	5,216,738
Reversal of allowance for inventories	**(2,423,217)**	(481,576)
Amortisation of prepaid lease payments	**–**	20,777
Amortisation of intangible assets	**3,181,750**	3,038,426
Depreciation of property, plant and equipment	**2,628,164**	8,547,899
Finance costs	**199,333**	3,278,531
Government grants	**(340,000)**	(650,000)
Government grants amortised	**(1,927,200)**	(1,666,665)
Gain on disposal of assets classified as held for sale	**(2,263,963)**	–
Gain on disposal of intellectual property rights recognised as expenses in previous years	**(6,278,804)**	–
Bad debts recovery of trade receivables	**(498,380)**	(846,769)
Bad debts recovery of other receivables	**(955,726)**	–
Impairment loss recognised in respect of trade receivables	**9,438,553**	8,986,356
Impairment loss reversed in respect of trade receivables	**(6,435,413)**	(297,427)
Impairment loss recognised in respect of other receivables and prepayments	**795,307**	2,811,540
Impairment loss reversed in respect of other receivables and prepayments	**(1,297,154)**	(5,686,038)
Interest income	**(25,180)**	(118,142)
Impairment loss recognised in respect of property, plant and equipment	**–**	4,338,993
Loss on disposal and written off of property, plant and equipment	**252,724**	150,375
Share of result of an associate	**1,666,811**	164,132
Waiver of trade payables	**(6,127,151)**	(2,640,632)
Waiver of other payables	**(566,268)**	(2,414,995)
Operating cash flows before movements in working capital	**(389,044)**	(21,327,310)
Decrease (increase) in inventories	**4,835,038**	(2,650,938)
(Increase) decrease in trade receivables	**(416,449)**	37,973,793
Decrease in other receivables and prepayments	**12,087,733**	2,563,373
Decrease in trade payables	**(29,217,452)**	(23,389,883)
(Decrease) increase in other payables and accrued charges	**(9,328,442)**	38,240,373
Increase in amount due to an associate	**19,832,253**	–
NET CASH (USED IN) FROM OPERATING ACTIVITIES	**(2,596,363)**	31,409,408

Consolidated Statement of Cash Flows

For the year ended 31 December 2012

	2012 *RMB*	2011 *RMB*
INVESTING ACTIVITIES		
Placement of pledged bank deposits	**(490,429)**	(6,670,000)
Advance to a director	**(452,029)**	(317,042)
Purchases of property, plant and equipment	**(326,339)**	(2,334,632)
Proceeds on disposal of property, plant and equipment	**–**	117,186
Interest received	**25,180**	118,142
Repayment from a related company	**91,204**	309,400
Proceeds on disposal assets classified as held for sale	**1,200,000**	–
Withdrawal of pledged bank deposit	**3,800,000**	8,958,300
Proceed on sales of intellectual property rights recognised as expenses in previous years	**5,800,000**	–
Expenditure on product development	**–**	(1,433,253)
NET CASH FROM (USED IN) INVESTING ACTIVITIES	**9,647,587**	(1,251,899)
FINANCING ACTIVITIES		
New bank and other borrowings raised	**10,000,000**	23,990,000
Advances from an associate	**7,148,944**	–
Government grants received	**340,000**	76,000
Interest paid	**(199,333)**	(3,278,531)
Repayment to directors	**(1,575,276)**	(18,691,703)
Advances (to) from related parties	**(4,003,558)**	25,352,249
Repayment of bank and other borrowings	**(16,060,000)**	(84,930,584)
Dividend paid	**–**	(811,169)
NET CASH USED IN FINANCING ACTIVITIES	**(4,349,223)**	(58,293,738)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**2,702,001**	(28,136,229)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR	**2,144,129**	30,280,358
CASH AND CASH EQUIVALENTS AT THE END OF YEAR, represented by bank balances and cash	**4,846,130**	2,144,129

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 40.

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 RMB47,629,022 as at 31 December 2012. 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 RMB41,668,657 due from the Group as at 31 December 2012 until it is in a financial position to do so;

(b) Xi'an Sunnada Haitian Antenna Technologies Co., Ltd. ("Xi'an Sunnada"), an associate company, has agreed not to demand for repayment of the balance of RMB26,981,197 due from the Group as at 31 December 2012 until it is in a financial position to do so;

(c) Ren Yuwen (任玉文), a shareholder of the Xi'an Sunnada, has agreed not to demand for repayment of the balance of RMB6,940,000 due from the Group as at 31 December 2012 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;

(d) Xiao Bing (肖兵), a director of the Company, has agreed not to demand for repayment of the balance of approximately RMB1,975,648 due from the Group as at 31 December 2012 until it is in a financial position to do so;

(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 shareholder of the Company, has advanced RMB16,000,000 to the Group as working capital of the Group for the next twelve months after 31 December 2012 and has agreed not to demand for repayment from the Group for advance within next twelve months.

On the basis that the Group obtained the continuing availability of the financial support provided by the related parties and business partner, 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 2012. 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 HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Amendments to HKFRS 1	Severe Hyperinflation and Removal of Fixed Rules for First-Time Adopters;
Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Assets; and
Amendments to HKFRS 7	Financial Instruments: Disclosures – Transfers of Financial Assets.

The directors of the Company anticipate that the application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

New and revised HKFRSs issued but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009 – 2011 Cycle[1]
Amendments to HKFRS 1	Government loans[1]
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities[1]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[1]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities[2]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[1]
HKFRS 11	Joint Arrangements[1]
HKFRS 12	Disclosure of Interests in Other Entities[1]
HKFRS 13	Fair Value Measurement[1]
HKAS 19 (as revised in 2011)	Employee Benefits[1]
HKAS 27 (as revised in 2011)	Separate Financial Statements[1]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[1]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[4]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[2]
HK(IFRIC)-Interpretation 20	Stripping Costs in the Production Phase of a Surface Mine[1]

1 Effective for annual periods beginning on or after 1 January 2013.
2 Effective for annual periods beginning on or after 1 January 2014.
3 Effective for annual periods beginning on or after 1 January 2015.
4 Effective for annual periods beginning on or after 1 July 2012.

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

New and revised HKFRSs issued but not yet effective *(Continued)*

Annual Improvements to HKFRSs 2009 – 2011 Cycle issued in June 2012

The Annual Improvements to HKFRSs 2009 – 2011 Cycle include a number of amendments to various HKFRSs. The amendments are effective for annual periods beginning on or after 1 January 2013. Amendments to HKFRSs include the amendments to HKAS 16 Property, Plant and Equipment and the amendments to HKAS 32 Financial Instruments: Presentation.

The amendments to HKAS 1 clarify that an entity is required to present a third statement of financial position only when the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position and that related notes are not required to accompany the third statement of financial position.

The amendments to HKAS 16 clarify that spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in HKAS 16 and as inventory otherwise. The directors of the Company do not anticipate that the application of the amendments will have a material effect on the Group's consolidated financial statements.

The amendments to HKAS 32 clarify that income tax on distributions to holders of an equity instrument and transaction costs of an equity transaction should be accounted for in accordance with HKAS 12 Income Taxes. The directors of the Company anticipate that the amendments to HKAS 32 will have no effect on the Group's consolidated financial statements as the Group has already adopted this treatment.

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 offset of financial assets and financial liabilities 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 amendments to HKFRS 7 are effective 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.

The directors of the Company anticipate that the application of these amendments to HKAS 32 and HKFRS 7 may result in more disclosures being made with regard to offsetting financial assets and financial liabilities in the future.

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

New and revised HKFRSs issued but not yet effective *(Continued)*

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:

- All recognised financial assets that are within the scope of the HKAS 39 Financial Instrument: Recognition and Measurement are 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.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in 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 of financial liabilities attributable to changes in financial liabilities' credit risk are not subsequently reclassified to profit or loss. 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.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

The directors of the Company anticipate that the adoption of HKFRS 9 in the future may have significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

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. HK (SIC)-Int 12 Consolidation – Special Purpose Entities will be withdrawn upon the effective date of HKFRS 10. Under HKFRS 10, there is only one basis for consolidation, that is, control. In addition, 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. Overall, the application of HKFRS 10 requires a lot of judgement. The application of HKFRS 10 is not expected to change any of the control conclusions reached by the Group in respect of its investment with other entities as at 1 January 2013.

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

New and revised HKFRSs issued but not yet effective *(Continued)*

New and revised standards on consolidation, joint arrangements, associates and disclosures (Continued)

HKFRS 11 replaces HKAS 31 Interests in Joint Ventures. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. HK (SIC) – Int 13 Jointly Controlled Entities – Non-monetary Contributions by Venturers will be withdrawn upon the effective date of HKFRS 11. 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 consolidation.

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.

In July 2012, the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 were issued to clarify certain transitional guidance on the application of these five HKFRSs for the first time.

These five standards, together with the amendments relating to the transitional guidance, are effective for annual periods beginning on or after 1 January 2013 with earlier application permitted provided that all of these standards are applied at the same time.

The directors of the Company anticipate that the application of these five standards will have no material impact on amounts reported in the consolidated financial statements.

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 Investment Entities

The amendments to HKFRS 10 introduce an exception to consolidating subsidiaries for an investment entity, except where the subsidiaries provide services that relate to the investment entity's investment activities. Under the amendments to HKFRS 10, an investment entity is required to measure its interests in subsidiaries at fair value through profit or loss.

To qualify as an investment entity, certain criteria have to be met. Specifically, an entity is required to:

- obtain funds from one or more investors for the purpose of providing them with professional investment management services;
- commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- measure and evaluate performance of substantially all of its investments on a fair value basis.

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

New and revised HKFRSs issued but not yet effective *(Continued)*

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 Investment Entities (Continued)

Consequential amendments to HKFRS 12 and HKAS 27 have been made to introduce new disclosure requirements for investment entities.

The amendments to HKFRS 10, HKFRS 12 and HKAS 27 are effective for annual periods beginning on or after 1 January 2014, with early application permitted. The directors anticipate that the application of the amendments will have no effect on the Group as the Company is not an investment entity.

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 required for financial instruments only under HKFRS 7 Financial Instruments: Disclosures will be extended 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 the application of new standard may affect the certain 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 *Presentation of Items of Other Comprehensive Income* introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to HKAS 1, a 'statement of comprehensive income' is renamed as a 'statement of profit or loss and other comprehensive income' and an 'income statement' is renamed as a 'statement of profit or loss'. 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 items of other comprehensive income to be 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 do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to HKAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

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.

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. 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.

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 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

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.

Retirement benefit costs

Payments to state-managed retirement benefit schemes is 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 before tax’ 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(continued)*

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.

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

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

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.

Internally-generated intangible assets – 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 recognised in 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets *(Continued)*

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.

Impairment losses on tangible and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives 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.

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 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 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 debt instrument, 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 receivables, other receivables, amounts due from a director and 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).

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 and other 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.

4. **SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

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.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

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.

Other financial liabilities

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

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.

On derecognition of a financial asset other than in its entirety, the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

Group derecognises financial liabilities when, and only when, the Group's obligations are 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 judgements, 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 judgements, 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 judgements 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.

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

Critical judgements in applying the entity's accounting policies *(Continued)*

Existence of sound internal control

It is the directors' responsibility to maintain sound internal control within the Group to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. During the year, a misappropriation of the Group's fund by an employee was identified by the management who considered it is an isolated case and the Company's internal control was sound. The assessment of the existence of sound internal control involves management's judgement.

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 intangible assets

The management reviews the intangible assets at the end of the reporting period, and determines whether impairment loss 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 2012 (2011: Nil).

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 2012, the carrying amount of inventories were RMB25,875,803 (2011: RMB29,185,554), net of allowance for inventories of RMB13,432,826 (2011: RMB14,958,113).

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

Key sources of estimation uncertainty *(Continued)*

Estimated impairment of trade receivables and other receivables and prepayments

The policy for making impairment loss on trade 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 judgement. A considerable amount of judgement 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 2012, the carrying amount of the trade receivables was RMB42,632,663 (2011: RMB44,720,974), net of allowance for doubtful debts of RMB25,846,240 (2011: RMB24,180,821). While the carrying amount of other receivables and prepayments are RMB7,649,970 (2011: RMB18,280,130), net of allowance for doubtful debts of RMB3,502,735 (2011: RMB4,364,093).

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 2012, the carrying amount of property, plant and equipment of the Group was RMB63,473,339 (2011: RMB66,827,445). No impairment has been made during the year ended 31 December 2012 (2011: 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 28, 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.

7. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2012 RMB	2011 RMB
Financial assets		
Loan and receivables (including cash and cash equivalents)	**55,197,971**	66,416,685
Financial liabilities		
Amortised cost	**124,343,027**	162,279,809

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade receivables, other receivables, amounts due from (to) a director, a related company, related parties, an associate, pledged bank deposits, bank balances and cash, trade payables, other payables and accrued charges, dividend payables, 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

Most of the Group's financial assets and liabilities are denominated in RMB and therefore the exchange rate risk to the Group is not significant. 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.

(ii) Interest rate risk

During the year ended 31 December 2012, the Group was exposed to fair value interest rate risk in relation to fixed-rate bank borrowings (see Note 28 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.

7. FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk (Continued)

(ii) Interest rate risk *(Continued)*

During the year ended 31 December 2012, the Group was also exposed to cash flow interest rate risk in relation to variable-rate pledged bank deposits and bank balances (see Note 20 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. Accordingly, no sensitivity analysis is presented.

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.

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.

Credit risk

As at 31 December 2012, 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.

7. FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk (Continued)

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 amount 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 55% (2011: 40%) and 89% (2011: 82%) 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% (2011: 100%) of the total trade receivables as at 31 December 2012.

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 Company is exposed to liquidity risk as at 31 December 2012 as the Company had net current liabilities of RMB47,629,022. The directors of the Company are of the opinion that the Company will have sufficient working capital to meet its financial obligations and the details of which are set out in Note 2.

As at 31 December 2012, the Group had breached certain covenant clauses of its bank borrowing (Note 28). As a result, bank borrowing of RMB10,000,000 as at 31 December 2012 became repayable on demand. No demand for immediate full repayment of the bank borrowing had been received by the Group.

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.

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.

7. FINANCIAL INSTRUMENTS *(Continued)*

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

Liquidity risk (Continued)

Liquidity tables

At 31 December 2012

	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 2012 *RMB*
Non-derivative financial liabilities				
Trade payables	22,917,679	–	22,917,679	22,917,679
Other payables and accrued charges	13,183,875	–	13,183,875	13,183,875
Dividend payables	675,971	–	675,971	675,971
Amount due to a director	1,975,648	–	1,975,648	1,975,648
Amounts due to related parties	41,668,657	–	41,668,657	41,668,657
Amount due to an associate	26,981,197	–	26,981,197	26,981,197
Bank and other borrowings	17,590,000	–	17,590,000	16,940,000
	124,993,027	–	124,993,027	124,343,027

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
Amounts due to directors	3,550,924	–	3,550,924	3,550,924
Amounts due to related parties	57,589,595	–	57,589,595	57,589,595
Other borrowings	23,000,000	–	23,000,000	23,000,000
	162,279,809	–	162,279,809	162,279,809

7. FINANCIAL INSTRUMENTS *(Continued)*

(c) Fair value

The fair value of financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounting cash flow analysis.

The directors of the Company considered that fair values of non-current pledged bank deposits approximate their carrying amount due to the discounting effect is not significant.

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:

	2012 ***RMB***	2011 *RMB*
Sales of antennas and related products	**26,511,850**	19,405,853
Service income	**20,057,621**	31,480,528
	46,569,471	50,886,381

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 broad 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.

Geographical information

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

8. REVENUE AND SEGMENT INFORMATION *(Continued)*

Geographical information *(Continued)*

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	
	2012	2011	**2012**	2011
	RMB	*RMB*	***RMB***	*RMB*
PRC (country of domicile)	**45,772,023**	50,624,029	**68,519,159**	75,055,015
Asia excluding PRC	**520,678**	160,270	**–**	–
Others	**276,770**	102,082	**–**	–
	46,569,471	50,886,381	**68,519,159**	75,055,015

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

All non-current assets are allocated to operating segments other than interest in an associate, deferred tax assets and 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:

	2012	2011
	RMB	*RMB*
Customer A	**12,329,937**	12,659,636
Customer B	**4,963,732**	11,644,688
Customer C	**18,403,847**	5,846,377

All revenue generated from the major customers relate to the sale of telecommunication products and related services.

9. OTHER REVENUE

	2012	2011
	RMB	*RMB*
Government grants *(Note)*	**340,000**	650,000
Government grants amortised *(Note 31)*	**1,927,200**	1,666,665
Gain on disposal of intellectual property rights recognised as expenses in previous years	**6,278,804**	–
Impairment loss reversed in respect of trade receivables *(Note 22)*	**6,435,413**	297,427
Impairment loss reversed in respect of other receivables and prepayments *(Note 23)*	**1,297,154**	5,686,038
Waiver of trade payables	**6,127,151**	2,640,632
Waiver of other payables	**566,268**	2,414,995
Interest income	**25,180**	118,142
Sales of raw materials	**21,117**	450,587
Rental income	**806,533**	1,258,115
Bad debts recovery	**1,454,106**	846,769
Others	**146,694**	150,118
	25,425,620	16,179,488

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

	2012	2011
	RMB	*RMB*
Interests on bank and other borrowings wholly repayable within five years	**199,333**	3,251,996
Interests on discounted bills	**–**	26,535
	199,333	3,278,531

11. INCOME TAX CREDIT

	2012 RMB	2011 RMB
Current tax		
Deferred Taxation *(Note 30)*	**(2,715,121)**	(600,000)

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 2012, 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 profit (loss) before tax per the consolidated statement of comprehensive income as follows:

	2012 RMB	2011 RMB
Profit (loss) before tax	**9,688,840**	(43,078,833)
Tax at the domestic income tax rate of 25% (2011: 25%)	**2,422,210**	(10,769,708)
Tax effect of share of loss of an associate	**416,703**	41,033
Tax effect of expenses not deductible for tax purpose	**494,748**	1,692,437
Tax effect on tax losses not recognised	**–**	6,369,998
Tax effect of deductible temporary differences not recognised	**620,177**	2,066,240
Utilisation of tax losses previously not recognised	**(6,668,959)**	–
Income tax credit	**(2,715,121)**	(600,000)

Details of the deferred taxation are set out in Note 30.

12. PROFIT (LOSS) FOR THE YEAR

	2012 **RMB**	2011 RMB
Profit (loss) for the year has been arrived at after charging (crediting):		
Depreciation for property, plant and equipment	**2,628,164**	8,547,899
Amortisation of prepaid lease payments	**–**	20,777
Amortisation of intangible assets (included in administrative expenses)	**3,181,750**	3,038,426
Total depreciation and amortisation	**5,809,914**	11,607,102
Auditor's remuneration		
– audit services	**440,000**	420,000
– other services	**25,600**	25,600
Cost of inventories recognised as an expense	**25,333,670**	19,144,794
Staff costs		
– Directors' and supervisors' remuneration *(Note 13)*	**678,130**	1,634,764
– Salaries, wages and other benefits	**4,557,052**	16,525,555
– Severance payment for staff laid off	**940,437**	419,381
– Retirement benefit scheme contributions (excluding directors and supervisors)	**746,012**	1,250,631
Total staff costs	**6,921,631**	19,830,331
Loss on disposal of property, plant and equipment	**252,724**	150,375
Allowance for inventories (included in cost of sales)	**897,930**	5,216,738
Reversal of allowance for inventories (included in cost of sales)	**(2,423,217)**	(481,576)
Minimum lease payments under operating leases	**–**	6,068,190
Research and development costs recognised as an expense	**3,013,174**	6,604,550

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

Directors' remunerations

The emoluments paid or payable to each of the eleven (2011: eleven) directors of the Company were as follows:

	Fees		Salaries, allowances and other benefits in kind		Retirement benefit scheme contributions		Total	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
	RMB	*RMB*	***RMB***	*RMB*	***RMB***	*RMB*	***RMB***	*RMB*
Executive directors								
Xiao Bing	**–**	–	**97,687**	409,549	**20,578**	20,578	**118,265**	430,127
Zuo Hong	**–**	–	**140,551**	139,471	**12,744**	12,744	**153,295**	152,215
Professor Xiao Liangyong ("Professor Xiao") (resigned on 31 December 2012)	**–**	–	**82,805**	678,795	**–**	–	**82,805**	678,795
Non-executive directors								
Li Wenqi	**–**	–	**6,000**	6,000	**–**	–	**6,000**	6,000
Sun Wenguo	**–**	–	**6,000**	6,000	**–**	–	**6,000**	6,000
Xie Yiqun	**–**	–	**6,000**	6,000	**–**	–	**6,000**	6,000
Cong Chunshui (resigned on 9 November 2012)	**–**	–	**3,000**	6,000	**–**	–	**3,000**	6,000
Liu Ruixuan *(resigned on 31 December 2012)*	**–**	–	**6,000**	6,000	**–**	–	**6,000**	6,000
Yan Feng (appointed on 9 November 2012)	**–**	–	**–**	–	**–**	–	**–**	–
Independent non-executive directors								
Professor Gong Shuxi	**–**	–	**36,000**	36,000	**–**	–	**36,000**	36,000
Qiang Wenyu	**–**	–	**–**	21,000	**–**	–	**–**	21,000
Lei Huafeng (resigned on 10 August 2012)	**–**	–	**12,000**	36,000	**–**	–	**12,000**	36,000
Chen Ji (appointed on 10 August 2012)	**–**	–	**15,000**	–	**–**	–	**15,000**	–
Total	**–**	–	**411,043**	1,350,815	**33,322**	33,322	**444,365**	1,384,137

In the year ended 31 December 2012, three directors who named Yan Feng, Qiang Wenyu and Lei Huafeng, waived their emoluments of RMB500, RMB36,000 and RMB12,000 respectively. No any directors waived any emoluments in 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 (2011: five) supervisors were as follows:

	Fees		Salaries, allowances and other benefits in kind		Retirement benefit scheme contributions		Total	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
	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	**–**	–	**79,980**	77,150	**7,200**	7,752	**87,180**	84,902
Xu Hao	**–**	–	**61,385**	80,525	**7,200**	7,200	**68,585**	87,725
Liu Yongqiang	**–**	–	**36,000**	36,000	**–**	–	**36,000**	36,000
Total	**–**	–	**219,365**	235,675	**14,400**	14,952	**233,765**	250,627

None of the 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 2012.

Five highest paid employees

Of the five individuals with the highest emoluments in the Group, three (2011: two) were directors of the Company whose emoluments are included in the disclosures as above. The emoluments of the remaining two (2011: three) individuals were as follows:

	2012	2011
	RMB	*RMB*
Salaries and other benefits	**141,365**	811,153
Retirement benefit scheme contributions	**14,400**	20,578
	155,765	831,731

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

Five highest paid employees *(Continued)*

Their emoluments were within the following band:

	2012 Number of employees	2011 Number of employees
Nil to HK$1,000,000 (equivalent to RMB800,000 (2011: RMB810,000)	**2**	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 2012.

14. DIVIDENDS

No dividend was paid or proposed during 2012, nor has any dividend been proposed since the end of the reporting period (2011: nil).

15. EARNINGS (LOSS) PER SHARE

The calculation of basic earnings (loss) per share attributable to the owners of the Company is based on the profit for the year attributable to owners of the Company of RMB12,403,961 (2011: loss for the year of RMB42,478,833) and the weighted average number of 647,058,824 (2011: 647,058,824) ordinary shares in issue during the year.

The diluted earnings (loss) per share is equal to the basic earnings (loss) per share as calculated above as the Company did not have any potential shares outstanding for the two years ended 31 December 2012.

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 2011	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
Additions	311,952	–	14,387	–	–	326,339
Disposals	(2,653,790)	(1,690,593)	(583,984)	–	–	(4,928,367)
At 31 December 2012	73,956,483	12,052,305	4,486,150	–	–	90,494,938
DEPRECIATION AND IMPAIRMENT						
At 1 January 2011	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
Provided for the year	2,359,722	175,351	93,091	–	–	2,628,164
Eliminated on disposals	(2,251,029)	(1,086,005)	(539,052)	–	–	(3,876,086)
At 31 December 2012	11,945,099	11,026,372	4,050,128	–	–	27,021,599
CARRYING VALUES						
At 31 December 2012	62,011,384	1,025,933	436,022	–	–	63,473,339
At 31 December 2011	64,461,915	1,805,872	559,658	–	–	66,827,445

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.

As at 31 December 2011, 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 loss recognised in respect of property, plant and equipment in the year amounted to RMB4,338,993, which has been recognised in profit or loss. No impairment loss was recognised for the year ended 31 December 2012.

17. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise land use rights in the PRC which are held under medium-term leases.

	RMB
At 1 January 2011	827,939
Amortisation	(20,777)
Classified as held for sale *(Note 29)*	(807,162)
At 31 December 2011 and 2012	–

18. INTANGIBLE ASSETS

	Development costs *RMB* *(Note a)*	Technological know-how *RMB* *(Note b)*	Total *RMB*
COST			
At 1 January 2011	60,952,647	10,000,000	70,952,647
Additions through internal development	1,433,253	–	1,433,253
At 31 December 2011 and 2012	62,385,900	10,000,000	72,385,900
AMORTISATION AND IMPAIRMENT			
At 1 January 2011	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
Provided for the year	3,181,750	–	3,181,750
At 31 December 2012	57,340,080	10,000,000	67,340,080
CARRYING VALUES			
At 31 December 2012	5,045,820	–	5,045,820
At 31 December 2011	8,227,570	–	8,227,570

Notes:

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

(b) As at 31 December 2012 and 2011, 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 former 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

19. INTEREST IN AN ASSOCIATE

	2012 **RMB**	2011 RMB
Cost of investment in an unlisted associate in the PRC	**12,000,000**	10,219,079
Share of post acquisition losses	**(3,335,643)**	(164,132)
	8,664,357	10,054,947

As at 31 December 2012, the Group held 15.38% (2011: 13.77%) equity interests in a PRC private limited company engaged in the manufacturing and sales of base station antennas and related products in the PRC.

As at 31 December 2012, 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 *(Note a)*	Limited liability company	PRC	Paid-up capital	15.38% (2011: 13.77%)	Manufacturing and sales of base station antennas and related products

Note a:

In January 2012, a capital injection of RMB1,780,921 was made by the Group to Xi'an Sunnada. The Group holds 15.38% (2011: 13.77%) of its registered capital directly after the capital injection and the equity holding of the Group increased by 1.61%.

As at 31 December 2012, 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 because it has power to appoint 1 out of 3 directors of that company under the provisions stated in the Articles of Association. Accordingly, Xi'an Sunnada is classified as an associate.

19. INTEREST IN AN ASSOCIATE *(Continued)*

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

	2012 RMB	2011 RMB
Total assets	**94,066,902**	73,917,354
Total liabilities	**(28,093,127)**	(890,232)
Net assets	**65,973,775**	73,027,122
Group's share of net assets of the associate	**8,664,357**	10,054,947
Revenue	**28,380,256**	–
Loss for the year	**(10,834,268)**	(1,191,956)
Group's share of loss of the associate for the year	**1,666,811**	164,132

20. 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 RMB400,000 (2011: RMB3,800,000) have been pledged of which the expiry date will be within one year and are therefore classified as current assets. The deposits have been pledged by the Group amounting to RMB90,429 (2011: nil) as at 31 December 2012 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.

21. INVENTORIES

	2012 RMB	2011 RMB
Raw materials	**1,774,216**	5,036,341
Work-in-progress	**5,968,957**	7,075,653
Finished goods	**18,132,630**	17,073,560
	25,875,803	29,185,554

During the year ended 31 December 2012, a reversal of allowance for inventories of RMB2,423,217 (2011: RMB481,576) has been recognised as the corresponding inventories were either sold or used.

22. TRADE RECEIVABLES

	2012 RMB	2011 RMB
Trade receivables	**68,478,903**	68,901,795
Less: impairment loss recognised	**(25,846,240)**	(24,180,821)
	42,632,663	44,720,974

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.

	2012 RMB	2011 RMB
Within 60 days	**23,105,427**	6,949,003
61 to 120 days	**4,208,408**	3,024,931
121 to 180 days	**875,457**	102,987
181 to 240 days	**–**	824,589
241 to 365 days	**358,356**	6,283,224
Over 365 days	**14,085,015**	27,536,240
	42,632,663	44,720,974

Included in the Group's trade receivable balance are trade receivables with aggregate carrying amount of RMB14,443,371 (2011: RMB33,819,464) which are past due as at the reporting date for which the Group has not provided for impairment loss.

22. TRADE RECEIVABLES *(Continued)*

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

	2012 RMB	2011 RMB
241 to 365 days	**358,356**	6,283,224
1 to 2 years	**4,072,604**	27,004,350
Over 2 years	**10,012,411**	531,890
Total	**14,443,371**	33,819,464

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.

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:

	2012 RMB	2011 RMB
At 1 January	**24,180,821**	16,098,314
Impairment loss recognised	**9,438,553**	8,986,356
Amounts written off as uncollectible	**(1,337,721)**	(606,422)
Reversal of impairment loss recognised in previous years	**(6,435,413)**	(297,427)
At 31 December	**25,846,240**	24,180,821

Receivables of RMB28,189,292 (2011: RMB10,901,510) 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.

23. OTHER RECEIVABLES AND PREPAYMENTS

	2012	2011
	RMB	RMB
Other receivables	**9,613,544**	19,633,450
Prepayments	**1,539,161**	3,010,773
	11,152,705	22,644,223
Less: impairment loss recognised	**(3,502,735)**	(4,364,093)
	7,649,970	18,280,130

Included in other receivables and prepayment is an amount of RMB2,910,530 (2011: RMB3,842,166) in respect of advances to employees. The advances are interest-free, unsecured and repayable on demand.

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:

	2012	2011
	RMB	*RMB*
At 1 January	**4,364,093**	8,916,797
Impairment loss recognised	**795,307**	2,811,540
Amounts written off as uncollectible	**(359,511)**	(1,678,206)
Reversal of impairment loss recognised in previous years	**(1,297,154)**	(5,686,038)
At 31 December	**3,502,735**	4,364,093

A cashier of the Company and an independent third party, ganged to embezzle some of Company's funds ("Misappropriation of Funds") in amount of RMB3,809,380 and included in other receivables. The matter was reported to the PRC police and the cashier was arrested for criminal investigation.

On 6 February 2012, the PRC court issued a final verdict, which stated the cashier was found liable to repay the financial damage to the Company; and the cashier was sentenced to jail. The Group has recovered RMB421,500 during 2011 and the remaining balance of the Misappropriation of Funds was subsequently recovered from a relative of the independent third party on 5 March, 6 March and 11 March 2012, therefore, no impairment loss in other receivables in amount of RMB3,387,880 arising from Misappropriation of Funds was recognised in the consolidated statements of comprehensive income for the year ended 31 December 2012.

24. AMOUNTS DUE FROM (TO) DIRECTORS

Name of directors	Balance at 31 December 2012 *RMB*	Balance at 1 January 2012 *RMB*	Maximum amount outstanding during the year *RMB*	Maximum amount outstanding during the prior year *RMB*
Due from:				
Zuo Hong	769,071	317,042	1,200,804	367,830
Due to:				
Xiao Bing	(1,975,648)	–		
Professor Xiao (resigned on 31 December 2012)	–	(3,550,924)		
	(1,975,648)	(3,550,924)		

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

25. AMOUNTS DUE FROM (TO) RELATED COMPANIES/PARTIES/AN ASSOCIATE

Name of related companies	Relationship	*Notes*	2012 ***RMB***	2011 *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 director of both companies	*(i)*	**–**	91,204
Due to:				
海天投資	Common director and shareholder	*(i) & (ii)*	**(41,668,657)**	(53,586,036)
Xiao Ying	Close family member of the executive director of the Company	*(i)*	**–**	(4,003,559)
			(41,668,657)	(57,589,595)
Xi'an Sunnada	Associate of the Company	*(i)*	**(26,981,197)**	–

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 Xiao Bing and Zuo Hong, the executive directors of the Company, respectively for both years.

26. TRADE PAYABLES

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

	2012	2011
	RMB	*RMB*
Within 60 days	**846,072**	11,062,858
61 to 120 days	**135,127**	2,837,209
121 to 365 days	**998,192**	8,990,734
Over 365 days	**20,938,288**	35,371,481
	22,917,679	58,262,282

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.

27. OTHER PAYABLES AND ACCRUED CHARGES

	2012	2011
	RMB	*RMB*
Receipt in advance	**2,819,763**	37,633,573
Accrued salaries	**4,326,711**	4,845,914
Other payables *(Note i and ii)*	**10,247,223**	15,776,257
Deferred income *(Note iii) (Note 31)*	**1,927,200**	1,927,200
	19,320,897	60,182,944

Notes:

i. Included in other payable is a temporary advance of RMB4,300,000 (2011: RMB4,300,000) from an independent third party. The amount is interest-free, unsecured and repayable on demand.

ii. Included in other payable is a temporary advance of RMB1,550,924 (2011: nil) from Professor Xiao. The amount is interest-free, unsecured and repayable on demand.

iii. 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.

iv. Included in accrued salaries is amount of approximately RMB35,520 (2011: nil) representing accrued directors' remunerations.

28. BANK AND OTHER BORROWINGS

	2012 RMB	2011 RMB
Unsecured:		
Bank borrowings	**10,000,000**	–
Other borrowings	**6,940,000**	23,000,000
	16,940,000	23,000,000

	2012 RMB	2011 RMB
Carrying amount repayable:		
On demand or within one year	**16,940,000**	23,000,000
Less: Amounts due that are repayable on demand due to breach of loan covenants	**(10,000,000)**	–
Amounts due within one year shown under current liabilities	**(6,940,000)**	(23,000,000)
Amounts shown under non-current liabilities	**–**	–

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

	2012 RMB	2011 RMB
Fixed-rate unsecured bank borrowings	**10,000,000**	–

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

	2012	2011
Effective interest rate:		
Fixed-rate bank borrowings	**7.8%**	–

Other borrowings represent loan from Ren Yuwen (任玉文), a shareholder of Xi'an Sunnada. The amount is unsecured, interest-free and repayable on demand.

28. BANK AND OTHER BORROWINGS *(Continued)*

During the year ended 31 December 2012, the Group obtained new borrowings in the amount of RMB10,000,000 (2011: RMB23,990,000). The proceeds were used to finance the general working capital of the Group.

During the year, in respect of an unsecured bank loan with a carrying amount of RMB10,000,000 as at 31 December 2012, the Group breached certain of the terms of the bank loan, which are primarily related to the debt-equity ratio of the Group. On discovery of the breach, the directors of the Company informed the lender and commenced a renegotiation of the terms of the loan with the relevant banker. As at 31 December 2012, those negotiations had not been concluded. Since the lender has not agreed to waive its right to demand immediate payment as at the end of the reporting period, the loan has been classified as a current liability as at 31 December 2012. Up to the date of approval for issuance of the consolidated financial statements, the negotiations are still in progress. The directors of the Company are confident that their negotiations with the lender will ultimately reach a successful conclusion. In any event, should the lender calls for immediate repayment of the loan, the directors of the Company believe that adequate alternative sources of finance are available to ensure that there is no threat to the continuing operations of the Group.

During the year ended 31 December 2012, Xiao Bing, an executive director of the Company pledged certain properties to a bank to secure the bank borrowings.

29. ASSETS CLASSIFIED AS HELD FOR SALE

	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

(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 Ren Yuwen (任玉文), a shareholder of Xi'an Sunnada, 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 Ren Yuwen (任玉文) 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.

29. ASSETS CLASSIFIED AS HELD FOR SALE *(Continued)*

(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 RMB13,090,000 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 a 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.

The transaction was completed in 2012 and an amount of RMB2,263,963, net of tax related expense of RMB1,835,502, relating to the assets classified as held for sale has been recognised in comprehensive income and accumulated in equity for the year ended 31 December 2012.

30. DEFERRED TAXATION

	2012 *RMB*	2011 *RMB*
Deferred tax assets	**(2,715,121)**	–

The following are the major deferred tax (liabilities) and assets recognised and movements thereon during the current and prior years:

	Deferred development costs *RMB*	**Tax losses** *RMB*	**Total** *RMB*
At 1 January 2011	(600,000)	–	(600,000)
Credit during the year	600,000	–	600,000
At 31 December 2011 and 1 January 2012	–	–	–
Credit during the year	–	2,715,121	2,715,121
At 31 December 2012	–	2,715,121	2,715,121

As at 31 December 2012, the Group has unused tax losses of approximately RMB125,431,408 (2011: RMB141,246,760) available to offset against future profits. A deferred tax asset has been recognised in respect of RMB10,860,482 (2011: nil) of such losses. No deferred tax asset has been recognised in respect of the remaining RMB114,570,926 (2011: RMB141,246,760) 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 2012, the Group also had deductible temporary differences of RMB45,983,732 (2011: RMB43,503,024). 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.

31. DEFERRED INCOME

During the year ended 31 December 2012, the Group has received government grants in an aggregate amount of RMB340,000 of which RMB10,000 was related to the development and industrialisation of antenna for the TD-SCDMA and the corporation standard and famous brand product, interest payment, insurance, intellectual property and corporation trademark respectively. 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 (2011: RMB1,927,200) will be amortised within one year and is therefore classified as current liabilities and included in other payables and the remaining amount of RMB4,977,600 (2011: RMB6,904,800) is classified as non-current liabilities.

32. SHARE CAPITAL

	Number of shares	Share capital *RMB*
At 1 January 2011, 31 December 2011 and 31 December 2012		
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

33. 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 2012.

(c) Other reserve

海天投資, a related company of the Company under common shareholders, agreed to waive the rental payable by the Company of RMB11,917,380 and RMB3,938,899 for the years ended 31 December 2012 and 2009 respectively. Such waiver is deemed to be a transaction with owners of the Company and therefore recorded in other reserve.

34. 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:

	2012	2011
	RMB	*RMB*
Within one year	–	3,238,872

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 not 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 (2011: RMB158,400).

35. CAPITAL COMMITMENTS

	2012	2011
	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	–	1,501,266
Capital expenditure in respect of capital investment in an associate contracted for but not provided in the consolidated financial statement	–	1,780,921
	–	3,282,187

36. 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 RMB793,734 (2011: RMB1,298,905) represents contributions payable to these schemes by the Group for the year ended 31 December 2012.

As at 31 December 2012 and 2011, the Group had no significant obligation apart from the contribution as stated above.

37. PLEDGE OF ASSETS

The Group has pledged the following assets to secure the quality of products sold to customers at the end of the reporting period. The carrying values of the assets pledged are as follows:

	2012	2011
	RMB	*RMB*
Bank deposits	**490,429**	3,800,000

38. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2012, the Group's major non-cash transactions as follows:

(1) The Group settled a payment of RMB1,780,921 for the consideration of investment in an associate for 1.61% equity interest by motor vehicles and certain plant and equipments with carrying value of RMB457,394 and RMB1,052,281 respectively held by the Group.

(2) 海天投資 agreed to waive the rental payable by the Company of RMB11,917,380. Such waiver is deemed to be a transaction with owners of the Company and therefore recorded as an other reserve.

(3) During the year ended 31 December 2012, the Group completed disposal of assets classified as held for sale transactions and disposal of intellectual property rights recognised as expenses in previous years. The sale proceeds of RMB31,380,000 and RMB1,620,000 were received and included in receipt in advance respectively as at 31 December 2011.

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

(4) 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.

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

39. RELATED PARTY TRANSACTIONS

(a) Details of the balances with directors and related parties are set out in the consolidated statement of financial position and Notes 24 and 25 respectively.

(b) During the year ended 31 December 2012, the Group received sales proceed amounting to RMB7,000,000 (2011: nil) for disposal of assets classified as held for sale from Xi'an Sunnada.

(c) During the year ended 31 December 2012, the Group has sales to Xi'an Sunnada amounting to RMB1,546,990 (2011: nil) and purchase from Xi'an Sunnada amounting to RMB21,379,243 (2011: nil).

(d) 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. The rental payable amounting to RMB5,958,690 was waived by 海天投資 and the land was continuously used by the Group with no consideration in the year end 31 December 2012.

39. RELATED PARTY TRANSACTIONS *(Continued)*

(e) During the year ended 31 December 2011, the Group received rental income from the lease of land of RMB7,200 from Xi'an Sunnada (2012: nil).

(f) 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 (2012: nil) and the intangible assets amounted RMB7,420,000 (2012: nil) to Xi'an Sunnada. The transaction was completed in 2012.

(g) As at 31 December 2011, included in other payables and accrued charges amounted RMB13,019,000 (2012: nil) was deposits received from Xi'an Sunnada in respect of the disposal of the equipment.

(h) Xiao Bing, an executive director of the Company and Chen Jing, wife of Xiao Bing; Wang Tianxiong, financial controller of the Company and Zhang Chaowei, wife of 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.

(i) During the year ended 31 December 2011, a pledged land which used to secure the bank borrowings from 海天投資 had been released.

(j) During the year ended 31 December 2012, Xiao Bing, an executive director of the Company, pledged certain properties to a bank to secure the bank borrowings.

(k) Compensation of key management personnel

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

	2012 ***RMB***	2011 *RMB*
Short-term benefits	**630,408**	1,586,490
Other long-term benefits	**47,722**	48,274
	678,130	1,634,764

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

40. 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 directly held by the Company 2012	2011	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.

41. CONTINGENT LIABILITIES

As at the end of reporting date, the Group has the following court cases:

On 29 November 2011, 珠海漢勝科技股份有限公司 (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 RMB799,583, 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 28 November 2012, the court case was concluded of which the Group was demanded to repay the Plaintiff A of amount approximately RMB872,702. As at 31 December 2012, an amount of RMB561,122 is not yet paid to the Plaintiff A. In the opinion of the directors of the Company, the above case did not have any material impact on the Group's consolidated financial statements for the year ended 31 December 2012 as the amount claimed by the Plaintiff A was included in trade payables.

On 20 December 2011, 深圳金信諾高新技術股份有限公司 (the "Plaintiff B") filed a writ at the Commissioner against the Company. The Plaintiff B claimed that the Company owed the Plaintiff B trade payable balance of RMB6,685,363, 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. Meanwhile, the Company countercharged the Plaintiff B with the substandard products provided amounting to RMB2,013,024. The claims are rejected from the arbitration from the Commissioner. In the opinion of the directors of the Company, the above case did not have any material impact on the Group's consolidated financial statements for the year ended 31 December 2012 as the amount claimed by the Plaintiff B was included in trade payables.

Financial Summary

	Year ended 31 December				
	2008	2009	2010	2011	**2012**
	RMB	*RMB*	*RMB*	*RMB*	***RMB***
RESULTS					
Revenue	152,020,094	195,410,138	68,469,673	50,886,381	**46,569,471**
(Loss) profit before tax	(21,107,861)	(25,794,050)	(81,373,761)	(43,078,833)	**9,688,840**
Income tax credit (expense)	60,735	(725,868)	1,008,690	600,000	**2,715,121**
(Loss) profit and total comprehensive (expense) income for the year	(21,047,126)	(26,519,918)	(80,365,071)	(42,478,833)	**12,403,961**

	As at 31 December				
	2008	2009	2010	2011	**2012**
	RMB	*RMB*	*RMB*	*RMB*	***RMB***
ASSETS AND LIABILITIES					
Total assets	331,882,384	393,688,278	303,155,295	213,227,619	**162,840,093**
Total liabilities	(183,396,358)	(267,783,271)	(257,615,359)	(210,166,516)	**(135,457,649)**
Total equity	148,486,026	125,905,007	45,539,936	3,061,103	**27,382,444**