UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2011

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to __________

COMMISSION FILE NUMBER: 001-32503

TELESTONE TECHNOLOGIES CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**84-1111224**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

Floor 10, Ruida Plaza, No. 74 Lugu Road, Shi Jingshan District,
Beijing, China 100040
(Address of principal executive offices) (Zip Code)

86-10-6860-8335
(Issuer's telephone number, including area code)

Securities registered under Section 12(b) of the Exchange Act:

Common Stock, $.001 Par Value	**The NASDAQ Global Select Market**
(Title of Class)	(Name of each exchange on which registered)

Securities registered under Section 12(g) of the Exchange Act: none.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☑

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☑

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☑ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐	Accelerated filer ☐	Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☑

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act): Yes ☐ No ☑

The aggregate market value of the 9,079,264 shares of voting and non-voting common equity stock held by non-affiliates of the registrant was $56,473,022 as of June 30, 2011, the last business day of the registrant's most recently completed second fiscal quarter, based on the last sale price of the registrant's common stock on such date of $6.22 per share, as reported by The NASDAQ Stock Market, Inc. As of March 30, 2012, there were 12,333,264 shares of common stock of Telestone Technologies Corporation outstanding.

Except as otherwise indicated by the context, references in this Form 10-K to:

"U.S. Dollar," "$" and "US$" mean the legal currency of the United States of America.
"RMB" means Renminbi, the legal currency of China.
"China" or the "PRC" are references to the People's Republic of China.
"U.S." is a reference to the United States of America.
"SEC" is a reference to the Securities & Exchange Commission of the United States of America.

DOCUMENTS INCORPORATED BY REFERENCE

Document	Parts Into Which Incorporated
None	Not applicable

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This annual report includes forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended. All statements, other than statements of historical fact, are statements that could be deemed forward-looking statements, including, but not limited to, statements regarding our future financial position, business strategy and plans and objectives of management for future operations. When used in this filing, the words believe, may, will, estimate, continue, anticipate, intend, expect, and similar expressions are intended to identify forward-looking statements.

We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy, short-term and long-term business operations and objectives, and financial needs. These forward-looking statements are subject to certain risks and uncertainties that could cause our actual results to differ materially from those reflected in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to the risks discussed under the heading "Risk Factors". Except as required by law, we assume no obligation to update these forward-looking statements publicly or to update the reasons actual results could differ materially from those anticipated in these forward-looking statements.

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PART I

ITEM 1. BUSINESS

Corporate History

Unless otherwise indicated, or unless the context otherwise requires, all references in this Annual Report to the terms the "Company," "Telestone," "TSTC," "we," "our," or "us" shall mean Telestone Technologies Corporation, a Delaware corporation.

We were organized under the laws of the State of Colorado in February 1987 under the name Shield Enterprises, Inc.

On January 3, 2002, we entered into an exchange agreement with Elite Agents Mortgage Services, Inc. (formerly Elite Agents, Inc.) ("Elite"), a licensed mortgage banker. As a result of the exchange, Elite became our wholly-owned subsidiary, and we had 80,000,000 shares of common stock outstanding, of which 72,000,000 shares were owned by the former stockholders of Elite and 8,000,000 shares were owned by our existing stockholders. Elite continued its mortgage banking activities and other financial services subsequent to the exchange. In addition, effective May 8, 2002, we formed a wholly-owned subsidiary, Elite Agents Leasing Services, Inc. ("Leasing"), for the purpose of establishing equipment financing and leasing operations.

On September 26, 2003, we and Elite (the "Debtors") each filed voluntary petitions for reorganization under Chapter 11 of the U.S. Bankruptcy Code in the U.S. Bankruptcy Court for the District of New Jersey (the "Court") (Case Nos. 03-41805 and 03-41806). The two voluntary petitions of the Debtors were consolidated for administrative purposes only on October 20, 2003. On December 30, 2003, the Bankruptcy Court authorized the Debtors to sell substantially all of their assets.

On March 24, 2004, the Court authorized the Debtors to sell both designation rights for a plan of reorganization and 25 million common shares, which were non-dilutable under any capitalization, to Focus Tech Investments, Inc. or its designee ("Focus") for a purchase price of $65,000.00. In addition, 14 creditors agreed to advance an aggregate of $50,000.00, as a non-recourse claim, under the terms of convertible promissory notes ("Notes") pursuant to Section 1145 of the Bankruptcy Code, to the Debtors, to fund fees and expenses of the Debtors' and related committee's professionals for a plan of reorganization. The Notes were convertible into a total of 4,000,000 common shares and 1,000,000 warrants issued pursuant to Section 1145 of the Bankruptcy Code. The transaction was exempt from the registration requirements of Section 5 of the Securities Act of 1933 as well as state and local law statutes requiring registration for an offer or sale of a security.

On August 10, 2004, the Court approved the Plan and entered the order entitled "Order Approving Disclosure Statement and Confirming First Amended Plan of Liquidation and Authorizing and Directing Certain Actions In Connection Therewith" (the "Order"). Pursuant to the Plan, all prior operational assets were liquidated and the proceeds were paid, per the approved claim schedule, to creditors and for the administration of the estate. Pursuant to the Plan, all of the property of the Debtor's estate vested in the Plan Trustee, free and clear of all claims, liens, encumbrances, charges or other interests, and all executory contracts and unexpired leases were rejected. The Court also placed an injunction against all entities that may have held, currently hold, or may hold a debt, claim or other liability or interest against the Debtors, dischargeable upon confirmation of the Plan, and permanently enjoined any action on account of such debt, claim, liability, interest or right. The Court further terminated all claims arising or related to stock, stock options, stock plans for employees, officers and directors, warrants and convertible provisions within the debt instruments by creditors. The Court ordered that our common stock be diluted by a reverse stock split of our issued and outstanding common shares. Under the Order, each share of our common stock issued and outstanding was reclassified on a 1 for 822 basis at a $0.001 par value.

The Court then ordered that we:

- reincorporate and redomicile from the State of Colorado to the State of Delaware;
- that the name of the Company be changed to Telestone Technologies Corporation;
- that the Company's Board of Directors be authorized under the Plan to issue common stock pursuant to an exchange agreement at the time of closing or in escrow, in which effective control or majority ownership of the Company is given to the acquired or acquiring business entity without the need of stockholder approval; and
- that the Board of Directors be authorized to amend the Company's By-Laws and amend the Company's fiscal year to a date established and set forth in an exchange agreement without the need of stockholder approval.

Pursuant to the Order, we reincorporated in the State of Delaware under the name Telestone Technologies Corporation on August 13, 2004 by filing a Certificate of Incorporation with the State of Delaware. We are now authorized to issue a total of 110,000,000 shares with 100,000,000 being shares of common stock with a par value of $0.001, and 10,000,000 being shares of preferred stock with a par value of $0.001.

Pursuant to the Order, we approved the reverse stock split of issued and outstanding common shares. Under the Order, our issued and outstanding common stock was reclassified on a 1 for 822 basis at a par value of $0.001. A Certificate of Amendment was filed with the Delaware Secretary of State on August 17, 2004.

On August 23, 2004, we completed a share exchange transaction with the stockholders of Success Million International Limited, a company incorporated under the laws of Hong Kong ("SMI"). The share exchange was consummated under Delaware law and pursuant to the terms of that certain Securities Exchange Agreement, dated effective as of August 23, 2004 (the "Exchange Agreement").

Pursuant to the Exchange Agreement, we issued 4.1 million shares of our common stock to the stockholders of SMI, representing approximately 97.6% of our issued and outstanding common stock, immediately upon the consummation of the exchange transaction, in exchange for 100% of the outstanding capital stock of SMI. Immediately after giving effect to the exchange, we had 4,199,917 shares of common stock outstanding. Pursuant to the exchange, SMI became our wholly-owned subsidiary. For accounting purposes, the exchange is treated as a reverse acquisition, as the stockholders of SMI own a majority of the issued and outstanding shares of our common stock. Due to the issuance of the 4.1 million shares of our common stock, a change in control occurred on August 23, 2004, the date of the consummation of the exchange. We now carry on the business of SMI's wholly-owned subsidiary, Beijing Telestone Technologies Co., Ltd. ("Beijing Telestone").

On June 17, 2005, Beijing Telestone, with an operational period of 20 years, established Beijing Telestone Wireless Telecommunication Company Limited ("BTWTC") in Beijing, the People's Republic of China (the "PRC"). Beijing Telestone controls BTWTC through contractual arrangements. BTWTC was established to engage in the business of wireless telecommunication networking and system integration.

On July 5, 2007, BTWTC, Shandong Guolian Telecommunication Technology Limited ("Guolian") and owners of Guolian entered into a Share Transfer Agreement (the "Agreement"). Under the Agreement, 100% equity ownership interests in Guolian and its wholly owned subsidiary, Pan-pacific Telecommunication Company Limited ("Pan-pacific"), were transferred by all of the owners of Guolian to BTWTC. Guolian and Pan-pacific were established in Jinan, Shandong Province, the PRC on February 9, 1999 and October 22, 1999 respectively. The principal business activities of Guolian and Pan-pacific are design, development, production and installation and trading of wireless telecommunications coverage system equipment.

On October 8, 2007, BTWTC formed a subsidiary named Beijing Telestone Communication Technology Corp. Ltd ("BTWTC"), which focuses on developing and managing Telestone's overseas businesses. BTWTC is responsible for all of Telestone's international businesses and focuses on the Company's international expansion efforts. The move was intended to simplify current command and reporting lines. BTWTC also seeks to identify new opportunities to ensure consistent growth in Telestone's overseas businesses.

On December 14, 2009, Beijing Telestone established a wholly-owned subsidiary, Guan Telestone Telecommunication Technologies Company Limited ("Guan Telestone")(note) in Guan, Hebei Province, the PRC with operating period of 20 years until December 13, 2029. Guan Telestone holds a land use right in Guan for development of a research and development center and a manufacturing plant of telecommunication equipment.

On October 25, 2010, Beijing Telestone and BTWTC established a wholly-owned subsidiary, Guan Bopu Network Equipment Company Limited ("Guan Bopu") (note) in Guan, Hebei Province, the PRC with operating period of 20 years until October 24, 2030. Guan Bopu is engaged in the trading of wireless telecommunication equipment.

On November 7, 2011, BTWTC and the owners of Sichuan Ruideng Telecom Corporation ("SRTC") entered into a definitive agreement. Under the agreement, 100% equity ownership interests in SRTC have been transferred by the owners of SRTC to BTWTC in exchange of a cash consideration of $2 million and 1.8 million restricted common shares of TSTC. The acquisition was completed on December 30, 2011. SRTC was founded in 1993 and based in Chengdu, Sichuan Province, the PRC. It develops and provides telecommunication local access networks and system-integration services mainly in Sichuan, Yunnan, Guizhou, Hubei and Qinghai provinces.

Our executive offices are those of Beijing Telestone Technologies Co., Ltd. and are located at Floor 10, Ruida Plaza, No. 74 Lugu Road, Shi Jingshan District, Beijing China 100040. Our telephone number is 86-10-6860-8335.

Current Business Operations

We are a leading access-network solution provider serving the Chinese market. Since 1997, we have operated in the Chinese market and in 2006, we expanded our marketing efforts to include Vietnam, Indonesia, Malaysia, Thailand and India. In 2007, BTWTC was established as one of our subsidiaries focusing on developing and managing our overseas businesses. Currently, our marketing efforts have expanded to 29 countries around the world, including the U.S., Vietnam, Mexico, Brazil, Russia, India, the Philippines, Thailand, Ireland, Ecuador, Mongolia, South Africa, Turkey, Indonesia, Colombia, Costa Rica, Argentina, Ukraine, Kazakhstan, Singapore, South Korea, Hong Kong (SAR), Saudi Arabia, New Zealand, Bangladesh, the UAE, Canada and Iceland. Continued expansion outside of China is one of our core strategies. We believe that the quality of our products and services will allow Telestone to be increasingly competitive internationally.

Our access-network solutions include the research and development ("R&D") and application of access-network technology. In addition to our homegrown access-network equipment, which includes repeaters, antennas and radio-frequency peripherals, we also offer project design, project management, installation, maintenance and other after-sales services to our customers. Our access-network solutions are designed to further enhance the coverage of mobile telecommunications networks, which in turn improves the quality of reception for mobile phone users. The solutions we provide to the telecommunications industry can be used in indoor and outdoor environments, including hotels, residential estates, office buildings, airports, exhibition centers, underground stations, highways and tunnels.

In 2008, we launched WFDS™ (as defined below), a next generation wireless distribution system. WFDS™ is an all-optical network that combines the technologies of both wireless and optical telecommunications. This system supports all mobile telecom networks and various other networks, including WLAN, FTTH, traditional telephone, and video surveillance systems. In 2010, we began generating revenues from WFDS™ installations, and, as of December 31, 2011, we have completed 499 WFDS™ installations.

In addition, our WFDS™ technology provides several important benefits to Telestone and its investors: WFDS™ offers an opportunity for us to diversify our customer base; and WFDS™ generates 45% to 50% of the gross margin of the company; WFDS™ also targets a different customer base — property developers and managers — rather than large telecom carriers, and these customers tend to make payments more quickly, which should reduce our accounts-receivable days' sales outstanding ("DSOs") over time, as WFDS™ grows as a percentage of our revenues. Finally, WFDS™ is a technology platform, and we have a pipeline of WFDS™ technologies slated for launch over the next several years.

While we expanded our sales from purely consisting of a RF-based wireless product portfolio to one including sales from our Unified Local-Access Solution ("WFDS™") products, our traditional RF-based products still remain a strong growth driver for Telestone and we received more than 70 % of our revenues from RF-based products in 2011.

We are committed to the research and development of wireless communication related technology. Over 90% of our technology is developed in-house at our research and development center. We employ an experienced and highly trained professional staff of scientists and engineers that concentrate on the invention and further advance of wireless communication technology. We have over 100 R&D specialists, many of whom are industry experts in telecommunications — all have at least a bachelor's degree, and 40% have a master's degree or above. As a result of our commitment to R&D, since its introduction, our innovative WFDS™ technology has received recognition in the telecommunications industry and has won awards and praise from several telecommunications carriers.

Also, in order to provide a speedy response and a high level of service to our customers, we have established more than 30 locations throughout China. These locations offer sales, project survey, design, project management and installation and maintenance services. We believe that this sales and service strategy enriches our capability to increase our existing customer base in the PRC and enables us to provide timely responses to customers' inquires as well as technical and maintenance service upon our customers' requests. Our sales efforts are not focused in nor dependent upon any particular region or province of the PRC.

Our Competitive Strengths

We believe that the following competitive strengths enable us to compete effectively and to capitalize on the growth opportunities in our markets:

Strong Research and Development Capabilities and Results

Our R&D capabilities rank among the best in the PRC's telecommunications industry. We have a robust engineering project management system and an experienced engineering team. Our research and development center is equipped with the latest equipment and testing facilities, which give our research and development personnel the tools they require to make significant advances in access-network technologies. In addition, we provide our employees with continuing education administered through internal programs.

Our R&D capabilities are recognized and approved by the PRC government and have won accolades such as the Project Certificate of National-level Torch Program and the Project Certificate of Nation-level Spark Program. In addition, a number of our products and systems, several of which have been patented or are patent pending, have been awarded various science and technology honors by PRC provincial and municipal governments. We are focused on increasing our research and development efforts to develop superior and proprietary technologies.

Our proprietary WFDS™, the result of our R&D efforts, is one of the leading indoor access-network products in China. Compared with other traditional wireless distribution systems, our WFDS™ system has many advantages. Firstly, WFDS™ adapts fiber to transport signals. Based on the low signal-loss characteristic of fiber, through which signals can be transmitted over long distances, the main unit ("MU") can be placed closer to the signal source, and the remote unit ("RU") can be placed closer to the subscribers. Therefore, a micro-power signal source can be used, which reduces interference and noise, generates low electromagnetic interference, and expands the coverage area. Secondly, due to the input port of the MU connecting to the signal combiner, WFDS™ systems can support multiple signals' access and network integration. WFDS™ can provide all broadband communication services access in the 500 kHz ~ 3 GHz band for subscribers. Thirdly, due to the fact that each node of the system has the same bandwidth and flow characteristics, WFDS™ can provide the same communication services for every subscriber. WFDS™ systems are also easy to manage and flexible for implementing expansion and upgrades of systems with minimum cost.

Broad and diverse market base

Our business covers a wide region. We have 30 branches throughout China and our business covers 29 countries worldwide.

Experienced marketing staff

We employ a group of experienced telecommunications experts and an experienced and technologically savvy marketing staff in China.

Strong customer relations

We have maintained long-term relationships with China Unicom, China Mobile, China Telecom and China Netcom as customers for approximately 14 years.

Governmental support

As a high-tech enterprise with an established track record, our company enjoys the stimulus plans offered by both China's industry governmental authorities and by local authorities, including the Ministry of Science and Technology, the Ministry of Industry and Information Technology, the Beijing municipal government and the Administrative Committee of Z-Park.

Business Outlook

We expect that the integration of telecommunications, television, radio broadcasting, and internet access-networks in China will continue in 2012. Recently there has been a greater emphasis on investment and projects related to 4G networks to the detriment of older technologies like 3G. Thus, in order to continue its expansion, the Company plans to increase its investments related to the development of TD-LTE (Time Division Long-Term Evolution – China's homegrown 4G technology and standard) technology and expects to generate a gradual increase in revenue from sales of products utilizing such technology to the Big 3.

We have successfully entered the U.S. market and have also made some progress with pilot projects in Mexico, Chili and Columbia. We expect construction of integrated private networks will accelerate in China and America, and as a result the revenues from WFDS™ in the domestic as well as the overseas markets will increase and correspondingly occupy a considerable percentage of the company's total revenue.

The Company has also been developing TIPS (Telestone Intelligence Premises System) based on WFDS™ technology. The Company will target government, manufacturing, military and police, railway, aviation and other industries as customers for this technology. The core of TIPS is Telestone's Unified Premises Information Network System (UPINS) technology, which distributes all information generated or required at any time and at any location within a premises network in a timely manner. TIPS networks are characterized by ultra-wide bandwidth, long transmission distances, and multi-cascading technology.

Our Business Strategies

In order to maintain our position as one of the leading companies in the PRC's access-network solutions sector, and expand and diversify our revenue streams, we have adopted the following strategies:

Continue to focus on research and development

We plan to continue to invest in research and development for our key technologies and products to enhance our leading position in the access-network technology market and take full advantage of the PRC's investment in 3G networks. We have dedicated research and development programs to advance access-network solutions for the continued development of our business.

Seek selective acquisitions and strategic investments

In the domestic market, we intend to maintain strong relationships with Chinese mobile telecommunications carriers and potentially make selective acquisitions in major provincial markets where we do not have a leading market share. Our potential targets are companies that enjoy a leading market position and have strong business networks in their provincial markets, that have strong production capabilities, that own applicable value-added products and whose customer network platforms adapt to WFDS™. We believe that we will further our penetration of provincial markets and raise our overall market share through selective acquisitions and the promotion of new solutions.

Strengthen international market presence

We plan to focus on increasing our presence in markets outside of the PRC. We will continue to strengthen our presence abroad by leveraging our expertise and our leading access-network products and solutions. In the United States, we plan to seek cooperation with peers that have strong research and development abilities and develop technology and products that are suitable for the PRC market. We also seek partners within the integration business to sell our products. In developing countries, we only seek cooperation with local integration partners to deliver our access-network solution technologies. We then work with these partners to set up our local product distribution channels.

Description of Products & Engineering Services

We design and sell electronic equipment used to provide access-network solutions to our customers. Many of these types of equipment, including WFDS™ products, RFPA products, passive components and base station antennas for 2G, 3G, Broadband access and CATV networks, are highly specialized active microwave components designed to meet the needs of our customers.

In addition to designing and selling our products, we also provide systems integration services to our customers. The primary systems integration services provided to our customers are project design and engineering, specifically, the development and design of indoor (living quarters, hospital systems, and hotels) and outdoor (expressways, railways and no coverage zones) wireless signal complementary coverage solutions and their applied products. This includes the design of the required equipment, implementation, project quality evaluation as well as after-sale maintenance and optimization for system integration products, constructive products for engineering design projects and wireless network optimization products.

Research & Development

We maintain a research and development center where the majority of our products are designed by our staff of engineers and scientists. Our research and development center is equipped with the latest equipment and testing facilities, which give our research and development personnel the tools they require to make significant advances in access-network technologies. The center is comprised of three research centers including (i) the Premises Neural Network Research and Development Center, (ii) the Joint Development center, and (iii) the System Product Research Center, and seven professional research departments including: (i) the Resident Neural Network Research and Development Department, (ii) the Radio Station Network Development Department, (iii) the Equipment R&D Department, (iv) the Parts Development Department, (v) the IP Resident Network Research and Development Department, (vi) the Government Intelligent Systems Research and Development Department, and (vii) the Business Intelligent Systems Research Department. Two of these departments work on designing new products to meet the expected increased demand for 3G wireless products in the PRC.

We seek to remain at the forefront of current and future technologies, paying close attention to evolving development trends in domestic and international technologies. Our R&D capabilities are recognized and affirmed by the PRC government and have won awards such as the Project Certificate of National-level Torch Program and the Project Certificate of Nation-level Spark Program. In addition, a number of our products and systems, several of which have been patented or are patent pending, have been awarded various science and technology honors by PRC provincial and municipal governments.

Competition

Our main domestic competitors are Guangdong Comba, Wuhan Hongxin and China GrenTech.

- Guangdong Comba was one of the first Chinese domestic telecom manufacturers. The company is listed on the Hong Kong Stock Exchange under the stock symbol: 2342.HK.

- China GrenTech, formerly Powercom Holdings Limited, was founded in 1999 and is based in Shenzhen. China GrenTech is listed on the NASDAQ Global Select Market under the symbol GRRF.

- Wuhan Hongxin, originally a state-owned enterprise under the management of Wuhan Post & Telecom Academy, has a strong technical background and sales network. Wuhan Hongxin is a large company with a diverse group of products outside of the wireless coverage sector.

Our potential international competitors include Powerwave Technologies and Andrew Corporation. We believe that our overseas competitors are not key threats to Telestone because they have no competitive advantage with respect to product costs and are not accustomed to the PRC market.

- Powerwave Technologies, Inc. is a global provider of end-to-end wireless infrastructure solutions for use in wireless communications networks. It offers OEMs (original equipment manufactures), operators and network providers in the wireless communications industry a portfolio of antenna systems, base station systems and coverage systems.

- Andrew Corporation ("Andrew") is a global designer, manufacturer, and supplier of communications equipment, services and systems. Andrew's products and expertise are found in communications systems throughout the world, including wireless and distributed communications, land mobile radio, cellular and personal communications, broadcast, radar and navigation.

Government Regulation

The following is a summary of the principal governmental laws and regulations that are or may be applicable to our operations in the PRC. The scope and enforcement of many of the laws and regulations described below are uncertain. We cannot predict the effect of further developments in the Chinese legal system, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement of laws.

The telecommunications industry, including certain access-network solution provider services, is highly regulated in the PRC. Regulations issued or implemented by the State-owned Assets Supervision and Administration Commission of the State Council, Ministry of Information Industry of PRC and other relevant government authorities cover many aspects of telecommunications network operations, including entry into the telecommunications industry, the scope of permissible business activities, interconnection and transmission line arrangements, tariff policies and foreign investment.

The principal regulations governing the telecommunications services business in the PRC include:

- Telecommunications Regulations (2000), (the "Telecom Regulations"). The Telecom Regulations categorize all telecommunications businesses in the PRC as either infrastructure telecommunications businesses or value-added telecommunications businesses. Under the Telecom Regulations, certain services are classified as being of a value-added nature and require the commercial operator of such services to obtain an operating license, including telecommunication information services, online data processing and translation processing, call centers and Internet access. The Telecom Regulations also set forth extensive guidelines with respect to different aspects of telecommunications operations in the PRC.

- Regulations for the Administration of Foreign-Invested Telecommunications Enterprises (2002), (the "FI Telecom Regulations"). The FI Telecom Regulations set forth detailed requirements with respect to capitalization, investor qualifications and application procedures in connection with the establishment of a foreign-invested telecom enterprise.

- Foreign Exchange Controls. The principal regulations governing foreign exchange in the PRC are the Foreign Exchange Control Regulations (1996) and the Administration of Settlement, Sale and Payment of Foreign Exchange Regulations (1996), ("the Foreign Exchange Regulations"). Under the Foreign Exchange Regulations, Renminbi ("RMB") is freely convertible into foreign currency for current account items, including the distribution of dividends. Conversion of RMB for capital account items, such as direct investment, loans and security investment, however, is still subject to the approval of the State Administration of Foreign Exchange ("SAFE"). Under the Foreign Exchange Regulations, foreign-invested enterprises are required to open and maintain separate foreign exchange accounts for capital account items. In addition, foreign-invested enterprises may only buy, sell and/or remit foreign currencies at those banks authorized to conduct foreign exchange business after providing valid commercial documents and, in the case of capital account item transactions, obtaining approval from SAFE.

Intellectual Property and Proprietary Rights

We rely primarily on a combination of copyright laws and contractual restrictions to establish and protect our intellectual property rights. We require our employees to enter into agreements requiring them to keep confidential all information relating to our customers, methods, business and trade secrets during and after their employment with us. Our employees are required to acknowledge and recognize that all inventions, trade secrets, works of authorship, developments and other processes, whether or not patentable or copyrightable, made by them during their employment are our property. They also sign agreements to substantiate our sole and exclusive right to those works and to transfer any ownership that they may claim in those works to us.

While we actively take steps to protect our proprietary rights, including obtaining patent protection where applicable, such steps may not be adequate to prevent the infringement or misappropriation of our intellectual property. This is particularly the case in the PRC where the laws may not protect our proprietary rights as fully as in the United States. Infringement or misappropriation of our intellectual property could materially harm our business.

We have registered our corporate logo as a trademark with the Trademark Office of the PRC. The corporate logo depicts our name in English as well as Mandarin Chinese. China's trademark law utilizes a "first-to-file" system for obtaining trademark rights. As a result, the first applicant to file an application for registration of a mark will preempt all other applicants. Prior use of unregistered marks, except "well known" marks, is generally not a basis for legal action in the PRC. We may not be able to successfully defend or claim any legal rights in any trademarks for which we apply in the future.

Many parties are actively developing and seeking patent protection for wireless services-related technologies. We expect these parties to continue to take steps to protect these technologies, including seeking patent protection. There may be patents issued or pending that are held by others and that cover significant parts of our technology, business methods or services. Disputes over rights to these technologies are likely to arise in the future. We cannot be certain that our products do not or will not infringe valid patents, copyrights or other intellectual property rights held by third parties. We may be subject to legal proceedings and claims from time to time relating to the intellectual property of others.

We have obtained 30 patent certificates. Currently, 32 of our filed patent applications are under review by the State Intellectual Property Office of the People's Republic of China. Our company will continue to focus on protecting our intellectual property rights.

ITEM 1A. RISK FACTORS

CAUTIONARY STATEMENT REGARDING FUTURE RESULTS, FORWARD-LOOKING INFORMATION AND CERTAIN IMPORTANT FACTORS

In this Annual Report we make, and from time to time we otherwise make, written and oral statements regarding our business and prospects, such as projections of future performance, statements of management's plans and objectives, forecasts of market trends, and other matters that are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Statements containing the words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "estimates," "projects," "believes," "expects," "anticipates," "intends," "target," "goal," "plans," "objective," "should" or similar expressions identify forward-looking statements, which may appear in documents, reports, filings with the Securities and Exchange Commission, news releases, written or oral presentations made by officers or other representatives made by us to analysts, stockholders, investors, news organizations and others, and discussions with management and other of our representatives. For such statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

Our future results, including results related to forward-looking statements, involve a number of risks and uncertainties. No assurance can be given that the results reflected in any forward-looking statements will be achieved. Any forward-looking statement speaks only as of the date on which such statement is made. Our forward-looking statements are based upon assumptions that are sometimes based upon estimates, data, communications and other information from suppliers, government agencies and other sources that may be subject to revision. Except as required by law, we do not undertake any obligation to update or keep current either (i) any forward-looking statement to reflect events or circumstances arising after the date of such statement, or (ii) the important factors that could cause our future results to differ materially from historical results or trends, results anticipated or planned by us, or which are reflected from time to time in any forward-looking statement.

In addition to other matters identified or described by us from time to time in filings with the SEC, there are several important factors that could cause our future results to differ materially from historical results or trends, results anticipated or planned by us, or results that are reflected from time to time in any forward-looking statement. Some of these important factors, but not necessarily all important factors, include the following:

RISKS RELATED TO OUR BUSINESS AND OPERATIONS

We rely on a small number of significant customers.

Our success depends substantially upon retaining our significant clients, such as China Unicom, China Mobile and China Telecom. We cannot guarantee that we will be able to maintain long-term relationships or secure renewals of short-term relationships with our significant clients in the future. If we were to lose such customers, it is unclear if we would be able to replace them or how long it would take to do so. Accordingly, our revenues and profitability would be negatively impacted.

We typically enter into contracts with individual local affiliates of our major customers and treat these local affiliates as separate customers. Although it has been our business practice to interact with each local affiliate individually, they are under the common control of their parent company. Procurement decisions for equipment are now made by the parent company and its local affiliates through a centralized bidding process, which has led to intensified industry-wide pricing pressure.

During the ordinary course of our business, we also experience delays in payments from China Unicom, China Mobile and China Telecom. As explained in the next risk factor, these delays are largely due to our limited bargaining leverage and the resulting lack of a specific timetable in our sale and purchase contracts to require our customers to issue completion certificates and to perform preliminary inspections, which are pre-conditions to their initiation of payments. Despite our constant attempts, we have not been able to significantly change this prevalent practice in our industry due to our limited bargaining leverage, and we expect this practice to continue in coming periods.

Because we have limited bargaining leverage with China Unicom, China Mobile and China Telecom, some contractual terms and market practices are materially adverse to our interests.

China Unicom, China Mobile and China Telecom, or the "Big 3", award contracts through competitive bidding. As China Unicom and China Mobile were the two major licensed wireless operators in China prior to the industry restructuring which was completed in 2008 and even after the restructuring they remain major industry participants, we have limited negotiating leverage with these key clients in the bidding process. As a result, many proposed contractual terms and market practices subject to bidding are materially adverse to our interests. For example, most of our contracts, in the form contained in the bidding materials, do not specify a timetable for our customers to perform the inspection of products we install. This affects our revenues as the inspection by our wireless operator customers is a condition to our recognition of service revenue. Any worsening of these terms and conditions could have a material adverse effect on our liquidity and cash flows from operations.

We have long accounts receivable cycles and long collection periods, and our liquidity and cash flows from operations will deteriorate if our accounts receivable cycles or collection periods continue to lengthen.

As is customary in our industry in China, we experience relatively long accounts receivable cycles and long collection periods (up to approximately 688 days in 2011). These extended accounts receivable cycles and collection periods may adversely affect our cash flow and our ability to fund our operations from operating cash flow. In addition, if our customers experience sales slowdowns or other adverse effects to their business, they may not make payment in a timely fashion, further affecting our extended accounts receivable cycles and long collection periods. Failure of our customers to pay us in a timely manner would negatively affect our working capital, which would in turn adversely affect our cash flow, revenues and operating results in subsequent periods.

We have not entered into any long term contracts with our customers.

All of our agreements with our customers are for short term projects or sales of equipment. While we believe that our significant relationships with the Big 3 will likely provide additional sales agreements in the future, none of our customers are contractually bound to purchase any products or services from us in the future. If our customers do not continue to purchase products or services from us in the future, our business, financial condition and results of operations could be adversely affected.

We depend on a limited number of suppliers.

We rely on certain third-party suppliers to provide us various pieces of telecommunications equipment. If we were to lose our relationships with those suppliers, we may experience difficulties finding suitable replacements for our equipment needs, and our business and operations could be adversely affected. In addition, if any of our major suppliers fails to deliver our required materials in time for our production, and we are unable to find the required materials from other suppliers in a timely manner and on acceptable terms, there will be a delay in our provision of products and services to our customers. Such delays would damage our relationships with our customers and may materially and adversely affect our business operations.

We utilize a third-party production center for the manufacture of the products we sell to our customers. Although we are parties to a memorandum of cooperation regarding such manufacturing arrangement, we cannot be assured that such cooperation will continue indefinitely. Should we be required to utilize a different source for our manufactured products our costs could be adversely affected. We hire third parties to carry out some of the initial installation of our wireless coverage products. We are liable for the failure or inadequacy of their services. If their performance is inadequate, we will be liable for any remedial measures undertaken as a result of such failures. We may also be vulnerable for the loss and unavailability of services resulting from such failures.

If the wireless communication sector in China does not maintain its current pace of growth, or if the telecommunications operators reduce their investments in network coverage in the near future, the profitability and future prospects of our business and our liquidity could be materially and adversely affected.

We generate most of our revenues from the provision of wireless coverage products and services to telecommunications operators in China. Our future success depends on the continued growth of the PRC wireless communication industry. Any slowdown in the development of the wireless communication industry in China or reduction in our customers' expenditure on wireless coverage products and services may reduce market demand for our products and services.

We historically recognized significantly lower revenues in the first quarter, which sometimes resulted in net losses in the first quarter, and our revenues may fluctuate significantly from quarter to quarter in the future, resulting in quarterly net losses.

Our customers typically set their annual budgets at the beginning for each year. Once the annual budget is set, the customers will commence the bidding process for specific projects. As a result, the amount of revenues we could recognize is typically lower during the earlier part of the year, especially during the first quarter. For our standalone service contracts and bundled sale contracts, our customers generally use the same team to manage different aspects of a project, including bidding, contracting and payment. Their work is performed in accordance with their internal annual and semi-annual project management process. As a result, our customers prefer to perform completion and preliminary inspections and sign contracts for each batch of installed projects at the same time. Under our revenue recognition policies, we recognize revenue after we receive the preliminary inspection certificate for our standalone service contracts and for the portion attributable to the provision of integrated services for our bundled sale contracts. Accordingly, we typically recognize higher levels of revenue during the second and third quarter than that of the first quarter, because more wireless coverage products are installed and inspected, and for which completion and preliminary inspection certificates are issued, during the second and the third quarters. During the fourth quarter, especially in December, our major customers, being public companies and influenced by their semi-annual reporting obligations, usually perform completion and preliminary inspections, issue completion and preliminary inspection certificates and sign contracts for a majority of our standalone service contracts and bundled sale contracts. Therefore, we typically recognize the highest level of revenue during the fourth quarter. Nevertheless, because we recognize our revenue from the sale of equipment when delivery has occurred and the customer has signed a contract with us and issued a delivery certificate to us under our standalone equipment contracts, our increased sales of equipment on a standalone basis following the implementation of the centralized billing process has slightly reduced the effect of seasonality on our business.

Whether we continue to have fluctuations in revenues, gross profit margins and earnings in the future will depend largely upon our customers, over which we have very little control. Past quarterly results, therefore, may not provide an accurate indication of future performance or fluctuation. Such fluctuation may have an adverse effect on our liquidity and financial condition.

We may fail to offer products that meet industry standards or our customers' specific requirements, and as a result we may lose customers or orders or incur significant warranty or other costs, and our revenue growth may be materially and adversely affected.

The development of our products is based upon complex technologies, and requires significant time and expertise in order to meet industry standards and customer specifications. Our customers often have their own sets of standards and criteria related to their requirements for wireless coverage products, including standards and criteria mandated by the relevant governmental authorities. We must satisfy such standards and criteria in order to be eligible to supply our products and services to those customers. If we are unable to continue to meet these standards and criteria, we may become ineligible to provide our products and services that have in the past generated most of our revenues and profitability. Furthermore, quality and performance problems could damage our reputation and our relationships with existing and prospective customers and could have a material and adverse effect on our revenue growth.

We customarily provide our customers with one to three years of warranty protection, under which we agree to repair or replace defectively installed wireless coverage products at no additional cost to our customers. Our contracts generally do not contain disclaimers or limitations on product liabilities for special, consequential and incidental damages, nor do we typically cap the amounts our customers may recover for damages. In addition, we do not currently maintain any insurance for product liability or warranty claims. Thus, our failure to offer products and services that meet our customers' specific requirements could give rise to substantial liabilities under our warranties and otherwise.

Our research and development efforts may not lead to successful development of commercially viable or acceptable products, which could cause a decline in customer use of our products.

The markets in which we compete are characterized by:

- Rapidly changing technology;
- Evolving industry standards and transmission protocols;
- Frequent improvements in products and services; and
- Intense competition from well-funded and technologically advanced companies.

To succeed, we must continually improve our current products and develop and introduce new or enhanced products that adequately address the requirements of our customers and are competitive in terms of functionality, performance, quality and price. We expend considerable efforts in the development of new and enhanced RF technology, WFDS™ technology and in their commercial applications, including the development of 3G products and base station RF components. Although we have successfully developed products that meet customers' requirements in the past, there is no assurance that any of our research and development efforts will necessarily lead to any new or enhanced products or generate sufficient market share to justify commercialization.

For example, 4G is a new and evolving technology. Our research and development efforts may not yield new wireless coverage products that are readily deployable in 4G networks and that our customers may not be satisfied with the performance of our 4G coverage products. Under those circumstances, we will not be able to recoup our research and development costs and expenses, we may not be able to serve our customers' 4G needs, and customers may refuse to use our products.

4G is due to overtake 3G as the technology of choice over the next several years and will occupy a considerable percentage of the total market share. If we are unable to react to this change our results will be materially adversely impacted.

More than 150 carriers in 60 countries are committed to 4G deployments and trials. U.S. mobile broadband use is reaching the limits of the available spectrum under 2G and 3G networks, and other countries are likewise on track to exceed the available bandwidth. Thus, if we dedicate ourselves solely to producing traditional 2G and 3G products our results will be negatively impacted.

We face intense competition.

The market for access-network solutions services is intensely competitive in the People's Republic of China and is characterized by rapid technological advancement, frequent development of new products, evolving industry standards and a downward pricing trend over the life cycle of a product. There are numerous other access-network service providers with whom we compete for business. There are low barriers to entry for new competitors in our market and our business may experience a negative impact as a result of increased competition. In addition, our existing or potential competitors may in the future achieve greater market acceptance and gain additional market share or may develop new technology that may make our product less competitive, which in turn could reduce our revenues and operations.

We depend on key personnel for the success of our business.

Our business may be severely disrupted if we lose the services of our key executives and employees or fail to add new senior and middle managers to our management. Our future success is heavily dependent upon the continued service of our key executives, particularly Han Daqing, our Chairman and Chief Executive Officer, Guobin Pan, our President, and Yu Xiaoli, our Chief Financial Officer. Our future success is also dependent upon our ability to attract and retain qualified senior and middle managers to our management team. If one or more of our current or future key executives and employees are unable or unwilling to continue in their present positions, we may not be able to easily replace them, and our business may be severely disrupted. In addition, if any of these key executives or employees joins a competitor or forms a competing company, we could lose customers and suppliers and incur additional expenses to recruit and train personnel. Each of our executive officers has entered into an employment agreement with us.

We also rely on a number of key technology staff for the operation of our Company. The wireless coverage industry is characterized by a high level of employee mobility. Competition in China for experienced RF technology experts is intense. There are few senior-level research and development or technical personnel available for hire as the costs of hiring and retaining such individuals are high, and such personnel may not remain with us once hired. If we are unable to successfully attract or retain senior-level research and development employees, our ability to develop new technologies and products and to effectively conduct our operations could be compromised and our ability to carry on our research and development and other efforts could be materially and adversely affected.

Rapid growth and a rapidly changing operating environment may strain our limited resources.

We will need to increase our investment in our technology infrastructure, facilities and other areas of operations, in particular our product development, in order to facilitate our growth. If we are unable to manage our growth and expansion effectively, the quality of our products and services, and in turn, our customer support, could deteriorate and our business and results of operations may suffer. Our future success will depend on, among other things, our ability to:

- continue to develop through our research and development facilities new technologies acceptable to the PRC market;
- continue training, motivating and retaining our existing employees and attract and integrate new employees, including our senior management;
- develop and improve our operational, financial, accounting and other internal systems and controls; and
- maintain adequate controls and procedures to ensure that our periodic public disclosure under applicable laws, including U.S. securities laws, is complete and accurate.

Current economic conditions may adversely impact demand for our products, reduce access to credit and cause our customers and others with which we do business to suffer financial hardship, all of which could adversely impact our business, results of operations, financial condition and cash flows.

Our business, financial condition and results of operations have and may continue to be affected by various economic factors. The worldwide economy recently underwent a period of slowdown and the future economic environment may continue to be less favorable than that of recent years. This slowdown has, and could further lead to, reduced consumer and business spending in the foreseeable future, including by our customers. Reduced access to credit has and may continue to adversely affect the ability of consumers to purchase our products and system solutions. In addition, economic conditions, including decreased access to credit, may result in financial difficulties leading to restructurings, bankruptcies, liquidations and other unfavorable events for our customers, suppliers and other service providers. If such conditions continue or further deteriorate, our industry, business and results of operations may be severely impacted.

We have limited experience in operating outside mainland China, and failure to expand internationally may have an adverse effect on our business growth in the future.

Our future growth primarily depends on our ability to increase our market share domestically by effectively utilizing our competitive advantages. However, we also intend to increase our international presence and expand our customer base internationally. We currently have 6 sales offices outside of China. While we currently generate less than 5% of our revenue from overseas, we expect the international market, especially the U.S., will represent a significant growth opportunity for us in the future. However, we have limited experience in operating outside mainland China or with foreign regulatory environments and market practices, and we may not be able to penetrate these international markets. Our failure to grow in international markets may have an adverse effect on our business growth in the future.

We may not be able to adequately protect our intellectual property, and we may be exposed to infringement claims by third parties. We rely primarily on a combination of intellectual property laws and contractual restrictions to establish and protect our intellectual property rights. Monitoring unauthorized use of our information services is difficult and costly, and we cannot be certain that the steps we take will effectively prevent misappropriation of our technology and content. Our management may determine in the future to register for patents, copyrights, trademarks or trade secret protection if management determines that such protection would be beneficial and cost-effective.

From time to time, we may have to resort to litigation to enforce our intellectual property rights, which could result in substantial costs and diversion of our resources and may ultimately be unsuccessful. In addition, parties may initiate litigation against us for alleged infringement of their proprietary rights. In the event of a successful claim of infringement and our failure or inability to develop non-infringing technology, content or license the infringed or similar technology or content on a timely basis, our business could suffer. Moreover, even if we are able to license the infringed or similar technology or content, license fees that we pay to licensors could be substantial or uneconomical.

We have limited business insurance coverage, and any significant product liability claim could have a material and adverse effect on our financial condition.

The insurance industry in the PRC is still at an early stage of development. We currently do not maintain any product liability insurance for our products and services, nor do we carry any business interruption insurance, third-party liability insurance for personal injuries, or environmental damage insurance for environmental emissions or accidents on our properties or relating to our operations. There is no assurance that there will not be any product liability claims against us in relation to our products. Furthermore, we cannot assure you that we will not experience any major accidents in the course of our operations, which may cause significant property or environmental damage or personal injuries. Any business disruption, litigation or natural disaster might result in substantial costs and diversions of resources.

If we fail to develop and maintain an effective system of disclosure controls and internal controls over financial reporting, we may not be able to accurately report our financial results or prevent fraud; as a result, current and potential shareholders could lose confidence in the integrity of our financial reports, which could harm our business and the trading price of our common stock.

Effective internal controls are necessary for us to provide timely disclosure of material events affecting our business and reliable financial reports and effectively prevent fraud. Section 404 of the Sarbanes-Oxley Act of 2002. Section 404 requires management to establish and maintain a system of internal control over financial reporting and annual reports on Form 10-K filed under the Exchange Act to contain a report from management assessing the effectiveness of a company's internal control over financial reporting. Separately, under Section 404, as amended by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, public companies that are large accelerated or accelerated filers must include in their annual reports on Form 10-K an attestation report of their regular auditors attesting to and reporting on management's assessment of internal control over financial reporting. Non-accelerated filers and smaller reporting companies are not required to include an attestation report of their auditors in annual reports.

The process of strengthening our internal controls and complying with Section 404 is expensive and time consuming, and requires significant management attention. During the assessment of our internal controls over financial reporting for the year ended December 31, 2011, our management concluded that our disclosure controls and procedures were not effective due to control weaknesses and control deficiencies in our internal control over financial reporting (for details see Item 9A herein). Although we have developed certain remediation plans, which we anticipate will be completed during 2012, we cannot be certain that these measures we have undertaken will ensure that we will maintain adequate controls over our financial processes and reporting in the future.

Furthermore, if we are able to rapidly grow our business, the internal controls that we will need may become more complex, and significantly more resources may be required to ensure our internal controls remain effective. Failure to implement required controls, or difficulties encountered in their implementation, could harm our operating results or cause us to fail to meet our reporting obligations. If we fail to execute our remediation plans, our stockholders and other potential investors may lose confidence in our business operations and the integrity of our financial statements, and may be discouraged from future investments in our company, which may delay or hinder any future business development or expansion plans if we are unable to raise funds in future financings, and our current stockholders may choose to dispose of the shares of common stock they own in our company, which could have a negative impact on our stock price. In the event we are unable to receive a positive attestation from our independent auditors with respect to our internal controls, investors and others may lose confidence in the reliability of our financial statements, which may also lead to a decline in our stock price.

In the future, we expect that we likely will become an accelerated filer. Accordingly, we expect that we will be required to include an attestation report of our auditors in our annual report on Form 10-K. If and when we become subject to the auditor attestation requirements under Section 404, we can provide no assurance that we will receive a positive attestation from our independent auditors. In addition, non-compliance with Section 404 could subject us to a variety of administrative sanctions, including the suspension of trading of our stock on the NASDAQ Select Global Select Market, ineligibility for listing on other national securities exchanges, and the inability of registered broker-dealers to make a market in our common stock, which could further reduce our stock price.

We must comply with the Foreign Corrupt Practices Act and Chinese anti-corruption law.

Since we are a Delaware corporation and a public company in the United States, we are subject to the U.S. Foreign Corrupt Practices Act, or FCPA, which generally prohibits U.S. companies from engaging in bribery or other prohibited payments to foreign officials for the purpose of obtaining or retaining business. The PRC also strictly prohibits bribery of government officials. Our principal customers, the Big 3, are partially owned by the PRC government and our dealings with them are likely to be considered to be with government officials for purposes of these laws. We do not condone bribery on the part of our employees, agents, representatives and consultants. Our employees, agents, representatives and consultants may not always be subject to our control. If any of them violates FCPA or other anti-corruption law, we might be held responsible. In that event, we could suffer severe penalties. In addition, the U.S. government may seek to hold us liable for successor liability FCPA violations committed by companies in which we invest or that we acquire. Non-U.S. companies, including some that may compete with us, are not subject to these prohibitions. If these competitors engage in these practices, they may receive preferential treatment from some companies or other entities to our disadvantage.

RISKS RELATED TO DOING BUSINESS IN CHINA

A downturn in the Chinese economy may slow down our growth and profitability.

The growth of the Chinese economy has been uneven across geographic regions and economic sectors. There can be no assurance that growth of the Chinese economy will be steady or that any downturn will not have a negative effect on our business. Our profitability will decrease if expenditures for wireless services decrease due to a downturn in the Chinese economy. In addition, increased penetration of wireless services in the less economically developed central and western provinces of the PRC will depend on those provinces achieving certain income levels, so that mobile phones and related services become affordable to a significant portion of the population.

Government regulation of the telecommunications industry may become more complex.

Government regulation of the telecommunications industry is highly complex. New regulations could increase our costs of doing business and prevent us from efficiently delivering our services. These regulations may stop or slow down the expansion of our user base and limit the access to our services.

Our ability to generate revenues could suffer if the Chinese market for access-network solutions services does not develop as anticipated.

The wireless services market in the PRC has evolved rapidly over the last several years, with the introduction of new services, development of consumer preferences, market entry by new competitors and adaptation of strategies by existing competitors. We expect each of these trends to continue, and we must continue to adapt our strategy to successfully compete in our market.

In particular, we currently offer a wide range of access-network solutions services; however, there are no assurances that any of these technologies and any services compatible with them will be accepted by consumers or promoted by the mobile operators. Accordingly, it is extremely difficult to accurately predict consumer acceptance and demand for various existing and potential new offerings and services, and the future size, composition and growth of this market.

Our ability to compete on a nationwide scale may be impaired due to state-owned competitors.

Although we believe our strongest competitors are other privately held Chinese companies, we face direct competition with telecommunications companies which are either state-owned or state-run. In certain circumstances, these state-owned competitors may receive preferential treatment, particularly in the awarding of governmental contracts.

The uncertain legal environment in China could limit the legal protections available to you.

The Chinese legal system is a civil law system based on written statutes. Unlike common law systems, it is a system in which precedents set in earlier legal cases are not legally binding. The overall effect of legislation enacted over the past 20 years has been to enhance the protections afforded to foreign invested enterprises in China. However, these laws, regulations and legal requirements are relatively recent and are evolving rapidly and their interpretation and enforcement involve uncertainties. In addition, the PRC legal system is based in part on government policies and internal rules (some of which are not published on a timely basis or at all) that may have a retroactive effect. As a result, we may not be aware of our violation of these policies and rules until some time after the violation. These uncertainties could limit the legal protections available to foreign investors, such as the right of foreign invested enterprises to hold licenses and permits such as requisite business licenses. In addition, all of our executive officers and our directors are residents of China, and substantially all the assets of these persons are located outside the U.S. As a result, it could be difficult for investors to effect service of process in the U.S., or to enforce a judgment obtained in the U.S. against us or any of these persons.

Moreover, the enforceability of contracts in China, especially with governmental entities, is relatively uncertain. If counterparties repudiated our contracts or defaulted on their obligations, we might not have adequate remedies. Such uncertainties or inability to enforce our contracts could materially and adversely affect our revenues and earnings.

Adverse changes in political and economic policies of the PRC government could impede the overall economic growth of China, which could reduce the demand for our products and damage our business.

We conduct substantially all of our operations and generate most of our revenue in China. Accordingly, our business, financial condition, results of operations and prospects are affected significantly by economic, political and legal developments in China. The PRC economy differs from the economies of most developed countries in many respects, including:

- a higher level of government involvement;
- an early stage of development of the market-oriented sector of the economy;
- a rapid growth rate;
- a higher level of control over foreign exchange; and

- the control over the allocation of resources.

As the PRC economy has transitioned from a planned economy to a more market-oriented economy, the PRC government has implemented various measures to encourage economic growth and guide the allocation of resources. Although these measures may benefit the overall PRC economy, they may also have a negative effect on us.

Although the PRC government has in recent years implemented measures emphasizing the utilization of market forces for economic reform, the PRC government continues to exercise significant control over economic growth in China through the allocation of resources, controlling the payment of foreign currency-denominated obligations, setting monetary policy and imposing policies that impact particular industries or companies in different ways.

Any adverse change in economic conditions or government policies in China could have a material adverse effect on the overall economic growth in China, which in turn could lead to a reduction in demand for our products and services and consequently have a material adverse effect on our business and prospects.

Restrictions on currency exchange may limit our ability to receive and use our revenues effectively or to pay dividends in U.S. Dollars.

Because almost all of our future revenues may be in the form of RMB, any future restrictions on currency exchanges may limit our ability to use revenue generated in RMB to fund any future business activities outside the PRC or to make dividend or other payments in U.S. Dollars. Under current PRC laws and regulations, payments of current account items, including profit distributions, interest payments and operation-related expenditures, may be made in foreign currencies without prior approval from SAFE, but are subject to procedural requirements including presenting relevant documentary evidence of such transactions and conducting such transactions at designated foreign exchange banks within China that have the licenses to carry out foreign exchange business. Strict foreign exchange control continues to apply to capital account transactions. These transactions must be approved by or registered with SAFE, and repayment of loan principal, direct capital investment and investment in negotiable instruments are also subject to restrictions. We cannot assure you that we will be able to meet all of our foreign currency obligations or to remit profits out of China. If future changes in relevant regulations were to place restrictions on the ability of our PRC subsidiaries to remit dividend payments to us, our liquidity and ability to satisfy our third-party payment obligations, and our ability to distribute dividends, could be materially adversely affected. Further, restrictions on the convertibility of the Renminbi for capital account transactions could also affect the ability of our PRC subsidiaries to make investments overseas or to obtain foreign exchange funds through debt or equity financings, including by means of loans or capital contributions from us.

The Chinese government exerts substantial influence over the manner in which we must conduct our business activities.

The Chinese government has exercised and continues to exercise substantial control over virtually every sector of the Chinese economy through regulation and state ownership. Our ability to operate in China may be harmed by changes in its laws and regulations, including those relating to taxation, import and export tariffs, environmental regulations, land use rights, property and other matters. We believe that our operations in China are in material compliance with all applicable legal and regulatory requirements. However, the central or local governments of these jurisdictions may impose new, stricter regulations or interpretations of existing regulations that would require additional expenditures and efforts on our part to ensure our compliance with such regulations or interpretations. Accordingly, government actions in the future, including any decision not to continue to support recent economic reforms and to return to a more centrally planned economy or regional or local variations in the implementation of economic policies, could have a significant effect on economic conditions in China or particular regions thereof, and could require us to divest ourselves of any interest we then hold in Chinese properties.

Future inflation in China may inhibit our ability to conduct business in China.

In recent years, the Chinese economy has experienced periods of rapid expansion and high rates of inflation. During the past ten years, the rate of inflation in China has been as high as 20.7% and as low as -2.2%. These factors have led to the adoption by the Chinese government, from time to time, of various corrective measures designed to restrict the availability of credit or regulate growth and contain inflation. While inflation has been more moderate since 1995, high inflation may in the future cause the Chinese government to impose controls on credit and/or prices, or to take other action, which could inhibit economic activity in China, and thereby harm the market for our products.

Cessation of the preferential treatment of income tax may have an adverse impact on our net income.

China passed a new PRC Enterprise Income Tax Law (the "EIT Law") and its implementing rules, both of which became effective on January 1, 2008. The EIT Law imposes a unified enterprise income tax rate of 25% on all domestic enterprises and foreign-invested enterprises unless they qualify under certain limited exceptions. Under the EIT Law and it implementing rules, companies established before March 16, 2007 and had enjoyed preferential tax rates previously shall gradually become subject to the 25% rate over a five-year transition period, and enterprises that were established before March 16, 2007 and were eligible for preferential tax exemptions or reductions within the specified time under the then effective laws and regulations will continue to enjoy the original preferential tax exemptions or reductions until the expiration of the specified terms, except that the relevant exemption or reduction shall start from the year of 2008 if the first profitable year of the relevant enterprise is later than January 1, 2008. Certain qualified high-technology enterprises may still enjoy a preferential tax rate of 15%. Currently, our PRC subsidiaries, Beijing Telestone and BTWTC, are specified as "high-technology enterprises" are eligible for the preferential tax rate of 15%. If its PRC subsidiaries cease to qualify as "high-technology enterprises," our financial condition and results of operations could be materially and adversely affected.

We may be deemed as a PRC resident enterprise under the EIT Law and be subject us to PRC income tax for our global income and withholding income tax for any dividends we pay to our non-PRC shareholders on profits earned after January 1, 2008.

Under the EIT Law, enterprises established outside of China whose "de facto management bodies" are located in China are considered "resident enterprises" and will generally be subject to the uniform 25% enterprise income tax rate as to their global income. Under the Implementation Rules for the EIT Law, "de facto management bodies" is defined as the bodies that have material and overall management control over the business operations, personnel, accounts, and properties of the an enterprise. In April 2009, the PRC State Administration of Taxation (the "SAT") promulgated a circular to clarify the criteria to determine whether the "de facto management bodies" are located within the PRC for enterprises incorporated overseas with controlling shareholders being PRC enterprises.

The EIT Law and its Implementation Rules are relatively new and ambiguities exist with respect to the interpretation of the provisions relating to resident enterprise issues. As substantially all of our management is currently based in China and may remain in China in the future, we may be treated as a PRC resident enterprise for PRC enterprise income tax purposes. If we are deemed as a PRC resident enterprise, we will be subject to PRC enterprise income tax at the rate of 25% on our worldwide income. In that case, however, dividend income we receive from our PRC subsidiaries may be exempt from PRC enterprise income tax because the EIT Law and its Implementation Rules generally provide that dividends received by a PRC resident enterprise from its directly invested entity that is also a PRC resident enterprise are exempt from enterprise income tax. However, as there is still uncertainty as to how the EIT Law and its Implementation Rules will be interpreted and implemented, we cannot assure you that we are eligible for such PRC enterprise income tax exemptions or reductions.

We are a holding company that relies heavily on dividend payments from our subsidiary for funding.

The PRC laws require that dividends be paid only out of the net profit calculated according to the generally accepted accounting principles in the PRC, which differ from the generally accepted accounting principles in other jurisdictions. The PRC laws also require foreign-invested or domestic-funded enterprises to set aside part of their net profit as statutory reserves. These statutory reserves are not available for distribution as cash dividends. As a result, our ability to pay dividends will be restricted by the prevailing PRC laws.

In addition, we are incorporated in Delaware and hold interests in our subsidiaries in the PRC through Success Million International Limited, a Hong Kong incorporated company. Under the EIT Law, if a foreign entity is deemed to be a "non-resident enterprise" as defined under the EIT Law and its Implementation Rules and (i) it has no establishment or premise in the PRC, or (ii) it has an establishment or premise in the PRC, but its income sourced within the PRC has no real connection with such establishment or premise, a withholding tax at the rate of 10% will be applicable to any dividends for earnings of its PRC subsidiaries accumulated since January 1, 2008 payable to the foreign entity, unless it is entitled to reduction or elimination of such tax, including by tax treaties or agreements. According to the double taxation avoidance arrangement between the PRC and Hong Kong, dividends paid by a foreign-invested enterprise, such as Beijing Telestone, in the PRC to its shareholder(s) incorporated in Hong Kong, such as Success Million International Limited, may be subject to withholding tax at a rate of 5% if the Hong Kong company directly holds 25% or more interest in the PRC enterprise. Under Circular 124 issued by the SAT on August 24, 2009 and effective on October 1, 2009, a non-resident enterprise needs to obtain approval from the competent local branch of the SAT in order to enjoy the preferential withholding tax rate on dividends under tax treaties. In addition, the SAT issued Circular 601 on October 27, 2009, which addresses which entities are treated as "beneficial owners" eligible for tax benefits under the tax treaties on dividends, interest and royalties. According to Circular 601, the PRC tax authorities must evaluate whether an applicant (income recipient) qualifies as a "beneficial owner" on a case-by-case basis based on the “substance over form” principle. It is possible, based on these principles, that the PRC tax authorities would not consider our Hong Kong subsidiary Success Million International Limited as the “beneficial owner” of any dividends paid from our PRC subsidiary Beijing Telestone and thus would deny the claim for the reduced rate of withholding tax. Under the current PRC tax law, this would result in dividends from Beijing Telestone to Success Million International Limited being subject to PRC withholding tax at a 10% rate instead of a 5% rate. This would negatively impact us and it would impact our ability to receive more net dividends.

Gains on the sales of our shares by foreign investors and dividends on our shares payable to foreign investors may become subject to PRC income taxes

Under the EIT Law and its Implementation Rules, any gain realized by "non-resident enterprises" is subject to 10% withholding tax to the extent such gain is sourced within the PRC and (i) such "nonresident enterprise" has no establishment or premise in the PRC, or (ii) it has an establishment or premise in the PRC, but its income sourced within the PRC has no real connection with such establishment or premise, unless otherwise exempted or reduced by tax treaties. The EIT Law and its Implementation Rules are relatively new and ambiguities exist with respect to the interpretation of the provisions relating to identification of PRC-sourced income. If we are recognized as a PRC resident enterprise under the EIT Law by the PRC tax authorities, we may be required to withhold PRC income tax on capital gains realized from sales of our shares by and dividends distributed to our shareholders that are "non-resident enterprises," as such income may be regarded as income from "sources within the PRC." In such case, our foreign shareholders that are "non-resident enterprises" may become subject to a 10% withholding income tax under the EIT Law, unless any such foreign shareholder is qualified for a preferential withholding rate or tax exemption under a tax treaty or tax law.

Failure to comply with the SAFE regulations relating to the establishment of offshore special purpose companies by PRC residents may adversely affect our business operations.

In October 2005, SAFE issued a circular concerning foreign exchange regulations on investments by PRC residents in China through special purpose companies incorporated overseas, or the SAFE Circular No 75. The circular states that, if PRC residents use assets or equity interests in their domestic entities as capital contributions to establish offshore companies or inject assets or equity interests of their PRC entities into offshore companies to raise capital overseas, such PRC residents must register with local SAFE branches with respect to their overseas investments in offshore companies and must also file amendments to their registrations if their offshore companies experience material events, such as changes in share capital, share transfer, mergers and acquisitions, spin-off transactions or use of assets in China to guarantee offshore obligations. The SAFE subsequently issued relevant guidance with respect to the operational process for the SAFE registration under the SAFE Circular No. 75, which standardized more specific and stringent supervision on the registration relating to the SAFE Circular No. 75 and imposed obligations on onshore subsidiaries of overseas special purpose companies to coordinate with and supervise the beneficial owners of such overseas special purpose companies who are PRC residents to complete the SAFE registration process. Mr. Han Daqing, a PRC resident and one of the beneficial owners of the Company, has not completed the relevant registration procedures pursuant to the SAFE Circular No. 75. Failure of our beneficial owners who are PRC residents to make their SAFE registrations or timely amend their SAFE registrations pursuant to the SAFE Circular No. 75 may subject the beneficial owners or our PRC subsidiaries to fines and legal sanctions, limit our PRC subsidiaries' ability to distribute dividends, repay foreign loans or make other outbound payments, limit our ability to make capital contributions, or foreign exchange-denominated loans to our PRC subsidiaries or other inbound payments or otherwise adversely affect our business operations.

Failure to comply with PRC regulations in respect of the registration of our PRC citizen employees' shares or share options may subject such employees or us to fines and legal or administrative sanctions.

Pursuant to the Implementation Rules of the Administration Measure for Individual Foreign Exchange issued by SAFE on January 5, 2007 and Operation Rules on the Foreign Exchange Administration of the Participation of Domestic Individuals in Overseas Listed Companies' Employee Stock Ownership Plans and Share Option Schemes issued by SAFE on March 28, 2007, PRC citizens who are granted shares or share options by an overseas listed company under its employee share option or share incentive plan are required, through the PRC subsidiary of such overseas listed company or other qualified PRC agents, to register with SAFE and complete certain other procedures related to the share options or other share incentive plans. Foreign exchange income from the sale of shares or dividends distributed by the overseas listed company may be remitted into a foreign currency account of such PRC citizen or be exchange into RMB. In addition, the overseas listed company or its PRC subsidiary or other qualified PRC agent is required to appoint an asset manager or administrator, appoint a custodian bank and open dedicated foreign currency accounts to handle transactions relating to the share option scheme or other share incentive plan. Our Company and its PRC citizen employees who will be granted share options will be subject to these rules. If our Company or our PRC citizen employees fail to comply with these rules in the future, our Company or our PRC citizen employees may be subject to fines and other legal or administrative sanctions, which could have a material adverse effect on our business and results of operations.

PRC laws and regulations governing our businesses and the validity of certain of our contractual arrangements are uncertain. If we are found to be in violation of such PRC laws and regulations, we could be subject to sanctions. In addition, changes in such PRC laws and regulations may materially and adversely affect our business.

Various regulations in China currently restrict or prevent foreign-invested entities from engaging in certain sectors. Because of these restrictions, certain of our operations in the PRC, namely the wireless telecommunication networking and system integration businesses, are conducted through our VIE, BTWTC, a PRC company that is owned by PRC citizens, but which is effectively controlled by our subsidiary, Beijing Telestone, through a series of contractual arrangements.

A circular issued by the Ministry of Industry and Information Technology ("MIIT") in July 2006, or the MIIT circular, reiterated the regulations on foreign investment in telecommunications businesses. Under this circular, a domestic company that holds a license to conduct any value-added telecommunications business in China, is prohibited from leasing, transferring or selling the license to foreign investors in any form, and from providing any assistance, including providing resources, sites or facilities, to foreign investors to conduct value-added telecommunications businesses illegally in China. In addition, all value-added telecommunications service providers are required to maintain network and information security in accordance with the standards set forth under relevant PRC regulations. Due to a lack of interpretative materials from the regulators, it is uncertain whether MIIT would consider our corporate structures and contractual arrangements as a kind of foreign investment in telecommunication services. Therefore, it is unclear what impact this circular will have on us or the other Chinese telecommunications companies that have adopted the same or similar corporate structures and there are substantial uncertainties regarding the interpretation and application of PRC laws and regulations, including, but not limited to, the laws and regulations governing our business, or the enforcement and performance of our contractual arrangements with our VIE, BTWTC, and its shareholders. In addition, new laws and regulations that affect our existing and proposed future businesses may also be applied retroactively. Therefore, we cannot assure you that these contractual arrangements would not be found in violation of any current or future PRC laws or regulations. If we are found to be in violation of any existing or future PRC laws or regulations, including the MIIT circular, the relevant regulatory authorities would have broad discretion in dealing with such violations, including levying fines, confiscating our income, revoking BTWTC's business or operating licenses, requiring us to restructure the relevant ownership structure or operations, and requiring us to discontinue all or any portion of our operations, or taking other regulatory or enforcement actions against us that could be harmful to our business. Any of these actions could significantly disrupt our business operations or restrict us from conducting a substantial portion of our business operations, which could materially and adversely affect our business, financial condition and results of operations.

We rely on contractual arrangements with our VIE and its subsidiaries and its shareholders for certain of our China based operations, which may not be as effective in providing operational control as would direct ownership, or as effective in enabling us to derive economic benefits as would ownership of a controlling equity interest.

We rely on contractual arrangements with our VIE and its shareholders to operate our businesses. These contractual arrangements may not be as effective in providing us with control over our VIE as would direct ownership. If we had direct ownership of these entities, we would be able to exercise our rights as a shareholder to effect changes in the boards of directors of our VIE, which in turn could effect changes, subject to any applicable fiduciary obligations, at the management level. However, if our VIE or its shareholders fails to perform its or his respective obligations under these contractual arrangements, we may not be able to enforce the relevant agreements if the agreements are ruled in violation of the PRC laws as mentioned above. We may have to incur substantial costs and expend significant resources to enforce them, and seek legal remedies under PRC law, including specific performance or injunctive relief, and claiming damages, which may not be effective. Accordingly, it may be difficult for us to change our corporate structure or to bring claims against our VIE if it does not perform its obligations under its contracts with us.

Many of these contractual arrangements are governed by PRC law and provide for the resolution of disputes through either arbitration or litigation in the PRC. Accordingly, these contracts would be interpreted in accordance with PRC law and any disputes would be resolved in accordance with PRC legal procedures. The legal environment in the PRC is not as developed as in other jurisdictions, such as the United States. As a result, uncertainties in the PRC legal system could limit our ability to enforce these contractual arrangements. In the event we are unable to enforce these contractual arrangements, we may not be able to exert effective control over our VIE, and our ability to conduct our business may be negatively affected.

The beneficial owners of Beijing Telestone Wireless Telecommunications Company Limited may have potential conflicts of interest with us.

Conflicts of interests between the beneficial owners of our VIE and our company may arise. We cannot assure you that when conflicts of interest arise, any or all of these individuals will act in the best interests of the Company or that any conflict of interest will be resolved in our favor. In addition, these individuals may breach or cause our VIE to breach or refuse to renew the existing contractual arrangements, which will have a material adverse effect on our ability to effectively control our VIE and receive economic benefits from it. If we cannot resolve a conflict of interest or dispute between us and the beneficial owners of our VIE, we would have to rely on legal proceedings, the outcome of which would be uncertain and which could be disruptive to our business.

A significant part of our revenues are generated through our VIE, and we rely on payments made by our VIE to Beijing Telestone, our subsidiary, pursuant to contractual arrangements to transfer any such revenues. Any restriction on such payments and any increase in the amount of PRC taxes applicable to such payments may materially and adversely affect our business and our ability to pay dividends to our shareholders.

We conduct substantially all of our operations through BTWTC, our VIE, which generates a significant part of our revenues. As our VIE is not owned by our subsidiaries, it is not able to make dividend payments to our subsidiaries. Instead, Beijing Telestone, our subsidiary in China, entered into a number of contracts with our VIE pursuant to which our VIE pays Beijing Telestone for certain services. However, depending on the nature of services provided, certain of these payments are subject to PRC taxes at different rates, including business taxes and VATs, which effectively reduce the amount that Beijing Telestone receives from our VIE. We cannot assure you that the PRC government will not impose restrictions on such payments or change the tax rates applicable to such payments. Any such restrictions on such payment or increases in the applicable tax rates may materially and adversely affect our ability to receive payments from our VIE or the amount of such payments, and may in turn materially and adversely affect our business, our net income and our ability to pay dividends to our shareholders.

We have not yet completed registration our pledge rights over the equity interests of BTWTC held by its shareholders. We cannot guarantee that no third-party will be able to register its right before we complete the registration. Such third-party registration may result in inadequate protection of our rights against any third-party to whom the shareholders might re-pledge their equity interests.

Our contractual arrangements with BTWTC include equity pledge agreement pursuant to which the shareholders of BTWTC have pledged their equity interests in BTWTC to Beijing Telestone as security for the performance of BTWTC's obligations under the Exclusive Business Cooperation Agreement. We intend to register the pledge rights with the relevant local administration for industry and commerce. According to the Property Rights Law, which became effective on October 1, 2007, after the effective date of our equity pledge agreements, pledge rights for a pledge of equity are created at the time of registration of the pledge with the relevant administration for industry and commerce. While the aforesaid equity pledge agreement were legally binding and valid under the then-applicable PRC laws and regulations when such agreements were entered into, currently it is unclear whether the Property Rights Law would have a retroactive effect, due to the lack of relevant interpretation and implementation of such law. We may need to register our existing pledges with the relevant administration for industry and commerce, if so required by the future interpretation and implementation and plan to do so in the near future, before any bona fide third party could register its pledge rights in order to protect our pledge rights against any third party to whom the shareholders might re-pledge their equity interests. Although we are in the process of registering our equity pledge, we cannot assure you that we will be able to have our equity pledge registration processed by the relevant administration for industry and commerce before any third party would be able to complete the registration.

SAFE rules and regulations may limit our ability to transfer the net proceeds from any offering of securities to our VIE in the PRC, which may adversely affect the business expansion of the VIE, and we may not be able to convert the net proceeds from any offering into RMB to invest in or acquire any other PRC companies, or establish other affiliates in the PRC.

On August 29, 2008, SAFE promulgated Circular 142, a notice regulating the conversion by a foreign-invested company of foreign currency into Renminbi by restricting how the converted Renminbi may be used. The notice requires that the registered capital of a foreign-invested company settled in Renminbi converted from foreign currencies may only be used for purposes within the business scope approved by the applicable governmental authority and may not be used for equity investments within the PRC. In addition, SAFE strengthened its oversight of the flow and use of the registered capital of a foreign-invested company settled in Renminbi converted from foreign currencies. The use of such Renminbi capital may not be changed without SAFE's approval, and may not in any case be used to repay Renminbi loans if the proceeds of such loans have not been used. Violations of Circular 142 will result in severe penalties, such as heavy fines. As a result, Circular 142 may significantly limit our ability to transfer the net proceeds from any securities offering to our VIE through our subsidiary in the PRC, which may adversely affect the business expansion of our VIE, and we may not be able to convert the net proceeds from any securities offering into Renminbi to invest in or acquire any other PRC companies, or establish other VIEs in the PRC.

Our primary source of funds for dividends and other distributions from our operating subsidiary in China is subject to various legal and contractual restrictions and uncertainties, and our ability to pay dividends or make other distributions to our shareholders is negatively affected by those restrictions and uncertainties.

Current PRC regulations permit our PRC subsidiaries to pay dividends to us only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. However, our PRC subsidiaries are required under PRC laws and regulations to allocate a portion of their annual after-tax profits, if any, to certain statutory reserves and funds prior to declaring and remitting dividends. For example, our PRC subsidiaries are required to allocate at least 10% of their after-tax profits to statutory reserves until such reserves reach 50% of their respective registered capital. Allocations to these statutory reserves and funds can be used only for specific purposes and are not transferable to us in the form of loans, advances or cash dividends. As a result, our PRC subsidiaries are restricted in their ability to transfer a portion of their net assets to us.

The payment for our acquisition of Beijing Telestone Technologies Co., Ltd. may be challenged by PRC regulators.

We acquired all of the shares of Beijing Telestone in 2004 through SMI by paying the sellers shares of the Company. According to the then effective PRC regulations, using shares as payment for the acquisition of a PRC domestic company should be approved by SAFE or its local branch. We have not applied to and obtained SAFE's approval for the payment for our acquisition of Beijing Telestone. Although the PRC law does not provide any explicit legal consequences for such non-compliance and such non-compliance has not been challenged by SAFE or any other authorities so far, we cannot assure you that it will not be challenged by SAFE or any other authorities in the future. If the legality of the payment of consideration for the acquisition was challenged by SAFE or any other authorities, such authorities may impose fines and legal sanctions on us or restrict our foreign exchange activities. In that case, our business, financial condition and results of operations may be adversely affected.

The fluctuation of the Renminbi may materially and adversely affect your investment.

The value of the Renminbi is subject to changes in PRC government policies and depends to a large extent on China's domestic and international economic, financial and political developments, as well as the currency's supply and demand in the local market. For over a decade from 1994, the conversion of Renminbi into foreign currencies, including the U.S. Dollar, was based on exchange rates set and published daily by the People's Bank of China, the PRC's central bank. The official exchange rate for the conversion of Renminbi into U.S. Dollars remained stable until the Renminbi was revalued in July 2005 and allowed to fluctuate by reference to a basket of foreign currencies, including the U.S. Dollar. Under the new policy, the Renminbi was to be permitted to fluctuate within a band against a basket of foreign currencies. As a result, as of March 30, 2012, the Renminbi has appreciated approximately 30% against the U.S. Dollar since July 2005. There remains significant international pressure on the PRC government to adopt a substantially more liberalized currency policy, which could result in a further and more significant appreciation in the value of the Renminbi against the U.S. Dollar. Further revaluations of the Renminbi against the U.S. Dollar may also occur in the future. Since our income and profits are denominated in Renminbi, any appreciation of the Renminbi would increase the value of, and any dividends payable on, our shares in foreign currency terms. Conversely, any depreciation of the Renminbi would decrease the value of, and any dividends payable on, our shares in foreign currency terms. In addition, we have U.S. Dollar-denominated bank deposits in our offshore bank account, which is subject to PRC foreign exchange control regulations and could not be exchanged into Renminbi freely, any appreciation of the Renminbi could adversely affect the value of our U.S. Dollar-denominated bank deposits.

Any recurrence of severe acute respiratory syndrome, ("SARS"), or another widespread public health problem, could adversely affect our business and results of operations.

A renewed outbreak of influenza A (H1N1), avian flu, SARS or another widespread public health problem in the PRC, where all of our revenue is derived, and in Beijing where our operations are headquartered, could have a negative effect on our operations. Our operations may be impacted by a number of health-related factors, including the following:

- Quarantines or closures of some of our offices, which would severely disrupt our operations;
- The sickness or death of our key officers and employees; and
- A general slowdown in the Chinese economy.

Any of the foregoing events or other unforeseen consequences of public health problems could adversely affect our business and results of operations.

You may face difficulties in protecting your interests, and your ability to protect your rights through the U.S. federal courts may be limited. All of our subsidiaries are incorporated in non-U.S. jurisdictions, we conduct substantially all of our operations in China, and all of our officers reside outside the United States.

We conduct substantially all of our operations in China through our wholly owned subsidiaries in China. All of our officers reside outside the United States and some or all of the assets of those persons are located outside of the United States. As a result, it may be difficult or impossible for you to bring an action against us or against these individuals in China in the event that you believe that your rights have been infringed under the securities laws or otherwise. Even if you are successful in bringing an action of this kind, the laws of the PRC may render you unable to enforce a judgment against our assets or the assets of our directors and officers. As a result of all of the above, our public stockholders may have more difficulty in protecting their interests through actions against our management, directors or major stockholders than would stockholders of a corporation doing business entirely within the United States.

RISKS RELATED TO OUR SHARES

The market price for our common stock is volatile.

The market price for our common stock is highly volatile and subject to wide fluctuations in response to factors including the following:

- Actual or anticipated fluctuations in our quarterly operating results;
- Announcements of new products and services by us or our competitors;
- Changes in financial estimates by securities analysts;
- Changes in the economic performance or market valuations of other companies providing similar products and services;
- Announcements by our competitors of significant acquisitions, strategic partnerships, joint ventures or capital commitments;
- Additions or departures of key personnel;
- Potential litigation;
- Conditions in the markets in which we operate; or
- Weak liquidity.

In addition, the securities markets have from time to time experienced significant price and volume fluctuations that are not related to the operating performance of particular companies. These market fluctuations may also materially and adversely affect the market price of our common stock.

The value of our securities will be affected by the foreign exchange rate between U.S. Dollars and Renminbi.

The value of our common stock will be affected by the foreign exchange rate between U.S. Dollars and Renminbi. For example, to the extent that we need to convert U.S. Dollars into Renminbi for our operational needs and should the Renminbi appreciate against the U.S. Dollar at that time, our financial position and the price of our common stock may be adversely affected. Conversely, if we decide to convert our Renminbi into U.S. Dollars for the purpose of declaring dividends on our ordinary shares or for other business purposes and the U.S. Dollar appreciates against the Renminbi, the U.S. Dollar equivalent of our earnings from our subsidiaries in the PRC would be reduced.

Stockholders could experience substantial dilution.

We may issue additional shares of our capital stock to raise additional cash for working capital or for other purposes. If we issue additional shares of our capital stock, our stockholders will experience dilution in their respective percentage ownership in the company and may experience dilution in the value of their shares.

We have no present intention to pay dividends.

We have never paid dividends or made other cash distributions on our common stock, and do not expect to declare or pay any dividends in the foreseeable future. We intend to retain future earnings, if any, for working capital and to finance current operations and expansion of our business.

A large portion of our common stock is controlled by a small number of stockholders.

A large portion of our common stock is held by a small number of stockholders. As of March 30, 2012, our directors and officers collectively owned approximately 26.99% of the company's outstanding common stock. As a result, these stockholders are able to influence the outcome of stockholder votes on various matters, including the election of directors and extraordinary corporate transactions including business combinations. This concentration of ownership could have the effect of delaying or preventing a change in our control or otherwise discouraging a potential acquirer from attempting to obtain control of us, which in turn could have a material and adverse effect on the market price of the common stock or prevent our stockholders from realizing a premium over the market prices for their shares of common stock. In addition, the occurrence of sales of a large number of shares of our common stock, or the perception that these sales could occur, may affect our stock price and could impair our ability to obtain capital through an offering of equity securities. Furthermore, the current ratios of ownership of our common stock reduce the public float and liquidity of our common stock which can in turn affect the market price of our common stock.

The limited prior public market and trading market may cause volatility in the market price of our common stock.

Our common stock is currently traded on the NASDAQ Global Select Market under the symbol "TSTC." The quotation of our common stock on the NASDAQ Global Select Market does not assure that a meaningful, consistent and liquid trading market currently exists, and in recent years such market has experienced extreme price and volume fluctuations that have particularly affected the market prices of many smaller companies like us. Our common stock is thus subject to volatility. In the absence of an active trading market:

- investors may have difficulty buying and selling or obtaining market quotations;
- market visibility for our common stock may be limited; and
- a lack of visibility for our common stock may have a depressive effect on the market for our common stock.

Shares eligible for future sale may adversely affect the market price of our common stock, as the future sale of a substantial amount of our restricted stock in the public marketplace could reduce the price of our common stock.

From time to time, certain of our stockholders may be eligible to sell all or some of their shares of common stock by means of ordinary brokerage transactions in the open market pursuant to Rule 144, promulgated under the Securities Act ("Rule 144"), subject to certain limitations. Under the 2008 amendments to Rule 144, a person who has beneficially owned restricted shares of our common stock or warrants for at least six months would be entitled to sell their securities provided that (i) such person is not deemed to have been one of our affiliates at the time of, or at any time during the three months preceding, a sale and (ii) we are subject to the Exchange Act periodic reporting requirements for at least three months before the sale.

Persons who have beneficially owned restricted shares of our common stock or warrants for at least six months but who are our affiliates at the time of, or at any time during the three months preceding, a sale, would be subject to additional restrictions, by which such person would be entitled to sell within any three-month period only a number of securities that does not exceed the greater of either of the following:

- 1% of the total number of securities of the same class then outstanding; or
- the average weekly trading volume of such securities during the four calendar weeks preceding the filing of a notice on Form 144 with respect to the sale;
- provided, in each case, that we are subject to the Exchange Act periodic reporting requirements for at least three months before the sale; and
- such sales both by affiliates and by non-affiliates must also comply with the manner of sale, current public information and

notice provisions of Rule 144.

ITEM 1B: UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We currently occupy 50 offices, including one branch office in which we maintain certain ownership rights. The balance of our office space is leased by us under lease arrangements we deem to be satisfactory. In addition we lease 54 buildings used by us as warehouses and dormitories in the PRC and 2 building as our research and development center. We lease our headquarters, located at Floor 9 and Floor 10, Ruida Plaza, No. 74 Lugu Road, Shi Jingshan District, Beijing, PRC 100040, for $892,537 per year, pursuant to an operating lease that expires in August 2013.

ITEM 3. LEGAL PROCEEDINGS

None.

PART II

ITEM 5. MARKET FOR COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND SMALL BUSINESS ISSUER PURCHASES OF EQUITY SECURITIES

The shares of our common stock are currently traded on the NASDAQ Global Select Market under the trading symbol "TSTC". The shares of our common stock were traded on the American Stock Exchange ("AMEX") from May 2005 to September 2006. In late September 2006, we were transferred from AMEX and our shares of common stock began trading on the NASDAQ Capital Market.

On January 30, 2007 the NASDAQ Stock Market approved Telestone's transfer from its NASDAQ Capital Market listing to a NASDAQ Global Select Market listing. Our shares of common stock continue to trade under the trading symbol "TSTC".

Holders. As of March 30, 2012, we had 218 holders of shares of common stock of record.

The following table sets forth the quarterly average high and low bid prices per share for the common stock for the past two years:

Fiscal Year Ended December 31, 2011	Common Stock High	Common Stock Low
First Quarter	$ 11.64	$ 5.96
Second Quarter	$ 8.49	$ 5.00
Third Quarter	$ 7.00	$ 5.95
Fourth Quarter	$ 9.55	$ 3.90

Fiscal Year Ended December 31, 2010	Common Stock High	Common Stock Low
First Quarter	$ 24.94	$ 12.62
Second Quarter	$ 18.17	$ 8.28
Third Quarter	$ 14.85	$ 7.29
Fourth Quarter	$ 15.48	$ 9.85

Such quotations are without retail mark-ups, mark-downs or commissions, and may not represent actual transactions and have not been adjusted for stock dividends or splits.

Dividends. We have never declared or paid any cash dividends or distributions on our common stock. We currently intend to retain our future earnings to support operations and to finance future growth and expansion and, therefore, do not anticipate paying any cash dividends on our common stock in the foreseeable future.

Transfer Agent and Registrar. Our transfer agent is Corporate Stock Transfer, located at 3200 Cherry Creek Drive South, Suite 430, Denver, Colorado 80209. Their telephone number is (303) 282-4800.

Securities Authorized for Issuance Under Equity Compensation Plans.

The table below shows the December 31, 2011 equity compensation plan information.

EQUITY COMPENSATION PLAN INFORMATION

Plan Category	(1) # of securities to be issued upon exercise of outstanding options, warrants, rights	(2) Weighted-average exercise price of outstanding options, warrants, rights ($)	(3) # of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column)
Equity Compensation Plans Approved by Security Holders	550,035	11.05	1,239,965
Total	550,035	11.05	1,239,965

* For the material terms of the plan please see our DEF 14A provided to the SEC on June 3, 2005 with our 2005 Stock Option Plan attached as an exhibit thereto.

Outstanding Warrants.

In February 2007, we sold in a private placement an aggregate of 133,888 warrants to purchase shares of our common stock to certain investors. The investor warrants were exercisable for a period of four years, beginning six months after the date of issuance until August 23, 2011 at an exercise price of $11.60 per share. The exercise price for the investor warrants was subject to an adjustment upon certain issuances by the Company of its common stock below the price per share paid by the investors; provided, however, that the exercise price would not be adjusted below $10.10 per share. The warrants contained certain cashless exercise features. In addition, we issued our placement agent in connection with private placement a warrant to purchase 43,515 shares of our common stock. The agent warrant is on the same terms as the investor warrants. In January 2010, certain investors of the warrants and the agent exercised the warrants pursuant to the cashless exercise terms. The remainder of these warrants expired in August of 2011.

During the year ended December 31, 2010, 80,000 shares of warrants were granted to a service provider as part of the cost of services. The 80,000 shares of warrants are accounted for as equity instruments issued in exchange for the receipt of services. Costs are measured at the estimated fair value of the equity instruments issued on the completion date of the services. Currently, there are 80,000 such warrants outstanding.

ITEM 6. SELECTED FINANCIAL DATA

Not required.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is management's discussion and analysis of certain significant factors which have affected our financial position and operating results during the periods included in the accompanying consolidated financial statements, as well as information relating to the plans of our current management. This report includes forward-looking statements. Generally, the words "believes," "anticipates," "may," "will," "should," "expect," "intend," "estimate," "continue," and similar expressions or the negative thereof or comparable terminology are intended to identify forward-looking statements. Such statements are subject to certain risks and uncertainties, including the matters set forth in this report or other reports or documents we file with the SEC from time to time, which could cause actual results or outcomes to differ materially from those projected. Undue reliance should not be place on these forward-looking statements which speak only as of the date hereof. We undertake no obligation to update these forward-looking statements.

The following discussion and analysis should be read in conjunction with our consolidated financial statements and the related notes thereto and other financial information contained elsewhere in this Annual Report on Form 10-K.

Overview

We are a leading supplier of local-access-network solutions for communications networks in China. We design, engineer and sell RF-based local-access-network solutions for indoor and outdoor wireless coverage, IP-based products for internet access, and unified local access-network, or ULAN, solutions based on our Wireless and Fiber-Optics Distribution System, or WFDS™, technology. Our local access-network solutions integrate and enhance communication coverage and improve the signal quality of reception for wireless, internet, wireline, cable television and other end-user applications. These solutions are used in a variety of indoor and outdoor environments, such as hotels, residential communities, office buildings, airports, exhibition centers, underground stations, highways, tunnels and rural areas. As part of our comprehensive network solution, we provide professional services, including upfront system design, implementation and network maintenance. Our primary customers are China Mobile, China Unicom and China Telecom, or the "Big 3," and commercial and residential property owners in China. We have 30 branches throughout China, 6 international sales offices and an international network of system integration partners. We believe our solutions offer a compelling value proposition to our customers as our solutions offer lower costs of ownership and increase overall efficiency.

Since our establishment in 1997, we have maintained business relationships with China Mobile, China Unicom and China Telecom, who currently account for over 95% of our annual revenue. Although we expect customer concentration to decrease as we expand domestically and internationally outside of China, we also expect to increase our penetration within the Big 3 by leveraging our state-of-the-art technology solutions. WFDS™ currently is the only commercially available solution fully compatible with the service platforms of the Big 3 that offers voice, video, data, wireless LAN, FTTH, internet, digital cable TV networks and video surveillance. Due to our performance, cost savings to carriers, easy installation and minimal intrusion to property owners, we expect to continue to expand our market share within China.

In addition to China, we currently market to 29 countries, including Argentina, Bangladesh, Brazil, Canada, Colombia, Costa Rica, Ecuador, Hong Kong, Iceland, India, Indonesia, Ireland, Kazakhstan, Malaysia, Mexico, Mongolia, New Zealand, the Philippines, Russia, Saudi Arabia, Singapore, South Africa, South Korea, Thailand, Turkey, the United States, the United Arab Emirates, Ukraine, and Vietnam. Continued expansion outside of China is one of our core strategies. We believe that the quality of our products and services will allow us to become increasingly competitive internationally.

In 2011, our revenues and net income decreased by 17.2% and 40.2%, respectively, compared to 2010.

Our RF traditional products remained our main product category in 2011 and accounted for 72.9% of revenues. We launched our WFDS™ platform in 2008, and the platform started to generate revenue in 2010. In 2011, we completed 499 WFDS™ installations, and WFDS™ contributed 27.1% of our revenues for the year. Our WFDS™ platform enables Telestone to diversify its customer base through the addition of non-telecom customers such as property owners and managers.

SIGNIFICANT ACCOUNTING POLICIES AND MANAGEMENT ESTIMATES

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. We believe critical accounting policies as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2011 reflect the more significant judgments and estimates used in preparation of our financial statements. We believe there have been no material changes to our critical accounting policies and estimates for the year ended December 31, 2011 compared to those discussed in our Annual Report on Form 10-K for the year ended December 31, 2010.

Summary of significant accounting policies

Revenue recognition

Net sales of equipment represent the contracted value of goods, net of value-added tax ("VAT") and returns. The Company generally recognizes product revenue when persuasive evidence of an arrangement exists, delivery occurs, equipment is received and accepted by the customer, the fee is fixed or determinable, and collectibility is probable. Service revenue is recognized when the service is performed and accepted by the customer. The Company has a policy of including handling costs incurred for finished goods, which are not significant, in the sales and marketing expenses.

The Company provides installation services for certain sales of equipment under fixed-price contracts. Revenues from these fixed-price service contracts are recognized on the completed-contract method. Under the completed-contract method, revenue and costs of individual contracts are included in operations in the year during which they are completed. Losses expected to be incurred on contracts in progress are recognized in the period such losses are determined. This method is used because the contract is completed within a short period of time, and the financial position and results of operations do not vary significantly from those that would result from using the percentage-of-completion method. A contract is considered completed upon completion of all essential contract work and the installation has been accepted by the customer.

Inventories

All inventories are stated at the lower of weighted average cost or market. Potential losses from obsolete and slow-moving inventories are provided for when identified.

Goodwill

Goodwill on acquisition of businesses, being the excess of the cost of the acquisition over the Company's share of the fair value of the identifiable assets, liabilities and contingent liabilities, is recognized as a separate asset. Goodwill is carried at cost less accumulated impairment losses, which is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Goodwill is allocated to cash-generating units for the purpose of impairment test and determination of gain or loss on disposal. An impairment loss on goodwill is not reversed.

Accounting for the impairment of long-lived assets

The long-lived assets held and used by the Company are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of assets may not be recoverable. It is reasonably possible that these assets could become impaired as a result of technology or other industry changes. Determination of recoverability of assets to be held and used is by comparing the carrying amount of an asset to future net undiscounted cash flows to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

Allowance for doubtful accounts

Accounts receivable are stated at the amount billed to customers. The Company recognizes an allowance for doubtful accounts to ensure trade and other receivables are not overstated due to uncollectibility. The Company's estimate is based on a variety of factors, including historical collection experience, existing economic conditions and a review of the current status of the receivable. Accounts receivable are presented net of an allowance for doubtful accounts of US$16,319,000 and US$7,863,000 as of December 31, 2011 and 2010 respectively.

Results of Operations

Our operating results are presented on a consolidated basis for the fiscal year ended December 31, 2011, as compared to the fiscal year ended December 31, 2010.

For the years ended December 31, 2010 and 2011, a tabular summary of results of operations is as follows:

	2011		**2010**		**Comparisons**	
Item	**$'000**	**% of revenue**	**$'000**	**% of revenue**	**$'000**	**%**
Revenue	109,064		131,652		-22,588	-17.2.%
Equipment and services costs	60,559	55.5%	72,768	55.3%	-12,209	-16.8%
Gross profit	48,505	44.5%	58,884	44.7%	-10,379	-17.6%
Sales and marketing expenses	10,905	10.0%	15,579	11.8%	-4,674	-30.0%
General and administrative expenses	15,132	13.9%	9,661	7.3%	5,471	56.6%
Research and development expenses	2,313	2.1%	2,052	1.6%	261	12.7%
Depreciation and Amortization	452	0.4%	350	0.3%	102	29.1%
Interest expenses	1,124	1.0%	761	0.6%	363	47.7%
Other income, net	899	0.8%	463	0.4%	436	94.2%
Net Income before income tax	19,478	17.9%	30,944	23.5%	-11,466	-37.1%
Income tax	4,552	4.2%	5,989	4.5%	-1,437	-24.0%
Net income	14,926	13.7%	24,955	19.0%	-10,029	-40.2%

We derive our revenues primarily from capital expenditures made by PRC telecommunications carriers. Our operating revenues are composed of sales of wireless equipment and sales of services such as systems integration, engineering services, technical support, wireless network optimization and network maintenance.

Our consolidated net income decreased by 40.2% from $24,955,000 in 2010 to $14,926,000 in 2011. The net profit ratio was 13.7% in 2011, compared to 19.0% in 2010. Most of the figures related to income experienced a similar decrease as compared to 2010. Our gross profit ratio remained stable in 2011 and 2010.

For the year ended December 31, 2011, revenue was $109,064,000; gross profit was $48,505,000; net income was $14,926,000; and the net profit ratio was 13.7%. Most of these figures represented a decrease as compared to 2010. These decreases can be partially attributed to the decreased income and increased provision for doubtful accounts receivable in 2011.

Revenue

Years ended December 31, 2011 and 2010:

	Year ended December 31, 2011		Year ended December 31, 2010		Growth	
Item	**$'000**	**% of revenue**	**$'000**	**% of revenue**	**$'000**	**%**
Product sales	39,281	36.0%	65,160	49.5%	-25,879	-39.7%
Service sales	69,783	64.0%	66,492	50.5%	3,291	5.0%
Total	109,064		131,652		-22,588	-17.2%

2010 and 2011 revenues generated from product sales and professional services were at a similar level, but comparably more revenue was generated from the provision of professional services in 2011.

Breakdown by Customer

Years ended December 31, 2011 and 2010:

	Year ended December 31,2011		Year ended December 31, 2010		Growth	
Item	**$'000**	**% of revenue**	**$'000**	**% of revenue**	**$ '000**	**%**
China Mobile	58,710	53.9%	78,712	59.8%	-20,002	-25.4%
China Unicom	35,667	32.7%	37,448	28.4%	-1,781	-4.8%
China Telecom	9,636	8.8%	14,398	10.9%	-4,762	-33.1%
Others	4,532	4.1%	596	0.5%	3,936	660.4%
Overseas	519	0.5%	498	0.4%	21	4.2%
Total	109,064		131,652		-22,588	-17.2%

The Company’s major sources of revenue were China Mobile and China Unicom. For the year ended December 31,2011, our revenue generated from China Mobile and China Unicom accounted for 53.9% and 32.7% of our total revenue, respectively, compared to 59.8% and 28.4% in 2010.

There was a slight decrease in the proportion of revenues generated from the “Big Three”. The proportion of revenue generated from other customers increased significantly. The revenue from new customers (other than the “Big Three”) was the main reason for the increase in revenue from other customers. The revenues generated from overseas customers still remained at a relatively small portion of our total revenue.

In 2011, “Big Three” reduced their investment in 3G as they plan to intense their investment on 4G starting 2012. We expect our revenues to grow in 2012 due to our previous research and development in 4G.

Breakdown by Type of Technology

Years ended December 31, 2011 and 2010:

Item	Year ended December 31, 2011		Year ended December 31, 2010		Growth	
	$'000	% of revenue	$'000	% of revenue	$'000	%
WFDS™	29,610	27.1%	30,184	22.9%	-574	-1.9%
Traditional products	79,454	72.9%	101,468	77.1%	-22,014	-21.7%
Total	109,064	100%	131,652	100%	-22,588	-17.2%

For the year ended December 31, 2011, the revenue of our WFDS™ product was $29,610,000, contributing 27.1% of the total revenues and representing a decrease of 1.9% as compared to the same period of 2010.

Since traditional products have a rather long receivables turnover period, in 2011 the Company has put great effort on the R&D and marketing of new products such as WFDS™ and TIPS.

Gross Profit

For years ended December 31, 2011 and 2010:

Item	Year ended December 31, 2011		Year ended December 31, 2010		Growth	
	$'000	% of revenue	$'000	% of revenue	$'000	%
Revenue	109,064		131,652		-22,588	-17.2%
Equipment and services costs	60,559	55.5%	72,768	55.3%	-12,209	-16.8%
Gross profit	48,505	44.5%	58,884	44.7%	-10,379	-17.6%

Gross Profit Ratio

For the year ended December 31, 2011, our gross profit ratio was 44.5%, as compared to 44.7% in the same period of 2010.

Operating Expenses

Years ended December 31, 2011 and 2010:

Item	Year ended December 31, 2011		Year ended December 31, 2010		Growth	
	$'000	% of revenue	$'000	% of revenue	$'000	%
Sales and Marketing expenses	10,905	10.0%	15,579	11.8%	-4,674	-30.0%
General and Administrative expenses	15,132	13.9%	9,661	7.3%	5,471	56.6%
Research and Development expenses	2,313	2.1%	2,052	1.6%	261	12.7%
Depreciation and Amortization	452	0.4%	350	0.3%	102	29.1%
Total	28,802	26.4%	27,642	21.0%	1,160	4.2%

Sales and Marketing Expenses

Sales and marketing expenses were $10,905,000, or 10.0% of our revenue for the year ended December 31, 2011, as compared to $15,579,000, or 11.8% of our revenue for the same period in 2010.

The decrease in sales and marketing expenses was mainly due to the decrease in revenue and the slowdown in spending following the high growth period in the past two years.

General and Administrative Expenses

For the year ended December 31, 2011, general and administrative expenses were $15,132,000, or 13.9% of our revenue, as compared to $9,661,000 or 7.3% of our revenue for the same period in 2010. The increase in general and administrative expenses was mainly due to the provision for doubtful accounts receivable of $8,200,000 in 2011, compared to $1,425,000 in 2010, and the increase in office rental expenses after the relocation of our office in late 2010. The increase was partly offset by the decrease in share based compensation to directors and employee of $2,747,000.

Research and development expenses

Research and development expenses were $2,313,000, or 2.1% of total revenue for the year ended December 31, 2011, as compared to $2,052,000 or 1.6% of revenue for the same period in 2010. The proportion of R&D expenses remained at a relatively low level. The increase in research and development expenses was mainly due to our R&D for new products such as WFDS™ and TIPS.

Interest expenses

Years ended December 31, 2011 and 2010:

Item	Year ended December 31, 2011		Year ended December 31, 2010		Growth	
	$'000	% of revenue	$'000	% of revenue	$'000	%
Interest expenses	1,124	1.0%	761	0.6%	363	47.7%

Interest Expenses

Interest expense for 2011 was $1,124,000, an increase of $363,000 or 47.7%, from $761,000 in 2010. The increase in interest expenses in 2011 was primarily due to more interest and guarantee fees paid for our short-term bank loans. The Company's short term loans totaled $14,941,000 as of December 31, 2011, as compared to $9,846,000 as of December 31, 2010, an increase of 51.7%.

Liquidity and Capital Resources

We generally finance our operations from cash flow generated internally and short-term bank loans. As of December 31, 2011, we had current assets of $283,747,000. Our current assets were comprised of: inventory of $6,755,000, accounts receivable of $251,460,000, prepayments of $2,351,000, other current assets of $2,797,000, cash and cash equivalents of $18,850,000, and amounts due from related parties of $1,534,000. Current liabilities were $157,084,000, comprised of: accounts payable of $46,450,000, tax payables of $18,695,000 short-term bank loans of $14,941,000, customer deposits for sales of equipment of $2,684,000, amounts due to related parties of $1,831,000, services cost payable of $35,254,000 and other payables and accruals of $37,229,000.

Our net cash used in operating activities was -$12,736,000 for the year ended December 31, 2011. As of December 31, 2011, cash was $18,850,000, current assets were $283,747,000 and current liabilities were $157,084,000, reflecting a current ratio (current assets/current liabilities) of 1.81:1.

We grant credit to our customers for both products and services sales. Our accounts receivable turnover period for the year ended December 31, 2011 was 690 days. We have experienced a fairly long receivables turnover period due to a rapid growth sales strategy in 2010, especially in the second half of 2010, and most of those sales were not yet settled in 2011.

We experience a longer accounts receivable turnover period than some of our competitors. This is mainly due to two factors: 1. Implementation of most of our projects are integrated and project payment is determined by achieving certain milestones in the engineering stage, whereas most of our competitors focus on equipment sales. 2. The traditionally long payment periods from China's state-controlled telecom carriers.

Annual inventory turnover days in 2011 was 79 days as compared to 37 days in 2010.

The Company's cash is primarily in Renminbi and United States dollars, with short term loans in Renminbi and revenue, expenses, assets and liabilities in both Renmibi and United States dollars.

Accounts Receivable

Accounts receivable are presented net of an allowance for doubtful accounts. Our long credit period arises because our major customers are the three major players in the Chinese telecom market ("China Mobile", "China Unicom" and "China Telecom"). Due to their virtual monopoly in China's telecom market, we are at a disadvantage in negotiations regarding payments and credit periods. However the "Big 3" telecom carriers are state-owned and recognized as "blue-chip" customers. The Big 3 China telecom carriers are our major customers, and 95.4% of the revenues of 2011 came from them. Thus our accounts receivable are a function of our business model. Once a contract is signed, we receive 60-70% of the contract value within 4-9 months, another 20-30% in 9-12 months, and the remainder in 12-24 months.

As of December 31, 2011, our accounts receivable was $251,460,000 whereas as of December 31, 2010, our accounts receivable was $192,487,000.

We have made attempts to adequately address accounts receivable turnover problems and have made efforts to shorten the collection period. Our WFDS™ projects generally have about 180 DSOs, since they follow a different business model and serve a different customer base. As WFDS™ increases as a percentage of total revenues, we expect our DSOs to fall.

Major Milestones in 2011

TIPS (Telestone Intelligence Premises System) research and development has made breakthroughs

TIPS (Telestone Intelligence Premises System) is a groundbreaking technology based on Telestone's Wireless Fiber-Optic Distribution System WFDS™ technology. The core of TIPS is Telestone's Unified Premises Information Network System (UPINS) technology, which distributes all information generated or required at any time and at any location within a premises network in a timely manner. TIPS networks are characterized by ultra-wide bandwidth, long transmission distances, and multi-cascading technology. So far we have completed TIPS theoretical research and its key technology development. Also, TIPS has been used in a few pilot projects of ours, some of which have already been completed, such as Administrative Committee of Z-Park and Wuxi New Area Administrative Office Building.

Beijing - Shanghai high-speed rail project

In January 2011, a high standard, large-capacity, modern high - speed passenger rail line from Beijing-Shanghai installed a WFDS-enabled Unified Access Network (UAN) solution and the corresponding proprietary equipment to satisfy the advanced communication needs of all three carriers' subscribers—China Mobile, China Unicom, and China Telecom—for wireless broad-band Internet access, as well as 2G and 3G wireless cellular coverage. Our subsidiary, Beijing Telestone Technology Co., Ltd, carried out the research and development of technology and building multiple-networks in order to achieve the complete reunification of the bearer transmission and thereby perfectly formed an integrated service model for complete coverage of multi-service networks.

Houston hospital project (Multi-carrier wireless business and sharing)

In August 2011, Quell Corporation, who won the contract after successfully demonstrating Telestone's WFDS™ functionality to the Houston hospital, which provided a challenging installation site where cellular connections are weak or overloaded in the outdoor environment and thus have further reduced signal strength in indoor settings. This installation of WFDS™ has had a good track record and has made believers out of those utilizing the technology.

WFDS™ Technology Enters International Market

In August 2010, we signed our first WFDS™ agreement in the U.S. market to install a WFDS™ solution at the Memorial Hermann Hospital Headquarters in Houston, Texas, which subsequently was successfully completed. It can support multiple-carriers' system for sharing, 4G mobile and unified coverage of data network. In 2012 and 2013 we plan to continue to cooperate with T-Mobile and hospital owners to provide similar installations.

This successful deployment represents a major milestone for Telestone in marketing its technology in international markets. We believe that the success of the project and the high level of customer satisfaction can help us expand in additional North American and South American markets. It is also significant that this project was deployed for a non-carrier customer, which diversifies Telestone's customer base from its traditional telecom-carrier customers. We have also made some progress with pilot projects in Mexico, Chili and Columbia.

Acquisition of Sichuan Ruideng Telecom Corporation

In December 2011, we acquired Sichuan Ruideng Telecom Corporation ("SRTC").

SRTC is an enterprise set up under the laws of the PRC in 1993. The registered capital of SRTC is RMB 32 million and it is a professional telecommunication service and equipment provider. SRTC is one of the largest telecommunication network engineering service provider in Sichuan and southwest China, and its business covers Sichuan, Yunnan, Guizhou, Hubei and Qinghai Province. It is committed to providing the highest quality services and products for telecommunications networks. Over the past few years, its average annual revenues were about $20 million.

On May 12, 2011, Telestone signed a letter of intent to acquire 100% of SRTC's equity. The acquisition was completed upon obtaining the approval from the relevant government authorities on December 30, 2011. The acquisition of SRTC will increase Telestone's scale of business, capitalize upon the synergies between the two companies, and enhance the Company's scientific and technological development capacity and overall competitiveness.

The acquisition will enable Telestone to enter into the large southwest region in which huge domestic demand for telecommunication services is expected.

Completes Phase I of TIPS Industrial Park in Hebei Province

On October 12, 2011 we announced that we had completed the main structure of Phase I of the Telestone Intelligent Premises System (TIPS) Industrial Park project, located in Gu'an County, Hebei province. Phase I of the project occupies approximately 42,000 square meters and is comprised of six buildings for research and development, manufacturing, marketing and training. Phase I of the project was completed in March 2012, and the facility is expected to enter trial production following the furnishing of the interior in May 2012. Phase II of the project will also occupy approximately 42,000 square meters and it is currently in the design phase.

Off-Balance Sheet Arrangements

We do not currently have any off-balance sheet arrangements.

Contingent Liabilities

We recognize our revenue upon the completion of contracts and have made full tax provision in accordance with relevant national and local laws and regulations of the PRC. A contract is considered completed upon completion of all essential contract work and when installation has been accepted by the customer. It is the common practice in the PRC that invoices are not issued to customers until payments are received. We follow the practice of reporting our revenue for PRC tax purposes when invoices are issued. All unbilled revenue will become taxable when invoices are issued. Despite the fact that we have made full tax provision in our financial statements, we may be subject to surcharge and penalty for the deferred reporting of tax obligations. The Board of Directors considers it is unlikely that the tax surcharge and penalty will be imposed.

Remuneration Policies

We offer competitive remuneration schemes to our employees based on industry practices as well as the employees and the company's performance.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not required.

ITEM 8. FINANCIAL STATEMENTS

Telestone Technologies Corporation

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of
Telestone Technologies Corporation

We have audited the accompanying consolidated balance sheets of Telestone Technologies Corporation and its subsidiaries (the "Company") as of December 31, 2011 and 2010, and the related consolidated statements of operations and other comprehensive income, changes in stockholders' equity and cash flows for each of the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing auditing procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. Our audits also included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2011 and 2010, and the results of its operations and its cash flows for each of the years then ended in conformity with accounting principles generally accepted in the United States of America.

Mazars CPA Limited
Certified Public Accountants
Hong Kong
March 30, 2012

Telestone Technologies Corporation

Consolidated Statements of Operations and Other Comprehensive Income
Years ended December 31, 2011 and 2010

	Note	**2011**	2010
		Years ended December 31,	
	Note	***US$'000***	*US$'000*
Operating revenues:			
Net sales of equipment		**39,281**	65,160
Service income		**69,783**	66,492
Total operating revenues		**109,064**	131,652
Cost of operating revenues:			
Cost of net sales		**22,277**	36,494
Cost of service		**38,282**	36,274
Total cost of operating revenues		**60,559**	72,768
Gross profit		**48,505**	58,884
Operating expenses:			
Sales and marketing		**10,905**	15,579
General and administrative		**15,132**	9,661
Research and development		**2,313**	2,052
Depreciation and amortization		**452**	350
Total operating expenses		**28,802**	27,642
Operating income		**19,703**	31,242
Interest expense		**(1,124)**	(761)
Other income, net		**899**	463
Income before income taxes		**19,478**	30,944
Income taxes	*11*	**(4,552)**	(5,989)
Net income		**14,926**	24,955
Other comprehensive income			
Foreign currency translation adjustment		**3,892**	2,755
Total comprehensive income		**18,818**	27,710
Earnings per share:	*3*		
Weighted average number of common stock outstanding			
Basic		**12,343,127**	10,692,440
Effect of dilutive warrants and stock options		**8,582**	11,022
Diluted		**12,351,709**	10,703,462
Net income per share of common stock		***US$***	*US$*

Basic	**1.21**	2.33
Diluted	**1.21**	2.33

The accompanying notes are an integral part of these consolidated financial statements.

Telestone Technologies Corporation

Consolidated Balance Sheets
As of December 31, 2011 and 2010

	Note	As of December 31, 2011 US$'000	2010 US$'000
ASSETS			
Current assets:			
Cash and cash equivalents		**18,850**	31,020
Accounts receivable, net of allowance	*5*	**251,460**	192,487
Due from related parties	*15*	**1,534**	2,018
Inventories, net of allowance	*10*	**6,755**	3,123
Prepayment		**2,351**	1,748
Other current assets		**2,797**	1,630
Total current assets		**283,747**	232,026
Goodwill	*6*	**4,268**	3,119
Property, plant and equipment, net	*7*	**9,264**	1,565
Lease prepayments, net	*8*	**2,571**	2,528
		16,103	7,212
Total assets		**299,850**	239,238
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Short-term bank loans	*9 & 15*	**14,941**	9,846
Accounts payable – Trade		**46,450**	40,685
Service cost payable		**35,254**	26,093
Customer deposits for sales of equipment		**2,684**	2,089
Due to related parties	*15*	**1,831**	3,977
Income tax payable		**18,695**	13,760
Accrued expenses and other accrued liabilities		**37,229**	25,938
Total current liabilities		**157,084**	122,388
Commitments and contingencies	*16*		
Stockholders' equity:			
Preferred stock, US$0.001 par value, 10,000,000 shares authorized, no shares issued			
Common stock, US$0.001 par value:			
Authorized – 100,000,000 shares as of December 31, 2011 and 2010			
Issued and outstanding – 12,333,264 and 12,233,264 shares as of December 31, 2011 and 2010 respectively	*13*	**12**	12
Additional paid-in capital		**50,148**	43,050
Dedicated reserves	*14*	**6,871**	5,115
Other comprehensive income		**12,329**	8,437
Retained earnings		**73,406**	60,236
Total stockholders' equity		**142,766**	116,850

Total liabilities and stockholders’ equity	**299,850**	239,238

The accompanying notes are an integral part of these consolidated financial statements.

Telestone Technologies Corporation

Consolidated Statements of Changes in Stockholders' Equity
Years ended December 31, 2011 and 2010

	Common stock issued						
	Number of shares	**Amount** *US$'000*	**Additional paid-in capital** *US$'000*	**Dedicated reserves** *US$'000*	**Other compre-hensive income** *US$'000*	**Retained earnings** *US$'000*	**Total** *US$'000*
Balance at January 1, 2010	10,404,550	11	18,989	4,807	5,682	35,589	65,078
Common stock issued for cash	1,675,000	1	18,881	-	-	-	18,882
Stock-based compensation *(note 18)*							
- Employees	110,000	-	4,325	-	-	-	4,325
- Non-employee	-	-	855	-	-	-	855
Cashless exercise of warrant *(note 13)*	43,714	-	-	-	-	-	-
Net income	-	-	-	-	-	24,955	24,955
Foreign currency translation adjustment	-	-	-	-	2,755	-	2,755
Transfer to dedicated reserves	-	-	-	308	-	(308)	-
Balance at December 31, 2010	12,233,264	12	43,050	5,115	8,437	60,236	116,850
Balance at January 1, 2011	**12,233,264**	**12**	**43,050**	**5,115**	**8,437**	**60,236**	**116,850**
Stock-based compensation *(note 18)*							
- Employees	**-**	**-**	**1,578**	**-**	**-**	**-**	**1,578**
- Non-employee	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Issuance of common stock *(note 13)*	**100,000**	**-**	**-**	**-**	**-**	**-**	**-**
Net income	**-**	**-**	**-**	**-**	**-**	**14,926**	**14,926**
Recognition of stock-based payment for acquisition	**-**	**-**	**5,520**	**-**	**-**	**-**	**5,520**
Foreign currency translation adjustment	**-**	**-**	**-**	**-**	**3,892**	**-**	**3,892**
Transfer to dedicated reserves	**-**	**-**	**-**	**1,756**	**-**	**(1,756)**	**-**
Balance at December 31, 2011	**12,333,264**	**12**	**50,148**	**6,871**	**12,329**	**73,406**	**142,766**

The accompanying notes are an integral part of these consolidated financial statements.

Telestone Technologies Corporation

Consolidated Statements of Cash Flows
Years ended December 31, 2011 and 2010

	Years ended December 31,	
	2011	2010
	US$'000	*US$'000*
Cash flows used in operating activities		
Net income	**14,926**	24,955
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	**452**	350
Allowance for doubtful accounts	**8,200**	1,689
Stock-based compensation	**1,578**	5,180
Loss on disposal of property, plant and equipment, net	**-**	1
Changes in assets and liabilities:		
Accounts receivable	**(51,308)**	(101,996)
Inventories	**(2,463)**	1,477
Due from related parties	**540**	-
Prepayment	**(28)**	(482)
Other current assets	**82**	3,204
Accounts payable	**1,819**	24,448
Due to related parties	**(2,492)**	(1,099)
Customer deposits for sales of equipment	**444**	451
Income tax payable	**4,408**	6,374
Service cost payable, accrued expenses and other accrued liabilities	**11,106**	35,196
Net cash used in operating activities	**(12,736)**	(252)
Cash flows used in investing activities		
Purchase of property, plant and equipment	**(4,822)**	(654)
Additions of long-term land lease prepayments	**-**	(2,580)
Acquisition of a subsidiary	**550**	-
Proceeds from disposal of property, plant and equipment	**2**	4
Net cash used in investing activities	**(4,270)**	(3,230)
Cash flows from financing activities		
Issuance of common stock, net of issue costs	**-**	18,882
Proceeds from short-term bank loans	**18,086**	9,846
Repayment of short-term bank loans	**(13,368)**	(5,850)
Net cash provided by financing activities	**4,718**	22,878
Net (decrease) increase in cash and cash equivalents	**(12,288)**	19,396
Cash and cash equivalents, beginning of year	**31,020**	11,233
Effect on exchange rate changes	**118**	391
Cash and cash equivalents, end of year	**18,850**	31,020
Supplemental disclosure of cash flow information		
Interest received	**34**	130
Interest paid	**(766)**	(398)
Income tax paid	**(219)**	(234)
Major non-cash transaction		

Issuance of common stock as part of the consideration for acquisition of a subsidiary (Note 6)	**5,520**	-

The accompanying notes are an integral part of these consolidated financial statements.

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

Telestone Technologies Corporation ("TSTC"), formerly known as Milestone Capital, Inc., was organized under the laws of the State of Colorado in February 1987 under the name Shield Enterprises, Inc. In August 2004, TSTC reincorporated in the State of Delaware under the name Telestone Technologies Corporation.

Success Million International Limited ("SMI"), a company established in the Hong Kong Special Administrative Region of the People's Republic of China (the "PRC") on August 23, 2004, is a wholly owned subsidiary of TSTC and had no business operations since incorporation. Beijing Telestone Technology Company Limited ("Beijing Telestone"), a wholly-owned subsidiary of SMI established in Beijing, the PRC with an operating period until April 12, 2024, is engaged in the business of design, development, installation and trading of wireless telecommunication coverage system equipment.

Beijing Telestone Wireless Telecommunication Company Limited ("BTWTC")(note), a company established in Beijing, the PRC with tenure of 20 years from June 17, 2005 to June 16, 2025 for provision of wireless telecommunication networking and system integration services, is owned by certain key management personnel of the Company (the "Owners"). Contractual agreements have been entered into between the Owners, BTWTC and Beijing Telestone so as to give effect that Beijing Telestone is responsible for the operations, entitled to all profits and given authority to exercise the rights of the Owners of BTWTC. Beijing Telestone does not hold the ownership interests in BTWTC directly because Beijing Telestone is considered as a foreign entity under the PRC laws. Due to the restrictions on foreign ownership to provide and engage in certain wireless telecommunication networking services in the PRC, Beijing Telestone, through loans to the Owners, established BTWTC with a view to conduct such operations without violating the relevant PRC rules and regulations. As a result of the above contractual arrangement, Beijing Telestone has obtained control and interest over BTWTC. Beijing Telestone is considered as the primary beneficiary of BTWTC and therefore BTWTC is considered as a variable interest entity ("VIE") of Beijing Telestone so that the financial statements of BTWTC are consolidated into the financial statements of Beijing Telestone for all periods presented in accordance with ASC Topic 810 – *Consolidation* (ASC 810).

In December 2011 and March 2012, Beijing Telestone contributed RMB10,000,000 and RMB40,000,000 to the registered capital of BTWTC respectively, which made Beijing Telestone one of the direct owners of BTWTC. The contribution is intended to be temporary and the capital contributed by Beijing Telestone will be transferred to the key management personnel of the Company shortly after the balance sheet date. Management, having consulted the legal counsel in the PRC, is of the opinion that such temporary shareholding structure would not have any significant impact on the business and operations of BTWTC.

On July 5, 2007, BTWTC, Shandong Guolian Telecommunication Technology Limited ("Guolian")(note) and owners of Guolian entered into a Share Transfer Agreement (the "Agreement"). Under the Agreement, 100% equity ownership interests in Guolian and its wholly owned subsidiary, Pan-pacific Telecommunication Company Limited ("Pan-pacific")(note), had been transferred by the owners of Guolian to BTWTC. Guolian and Pan-pacific were established in Jinan, Shandong Province, the PRC on February 9, 1999 and October 22, 1999 respectively. The principal business activities of Guolian and Pan-pacific are design, development, production and installation and trading of wireless telecommunication coverage system equipment.

1. ORGANIZATION AND PRINCIPAL ACTIVITIES (CONTINUED)

On October 8, 2007, BTWTC established a wholly-owned subsidiary company, Beijing Telestone Communication Technology Company Limited ("BTCTC")(note) in Beijing, the PRC with operating period of 20 years until October 7, 2027. The principal activity of BTCTC is developing and managing the business operation of the Company outside the PRC.

On December 14, 2009, Beijing Telestone established a wholly-owned subsidiary, Guan Telestone Telecommunication Technologies Company Limited ("Guan Telestone")(note) in Guan, Hebei Province, the PRC with operating period of 20 years until December 13, 2029. Guan Telestone holds a land use right in Guan for development of a research and development center and a manufacturing plant of telecommunication equipment.

On October 25, 2010, Beijing Telestone and BTWTC established a wholly-owned subsidiary, Guan Bopu Network Equipment Company Limited ("Guan Bopu") (note) in Guan, Hebei Province, the PRC with operating period of 20 years until October 24, 2030. Guan Bopu is engaged in the trading of wireless telecommunication equipment.

On November 7, 2011, BTWTC and the owners of Sichuan Ruideng Telecom Corporation ("SRTC") entered into a definitive agreement. Under the agreement, 100% equity ownership interests in SRTC have been transferred by the owners of SRTC to BTWTC in exchange of a cash consideration of $2 million and 1.8 million restricted common shares of TSTC. The acquisition was completed on December 30, 2011. SRTC was founded in 1993 and based in Chengdu, Sichuan Province, the PRC. It develops and provides telecommunication local access networks and system-integration services mainly in Sichuan, Yunnan, Guizhou, Hubei and Qinghai provinces.

In this report, TSTC, SMI, Beijing Telestone, BTWTC, Guolian, Pan-pacific, BTCTC, Guan Telestone, Guan Bopu and SRTC are collectively referred to as the "Company".

Note: These are direct translation of names in Chinese for identification purpose only and are not the official names in English.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Principles
The consolidated financial statements and accompanying notes are prepared in accordance with generally accepted accounting principles in the United States of America ("USGAAP").

Basis of consolidation
The consolidated financial statements include the accounts of TSTC, its subsidiaries and a VIE. The results of the subsidiaries acquired or disposed of during the year are consolidated from the effective dates of acquisition or to the effective dates of disposal, respectively.

All significant intercompany accounts and transactions have been eliminated upon consolidation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

Net sales of equipment represent the contracted value of goods, net of value-added tax ("VAT") and returns. The Company generally recognizes product revenue when persuasive evidence of an arrangement exists, delivery occurs, equipment is received and accepted by the customer, the fee is fixed or determinable, and collectibility is probable. Service revenue is recognized when the service is performed and accepted by the customer. The Company has a policy of including handling costs incurred for finished goods, which are not significant, in the sales and marketing expenses.

The Company provides installation services for certain sales of equipment under fixed-price contracts. Revenues from these fixed-price service contracts are recognized on the completed-contract method. Under the completed-contract method, revenue and costs of individual contracts are included in operations in the year during which they are completed. Losses expected to be incurred on contracts in progress are recognized in the period such losses are determined. This method is used because the contract is completed within a short period of time, and the financial position and results of operations do not vary significantly from those that would result from using the percentage-of-completion method. A contract is considered completed upon completion of all essential contract work and the installation has been accepted by the customer.

Income taxes

Income tax expense is computed based on pre-tax income included in the consolidated statement of operations. Income taxes have been provided, using the liability method, which requires recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and tax bases assets and liabilities and their reported amounts. The tax consequences of those differences are classified as current or non-current based upon the classification of the related assets or liabilities in the consolidated financial statements.

Research and development

All costs of research and development activities are expensed as incurred.

Inventories

All inventories are stated at the lower of weighted average cost or market. Potential losses from obsolete and slow-moving inventories are provided for when identified.

Goodwill

Goodwill on acquisition of businesses, being the excess of the cost of the acquisition over the Company's share of the fair value of the identifiable assets, liabilities and contingent liabilities, is recognized as a separate asset. Goodwill is carried at cost less accumulated impairment losses, which is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Goodwill is allocated to cash-generating units for the purpose of impairment test and determination of gain or loss on disposal. An impairment loss on goodwill is not reversed.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment
Property, plant and equipment are stated at original cost less accumulated depreciation and amortization.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditures incurred after the assets have been put into operation, such as repairs and maintenance, overhaul and minor renewals and betterments, are normally charged to operating expenses in the period in which they are incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the assets, the expenditure is capitalized.

When assets are sold or retired, their costs and accumulated depreciation are eliminated from the consolidated financial statements and any gain or loss resulting from their disposal is recognized in the year of disposition as an element of other income, net.

Depreciation is provided to write off the cost of property, plant and equipment using the straight-line method at rates based on their estimated useful lives from the date on which they become fully operational and after taking into account their estimated residual values.

Lease prepayments
Lease prepayments represent the cost of land use rights in the PRC. Land use rights are carried at cost and amortized on a straight-line basis over the period of the land use rights of 50 years.

Accounting for the impairment of long-lived assets
The long-lived assets held and used by the Company are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of assets may not be recoverable. It is reasonably possible that these assets could become impaired as a result of technology or other industry changes. Determination of recoverability of assets to be held and used is by comparing the carrying amount of an asset to future net undiscounted cash flows to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

Cash equivalents
The Company considers short-term, highly liquid investments with original maturities of three months or less to be cash equivalents.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currency translation and other comprehensive income

All major subsidiaries of the Company consider Renminbi as their functional currency as a substantial portion of their business activities is based in Renminbi. However, the Company has chosen the United States dollar as its reporting currency.

Transactions in currencies other than the functional currency during the year are translated into the functional currency at the applicable rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in currencies other than the functional currency are translated into the functional currency at the applicable rates of exchange in effect at the balance sheet date. Exchange gains and losses are recorded in the consolidated statements of operations.

For translation of financial statements into the reporting currency, assets and liabilities are translated at the exchange rate at the balance sheet date, equity accounts are translated at historical exchange rates, and revenues, expenses, gains and losses are translated at the average rates of exchange prevailing during the period. Translation adjustments, when material, resulting from this process are recorded in accumulated other comprehensive income within stockholders' equity.

Comprehensive income

ASC Topic 220, *Comprehensive Income*, requires the presentation of comprehensive income, in addition to the existing statements of operations. Comprehensive income is defined as the change in equity during the year from transactions and other events, excluding the changes resulting from investments by owners and distributions to owners.

Use of estimates

The preparation of the consolidated financial statements in conformity with USGAAP requires the Company's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reported periods. Actual amounts could differ from those estimates. Estimates are used for, but not limited to, the accounting for certain items such as allowance for doubtful accounts, depreciation and amortization, impairment, inventory allowance, taxes and contingencies.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rental payables under operating leases are recognized as expenses on the straight-line basis over the lease term.

Allowance for doubtful accounts

Accounts receivable are stated at the amount billed to customers. The Company recognizes an allowance for doubtful accounts to ensure trade and other receivables are not overstated due to uncollectibility. The Company's estimate is based on a variety of factors, including historical collection experience, existing economic conditions and a review of the current status of the receivable. Accounts receivable are presented net of an allowance for doubtful accounts of US$16,319,000 and US$7,863,000 as of December 31, 2011 and 2010 respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Related parties
Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

Fair Value of Financial Instruments
ASC 825, Financial Instruments, requires that the Company discloses estimated fair values of financial instruments. The carrying amounts reported in the balance sheets for current assets and current liabilities qualifying as financial instruments are a reasonable estimate of fair value.

Fair value measurements
ASC 820 establishes a three-tier fair value hierarchy to prioritize the inputs used in measuring fair value. The hierarchy gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels are defined as follows:

Level 1: Observable inputs, such as unadjusted quoted market prices in active markets for the identical asset or liabilities.

Level 2: Inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument.

Level 3: Unobservable inputs reflecting the entity's own assumptions in measuring the asset or liability at fair value.

The Company's financial instruments consist principally of cash deposits, accounts and other receivables, accounts payable, accrued liabilities, and short-term bank loans that generally approximate their fair values based on the short-term maturity of these instruments.

Recent accounting pronouncements
In January 2011, the FASB issued ASU 2011-01, Receivables (Topic 310), Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in ASU No. 2010-20. The ASU delays the effective date of the disclosures about troubled debt restructuring the ASU 2010-20. The delay is intended to allow the FASB time to complete its deliberations on what constitutes a troubled debt restructuring and to issue its guidance on the topic currently anticipated for interim and annual periods after June 15, 2011. The adoption of this ASU is not expected to have a material impact on the Company's consolidated financial statements.

In April 2011, the FASB issued ASU 2011-02, Receivables (Topic 310), A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring. The ASU provide additional guidance or clarification to help the creditors in determining whether a creditor has granted a concession and whether a debtor is experiencing financial difficulties for purpose of determining whether a restructuring constitutes a troubled debt restructuring. The amendments in this update are effective for the first interim or annual period beginning on or after June 15, 2011. The adoption of this ASU is not expected to have a material impact on the Company's consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent accounting pronouncements (Continued)
In April 2011, the FASB issued ASU No. 2011-03, “Transfers and Servicing (Topic 860): Reconsideration of Effective Control for Repurchase Agreements.” ASU No. 2011-03 removes the transferor’s ability criterion from the consideration of effective control for repurchase agreements and other agreements that both entitle and obligate the transferor to repurchase or redeem financial assets before their maturity. It also eliminates the requirement to demonstrate that the transferor possesses adequate collateral to fund substantially all the cost of purchasing replacement financial assets. This guidance is effective for interim and annual periods beginning on or after December 15, 2011. The adoption of this ASU is not expected to have a material impact on the Company’s consolidated financial statements.

In May 2011, the FASB issued ASU No. 2011-04, “Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards.” ASU No. 2011-04 provides a consistent definition of fair value to ensure that the fair value measurement and disclosure requirements are similar between U.S. GAAP and International Financial Reporting Standards. Some of the amendments clarify the Board’s intent about the application of existing fair value measurement requirements. Other amendments change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. ASU No. 2011-04 is effective for interim and annual periods beginning after December 15, 2011. We are currently evaluating the impact that the adoption will have on our consolidated financial statements.

In June 2011, the FASB issued ASU No. 2011-05, “Comprehensive Income (Topic 220): Presentation of Comprehensive Income.” ASU No. 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of stockholders’ equity. It requires an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU No. 2011-05 is to be applied retrospectively and is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. We are currently evaluating the impact that the adoption will have on our consolidated financial statements.

In September 2011, the FASB issued ASU No. 2011-08, “Intangibles – Goodwill and Other (Topic 350): Testing Goodwill for impairment.” The ASU No. 2011-08 permit an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350. The more-likely-than-not threshold is defined as having a likelihood of more than 50 percent. The ASU No. 2011-08 are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted, including for annual and interim goodwill impairment tests performed as of a date before September 15, 2011, if an entity’s financial statements for the most recent annual or interim period have not yet been issued or, for nonpublic entities, have not yet been made available for issuance. We are currently evaluating the impact that the adoption will have on our consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent accounting pronouncements (Continued)
In September 2011, the FASB issued ASU No. 2011-09, "Compensation – Retirement benefits – Multiemployer Plans (Subtopic 715-80): Disclosure about an Employer's Participation in a Multiemployer Plan. The ASU No. 2011-09 require that employers provide additional separate disclosures for multiemployer pension plans and multiemployer other postretirement benefit plans.
The ASU No. 2011-09 are effective for annual periods for fiscal years ending after December 15, 2011, with early adoption permitted. We are currently evaluating the impact that the adoption will have on our consolidated financial statements.

In December 2011, the FASB issued ASU 2011-11, "Balance Sheet (Topic 210), Disclosures about Offsetting Assets and Liabilities". The ASU 2011-11 in this update requires the Company to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. The pronouncement is effective for fiscal years and interim periods beginning on or after January 1, 2013 with retrospective application for all comparative periods presented. We are currently evaluating the impact that the adoption will have on our consolidated financial statements.

3. EARNINGS PER SHARE

The Company reports earnings per share in accordance with ASC Topic 260 – *Earnings Per Share* (ASC 260). ASC 260 requires presentation of basic and diluted earnings per share in conjunction with the disclosure of the methodology used in computing such earnings per share.

Basic earnings per share is computed based on the weighted average number of shares of common stock outstanding during the periods presented, adjusted for the shares of restricted common stock that the Company was obliged to issue as of the balance sheet date (see note 13).

Diluted earnings per share is computed based on net income attributable to stockholders and the weighted average number of shares of common stock outstanding during each period presented, adjusted for the effect of the dilutive common stock equivalents outstanding during the periods presented.

The dilutive effect of warrants and stock options to purchase common stock outstanding during the years ended December 31, 2011 and 2010 is reflected in the calculation of diluted earnings per share by applying the treasury stock method. Any anti-dilutive effect of the warrants and stock options is excluded from calculation of the earnings per share.

For the year ended December 31, 2011, 40,000 shares of warrants are dilutive and included in the weighted-average number of common stock outstanding for calculation of diluted earnings per share. 40,000 shares of warrants and 550,035 shares of stock options are anti-dilutive. Details of the anti-dilutive warrants, described as Common Stock Purchase Warrant No.0001, and stock options are described in note 13(iii) and note 17 respectively.

For the year ended December 31, 2010, 135,666 shares of warrants are dilutive and included in the weighted-average number of common stock outstanding for calculation of diluted earnings per share. 30,000 shares of warrants and 601,663 shares of stock options are anti-dilutive. Details of the anti-dilutive warrants, described as Common Stock Purchase Warrant No.0001, and stock options are described in note 13(iii) and note 17 respectively.

4. OPERATING RISKS

(a) Concentration of major customers and suppliers

	Years ended December 31, 2011	2010
	US$'000	*US$'000*
Major customers with revenues of more than 10% of the Company's sales		
Sales to major customers	**94,377**	130,632
Percentage of sales	**86%**	99%
Number	**2**	3
Major suppliers with purchases of more than 10% of the Company's purchases		
Purchases from major suppliers	**11,466**	23,562
Percentage of purchases	**48%**	67%
Number	**2**	1

Accounts receivable related to the Company's major customers comprised 88% and 98% of all account receivables as of December 31, 2011 and 2010 respectively.

Credit risk represents the accounting loss that would be recognized at the reporting date if counter parties failed to perform as contracted. Concentrations of credit risk (whether on or off balance sheet) that arise from financial economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The major concentrations of credit risk arise from the Company's accounts receivable. Even though the Company has major concentrations, it does not consider itself exposed to significant risk with regards to the related receivables.

(b) Country risks

The Company may also be exposed to the risks as a result of its principal operation being primarily in the PRC. These include risks associated with, among others, the political, economic and legal environmental and foreign currency exchange. The Company's results may be adversely affected by change in the political and social conditions in the PRC, and by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion and remittance abroad, and rates and methods of taxation, among other things. The Company's management does not believe these risks to be significant. There can be no assurance, however, those changes in political and other conditions will not result in any adverse impact.

(c) Cash and time deposits

The Company mainly maintains its cash balances with various banks located in the PRC. In common with local practice, such amounts are not insured or otherwise protected should the financial institutions be unable to meet their liabilities. There has been no history of credit losses. There are neither material commitment fees nor compensating balance requirements for any outstanding loans of the Company.

5. ACCOUNTS RECEIVABLE

	As of December 31,	
	2011	2010
	US$'000	*US$'000*
Completed contracts	**250,425**	181,649
Retentions	**17,354**	18,701
	267,779	200,350
Allowance for doubtful accounts	**(16,319)**	(7,863)
	251,460	192,487

Of the retention balance as of December 31, 2011 and 2010, approximately US$633,000 and US$888,000 respectively are due to be paid by the trade debtors after one year.

During the year, an additional allowance for doubtful accounts of US$8,200,000 was made.

6. GOODWILL

Goodwill arose from the acquisition of Guolian and Pan-pacific by BTWTC on July 5, 2008 and the acquisition of SRTC by Beijing Telestone on December 30, 2011. The amount represented the excess of the purchase cost over the fair value of identifiable net assets acquired at acquisition date. Goodwill is tested at least annually for impairment in accordance with ASC Topic 350, *Intangibles – Goodwill and Other*.

The changes in the carrying amount of goodwill for the years ended December 31, 2011 and 2010 are as follows:

	Guolian and Pan-pacific	**SRTC**	**Total**
	US$'000	*US$'000*	*US$'000*
At January 1, 2011	3,119	-	3,119
Acquired during the year *(note 6(i))*	-	1,149	1,149
At December 31, 2011	**3,119**	**1,149**	**4,268**

6. GOODWILL

(i) Acquisition during the year

On December 30, 2011, Beijing Telestone acquired 100% of the equity interests of SRTC. The acquisition of SRTC has been recorded using the purchase method of accounting in accordance with ASC Topic 805. The Company has allocated the purchase price to the assets and liabilities based on the fair value of the net assets at the effective date of the acquisition. The results of SRTC have been included in the consolidated financial statements since the date of acquisition.

The purchase consideration was an aggregate of 1,800,000 shares of restricted common stock ("the Consideration Shares") of TSTC to be issued in three installments (see note 13) and cash of US$2,000,000. The Consideration Shares have been valued at US$5,520,000 by an independent valuer in the PRC using a valuation approach that applies a marketability discount as the holders of the Consideration Shares are not entitled to sell the stock immediately.

The following table summarizes the amounts allocated to the assets acquired and liabilities assumed based upon their fair values at the acquisition date:

	US$'000	*US$'000*
Current assets:		
Accounts receivable, net	8,436	
Inventories	1,050	
Cash and bank balances	2,550	
Other current assets	1,399	
	13,435	
Property, plant and equipment	577	
Total assets acquired:		14,012
Current liabilities:		
Accounts payable	(2,388)	
Other current liabilities	(5,253)	
Total liabilities assumed		(7,641)
Goodwill		1,149
		7,520
Consideration paid:		
Cash		2,000
1,800,000 shares of restricted common stock of TSTC		5,520
		7,520

6. GOODWILL

(i) Acquisition during the year (Continued)

Pursuant to the share transfer agreement ("the SRTC Agreement") entered into between Beijing Telestone and the ex-shareholders of SRTC, other than the above purchase consideration, the Company may pay an additional consideration to the ex-shareholders of SRTC ("the Contingent Consideration").

In accordance with the SRTC Agreement, if the annual growth rates of the net profits generated by SRTC in the next three years ("the Relevant Period") exceed 18%, the Company may, at its sole discretion, pay the Contingent Consideration up to a maximum amount of 20% of the growth in the net profits during the Relevant Period.

Since there is no obligation for the Company to pay the Contingent Consideration, the Contingent Consideration is not accounted for in the financial statements of the Company for the year ended December 31, 2011.

There were no contributions to the Company's revenue and profit for the year ended December 31, 2011 since the acquisition of SRTC was effective from December 30, 2011. The following unaudited pro forma information assumes the acquisition of SRTC had occurred at the beginning of each period presented. The unaudited pro forma information is provided for informational purposes only. It is based on historical information and does not necessarily reflect the actual results that would have occurred nor is it necessarily indicative of future results of the operations of the Company.

	(Unaudited) Years ended December 31,	
	2011	2010
	US$'000	*US$'000*
Revenue	**137,141**	151,833
Income before income taxes	**19,642**	33,027
Net income	**15,074**	26,725
Net income per share of common stock	***US$***	*US$*
Basic	**1.07**	2.14
Diluted	**1.07**	2.14

7. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment is summarized as follows:

		As of December 31,	
	Estimated useful life (in years)	**2011** *US$'000*	2010 *US$'000*
Buildings	30	**336**	323
Leasehold improvement	5	**174**	168
Plant and machinery	5	**2,264**	797
Office equipment	5	**2,177**	1,395
Motor vehicles	5	**1,984**	948
Construction in progress	N/A	**6,730**	-
		13,665	3,631
Accumulated depreciation		**(4,401)**	(2,066)
		9,264	1,565

Depreciation expense for the years ended December 31, 2011 and 2010 were US$399,000 and US$298,000 respectively.

Construction-in-progress consists of factories and office buildings under construction and includes the costs of construction incurred during the period of construction or installation. No provision for depreciation is made on construction-in-progress until such time as the relevant assets are completed and ready for their intended use.

8. LEASE PREPAYMENTS, NET

	As of December 31,	
	2011 *US$'000*	2010 *US$'000*
Prepaid land use rights	**2,676**	2,580
Accumulated amortization	**(105)**	(52)
	2,571	2,528

Lease prepayment as of December 31, 2011 represented the land use rights for a piece of land located in Guan, Hebei Province, the PRC. The land use rights will expire in 2059.

The prepaid land use right has been pledged to a bank in the PRC as collateral for short-term bank loans *(Note 9)*.

Amortization expense for the years ended December 31, 2011 and 2010 were US$53,000 and US$52,000 respectively. The estimated aggregate amortization expense for each of the five succeeding years is US$53,000.

The movement in the cost of prepaid land use rights represents exchange rate re-alignment.

9. SHORT-TERM BANK LOANS

As of December 31, 2010, the Company had bank loans of RMB65 million, equivalent to approximately US$9.85 million, which bear interest to be charged quarterly at the standard short term borrowing rate as stipulated by the People's Bank of China on the date of the first withdrawal ("the Borrowing Rate"). The loans are wholly repayable within one year and secured by guarantee provided by a third party guaranty company.

As of December 31, 2011, the Company had bank loans of RMB95 million, equivalent to approximately US$14.94 million, of which RMB 57 million, equivalent to approximately US$ 8.96 million, bears interest to be charged quarterly at the Borrowing Rate while the remaining RMB 38 million, equivalent to approximately US$ 5.98 million, bears interest to be charged quarterly at 110% of the Borrowing Rate. The loans are wholly repayable within one year and secured by guarantee provided by a third party guaranty company.

The guarantee provided by the independent guaranty company is secured by the following:

(a) Accounts receivable of the Company with an aggregate carrying value as of December 31, 2011 and 2010 amounting to RMB235.66 million and RMB95.43 million, equivalent to approximately US$37.06 million and US$14.45 million, respectively;

(b) Motor vehicles of the Company with an aggregate carrying value as of December 31, 2010 amounting to RMB0.97 million, equivalent to approximately US$0.15 million;

(c) Land use rights of the Company with carrying value as of December 31, 2011 and 2010 amounting to RMB16.35 million and RMB16.68 million, equivalent to approximately US$2.57 million and US$2.53 million, respectively;

(d) Personal guarantee provided by Mr. Daqing Han, Telestone's Chairman and Chief Executive Officer ("Mr Han"); and

(e) Personal real estate property and securities in the Company held by Mr. Han as of December 31, 2010.

10. INVENTORIES

	As of December 31,	
	2011	2010
	US$'000	*US$'000*
Inventories consisted of the followings:		
Raw materials	**1**	1
Finished goods and parts	**7,223**	3,574
	7,224	3,575
Provision for slow-moving and obsolete items	**(469)**	(452)
	6,755	3,123

11. INCOME TAXES

Current Tax Position

TSTC and its subsidiaries are subject to income taxes on an entity basis on income arising in or derived from the tax jurisdictions in which each entity is domiciled.

TSTC had net operating losses carry-forward for income tax reporting purposes that might be offset against future taxable income. These net operating losses carry-forward are severely limited when TSTC experiences a change in control. Therefore, following the re-capitalization in August 2005, the amount available to offset future taxable income is limited. No tax benefit has been reported in the financial statements, because TSTC believes that it is more likely than not that the net operating losses carry-forward will finally expire and therefore cannot be used. Accordingly, the potential tax benefits of the losses carry-forward are offset by a valuation allowance of the same amount.

No provision for withholding or United States federal or state income taxes or tax benefits on the undistributed earnings and/or losses of the Company's subsidiaries/VIE has been made as the earnings of these subsidiaries/VIE, in the opinion of the management, will be reinvested indefinitely.

The Company's income is principally generated in the PRC by Beijing Telestone, BTWTC, BTCTC and Guan Bopu. All these entities are subject to the enterprise income tax ("EIT") in the PRC at the following applicable rates:

Unified EIT rate	25%
Small scale / low profit enterprises	20%
High / new technology enterprise ("Hi-tech enterprises")	15%

Beijing Telestone and BTWTC are qualified as Hi-tech enterprises under the current Enterprise Income Tax Law in the PRC, so they enjoy the preferential tax rate of 15% in the PRC for a three-year period commencing from the year 2009. All other entities including mainly BTCTC and Guan Bopu are subject to the unified tax rate of 25% for the years ended December 31, 2011 and 2010.

Income tax expenses, comprising EIT, have been provided at the applicable rates on the respective subsidiaries'/VIE's estimated assessable income arising in the PRC during the periods.

(a) Income tax expenses are comprised of the following:

	2011	2010
	US$'000	*US$'000*
Current tax		
United States	**-**	-
PRC EIT	**4,552**	5,989
	4,552	5,989

11. INCOME TAXES (CONTINUED)

Current Tax Position (Continued)

(b) Reconciliation from the statutory tax rate in the PRC of 25% *(2010: 25%)* to the effective tax rate is as follows:

	2011	2010
	%	*%*
Statutory rate – PRC	**25.0**	25.0
Difference in tax rate of subsidiary of the Company	**(15.5)**	(14.5)
Non-deductible items	**5.4**	5.7
Valuation allowance	**10.5**	-
Others	**0.2**	3.2
Effective tax rate	**25.6**	19.4

Uncertain Tax Position

Under FIN 48 (ASC 740), the Company must recognize the tax benefit or accrual from an uncertain position only if it is more-likely-than-not the tax position will be sustained on examination by the taxing authority, based on the technical merits of the position. The tax benefits or accruals recognized in the financial statements attributable to such position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon the ultimate resolution of the position.

By adoption of FIN 48 (ASC 740), the Company has analyzed its filing positions in all of the federal, state and foreign jurisdictions where it is required to file income tax returns. As of December 31, 2011 and 2010, the Company has identified the jurisdictions in the United States and PRC as “major” tax jurisdictions, as defined, in which it is required to file income tax returns. Based on the evaluations noted above, the Company has concluded that there are no significant uncertain tax positions requiring recognition in its consolidated financial statements.

Based on a review of tax positions for all open years and contingencies as set out in note 15(b) to the consolidated financial statements, no reserves for uncertain income tax positions have been recorded pursuant to FIN 48 (ASC 740) during the years ended December 31, 2011 and 2010, and the Company does not anticipate that it is reasonably possible that any material increase or decrease in its unrecognized tax benefits will occur within the next twelve months.

Except for those as disclosed in note 16(c) to the consolidated financial statements, as of December 31, 2011 and 2010, the Company had no unrecognized tax benefits or accruals for the potential payment of interest and penalties. The Company’s policy is to record interest and penalties in this connection as a component of the provision for income tax expense. For the years ended December 31, 2011 and 2010, no interest or penalties were recorded.

12. SEGMENT INFORMATION

During the years ended December 31, 2011 and 2010, all revenues of the Company are from its network installation and optimization services, and trading of wireless telecommunication equipment. No financial information by business segment is presented.

As the Company operates mainly in the PRC and over 99% of its revenue during the years ended December 31, 2011 and 2010 are from the PRC and almost all of the Company's assets are located in the PRC, no geographical analysis is presented.

13. COMMON STOCK

TSTC had 12,333,264 and 12,233,264 shares of outstanding common stock as of December 31, 2011 and 2010 respectively.

On December 31, 2010, the Board of Directors of TSTC approved a grant of 100,000 shares of restricted common stock with two years restriction for sale to certain senior officers of the Company as incentive compensation for their services rendered in previous years in improving the business result of the Company and their contribution to the success of the Company and these shares were issued on August 8, 2011.

The following table summarizes activities of the warrants:

	Number of shares
Warrants outstanding as of January 1, 2010	177,403
Cashless exercised on January 26, 2010 (i)	(65,515)
Cashless exercised on January 27, 2010 (i)	(26,222)
Issued on March 18, 2010 (ii)	40,000
Cancelled on November 10, 2010 (ii)	(40,000)
Issued on December 8, 2010 (iii)	40,000
Issued on December 8, 2010 (iii)	30,000
Issued on December 8, 2010 (iii)	10,000
Warrants outstanding and exercisable as of December 31, 2010	165,666
Expired on February 19, 2011 (iv)	(85,666)
Warrants outstanding and exercisable as of December 31, 2011	80,000

13. COMMON STOCK (CONTINUED)

(i) On January 26, 2010 and January 27, 2010, certain warrant holders elected to exercise 65,515 and 26,222 shares of warrants respectively pursuant to the cashless exercise provision of the warrants. Consequently, 30,590 and 13,124 shares of common stock were issued on a net share settlement basis to these warrant holders on January 26, 2010 and January 27, 2010 respectively. The remaining 85,666 shares of outstanding warrants issued in connection with the February 20, 2007 private placement are exercisable over a 4-year period to year 2011 at a per share exercise price of US$11.6.

(ii) On March 18, 2010, TSTC issued a total of 40,000 shares of warrants to a third party service provider as stock-based compensation for part of the cost of services. The warrants were cancelled on November 10, 2010 and replaced by another 40,000 shares of warrants named Common Stock Purchase Warrant No.0002 on December 8, 2010 with all the terms remain unchanged except that the exercise price was changed from US$18.73 to US$4.95 per share. The No.0002 of 40,000 shares of warrants are exercisable over a 3-year period from September 9, 2010.

(iii) On December 8, 2010, TSTC issued a total of 40,000 shares of warrants, of which 30,000 and 10,000 shares of warrants named Common Stock Purchase Warrant No.0001 and No.0003 respectively, to a third party service provider as stock-based compensation for part of the cost of services. The No.0001 of 30,000 shares of warrants are exercisable over a 3-year period from September 9, 2010 at a per share exercise price of US$18.47 and the No.0003 of 10,000 shares of warrants are exercisable over a 3-year period from December 8, 2010 at a per share exercise price of US$9.55.

(iv) On February 19, 2011, 85,666 shares of warrants expired.

The following table sets forth the details of warrants outstanding, vested and exercisable as of December 31, 2011.

	Outstanding, Vested and Exercisable		
Exercise price	**Number of shares**	**Weighted average remaining contractual life**	**Weighted average exercise price**
US$		*Years*	*US$*
4.95	40,000	1.69	
9.55	10,000	1.94	
18.47	30,000	1.69	
	80,000	1.72	10.60

14. DISTRIBUTION OF INCOME

The Company's income is substantially contributed by Beijing Telestone, a company registered in the PRC. Income of Beijing Telestone is distributable to its stockholders after transfer to dedicated reserves as required under its articles of association and relevant PRC rules and regulations.

Prior to the re-organization to a wholly owned foreign investment interprise ("WOFIE"), dedicated reserves of Beijing Telestone include a statutory surplus reserve and a statutory public welfare fund. In accordance with the relevant PRC Companies Law and rules and regulations, it was required to transfer amounts equal to at least 10% and 5% of its after-tax income to the statutory surplus reserve and statutory public welfare fund, respectively.

The statutory surplus reserve can only be utilized to offset prior years' losses or for capitalization as paid-in capital, whereas the statutory public welfare fund shall be utilized for collective staff welfare benefits such as building staff quarters or housing. No distribution of the remaining reserves shall be made other than on liquidation of Beijing Telestone.

Since Beijing Telestone has registered as a WOFIE, in accordance with its Articles of Association and the relevant PRC regulations, it is required to appropriate to a general reserve fund an amount not less than 10% of the amount of after-tax income and a staff welfare and bonus fund an amount to be determined by the directors.

The general reserve fund can be used to make good losses in previous years. The staff welfare and bonus fund, which is to be used for the welfare of the staff and workers of the subsidiary, is of a capital nature.

15. RELATED PARTY TRANSACTIONS

Summary of related party transactions

	Note	**As of December 31, 2011** *US$'000*	As of December 31, 2010 *US$'000*
Due from related parties			
Employees	*a*	**-**	540
Ex-stockholders of SMI/Guolian	*b*	**1,534**	1,478
		1,534	2,018
Due to related parties			
Directors	*a*	**249**	2,454
Ex-stockholders of Beijing Telestone/Guolian	*b*	**1,582**	1,523
		1,831	3,977
Guarantor of short-term bank loans			
A director	*9*	**14,941**	9,846

Note:

(a) The amounts due from employees and due to directors represent unsecured advances made to / from those parties from time to time. These amounts are interest free and repayable on demand.

(b) The amounts due to ex-stockholders of Beijing Telestone represented the consideration arising from the consummation of the business combination. The ex-stockholders of SMI had represented that they had fully settled the amount with the ex-stockholders of Beijing Telestone and also undertaken to fully indemnify SMI against any claims from the ex-stockholders of Beijing Telestone. However, an ex-stockholder of Beijing Telestone has initiated a lawsuit against SMI alleging that the consideration has not been settled. The court hearing commenced on May 10, 2006 and finalized on December 19, 2006. A verdict has been issued by the Second Intermediate People's Court of Beijing ("北京市第二中級人民法院") and announced that SMI and Beijing Telestone are not required to compensate the ex-stockholder of Beijing Telestone. On 23 October 23, 2007 another verdict was issued by the High People's Court of Beijing ("北京市高級人民法院") announcing that the verdict from the Second Intermediate People's Court of Beijing was upheld and SMI was not required to compensate the ex-shareholder. The movement of the balances represented exchange rates re-alignment.

16. COMMITMENTS AND CONTINGENCIES

a) Capital commitments

As of December 31, 2011, the Company had outstanding capital expenditure commitments on construction contracts of approximately RMB17.85 million, equivalent to approximate US$2.81 million.

b) Operating lease expense

The Company leases certain staff quarters and office premises under non-cancelable operating leases. Rental expenses under operating leases for the years ended December 31, 2011 and 2010 were US$1,614,000 and US$873,000 respectively.

The following table summarizes the approximate future minimum rental payments under non-cancelable operating leases in effect as of December 31, 2011 and 2010:

	As of December 31,	
	2011	2010
	US$'000	*US$'000*
2011	**-**	1,247
2012	**1,488**	1,017
2013	**743**	631
2014	**72**	7
2015	**65**	-
2016	**49**	-
Total	**2,417**	2,902

c) Contingencies

The Company recognizes its revenue upon the completion of contract and has made full tax provision in accordance with relevant national and local laws and regulations of the PRC. A contract is considered as completed upon completion of all essential contract work and the installation has been accepted by the customer. It is the common practice in the PRC that invoices are not issued to customers until payments are received. The Company follows the practice of reporting its revenue for PRC tax purposes when invoices are issued. All unbilled revenue will become taxable when invoices are issued. For PRC tax reporting purpose, the PRC subsidiaries of the Company recognized revenue on an "invoice basis" instead of when goods are delivered and services are rendered. This is not in strict compliance with the relevant laws and regulations. Accordingly, despite the fact that the PRC subsidiaries of the Company had made full tax provision in the financial statements, these PRC subsidiaries may be subject to interests and/or penalties for the deferred reporting of tax obligations. The exact amount of interests and/or penalties cannot be estimated with any reasonable degree of certainty. The board of directors considers it is more-likely-than-not that the interests and/or tax penalties will not be imposed.

17. STOCK OPTION PLAN

On June 27, 2005, a Stock Option Plan (the "Plan") was approved at the 2005 annual meeting of stockholders. The purpose of the Plan is to promote the growth and general prosperity of the Company by permitting the Company to grant incentive and nonqualified stock options to purchase common stock and restricted stock of the Company to key employees, non-employee directors, and advisors. The Plan is designed to help the Company and its subsidiaries and affiliates attract and retain superior personnel for positions of substantial responsibility and to provide key employees, non-employee directors, and advisors with an additional incentive to contribute to the success of the Company.

On November 30, 2010, stock options to subscribe a total of 601,663 shares were granted to certain eligible employees of the Company as incentive compensation to attract and retain superior personnel for positions of substantial responsibility and to provide them with an additional incentive to contribute to the success of the Company.

During the year ended December 31, 2011, certain of these eligible employees of the Company resigned and 51,628 shares of stock options were forfeited accordingly.

The following table sets forth the details of the stock options as of December 31, 2011.

Number of shares of options						
As of December 31, 2010		72,000		466,500		63,163
Forfeited during the year		-		(33,900)		(17,728)
As of December 31, 2011		72,000		432,600		45,435
Exercise price	US$	12.00	US$	10.91	US$	10.91
Vesting date						
- 1/3 on the 1st installment		November 30, 2010		November 30, 2010		December 31, 2011
- 1/3 on the 2nd installment		December 31, 2011		December 31, 2011		December 31, 2012
- 1/3 on the 3rd installment		December 31, 2012		December 31, 2012		December 31, 2013
Expiry date		November 29, 2020		November 29, 2020		November 29, 2020

18. STOCK-BASED COMPENSATION

The Company applies the fair value recognition and measurement provisions of ASC Topic 718 *Compensation – Stock Compensation* ("ASC 718") to account for stock-based compensation to employee. ASC 718 requires a public entity to measure the cost of services received in exchange for an award of equity instruments based on the grant-date fair value of the award. The cost of services is recorded at fair value as of the grant date and recognized as an expense over the employee's requisite service period (generally the vesting period) or at the grant date when it is fully vested.

Stock-based compensation for stock or similar instruments granted to non-employee is determined in accordance with ASC Topic 505-50 *Equity-Based Payments to Non-Employees* ("ASC 505-50"). ASC 505-50 addresses transactions in which equity instruments are issued in exchange for the receipt of goods or services when the counterparty to the transaction is other than an employee. Stock-based compensation to non-employees shall be measured at the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable. The measurement date shall be the earlier of the date at which a commitment for performance by the counterparty to earn the equity instruments is reached or the date at which the counterparty's performance is complete.

During the years ended December 31, 2011 and 2010, a total of US$1,578,000 and US$5,180,000 were recognized as stock-based compensation in the consolidated statement of operations. The following table sets forth a summary of the nature of stock-based compensation recognized for the years ended December 31, 2011 and 2010.

	Year ended December 31,	
	2011	2010
	US$'000	*US$'000*
Warrants	**-**	855
Restricted stock	**-**	3,271
Stock options	**1,578**	1,054
	1,578	5,180

The table below sets forth the functional classification of stock-based compensation recognized for the years ended December 31, 2011 and 2010.

	Year ended December 31,	
	2011	2010
	US$'000	*US$'000*
Sales and marketing	**-**	855
General and administrative	**1,578**	4,325
	1,578	5,180

No tax benefit was recognized for the stock-based compensation recorded for the years ended December 31, 2011 and 2010.

18. STOCK-BASED COMPENSATION (CONTINUED)

Warrants
During the year ended December 31, 2011, no warrant was granted by the Company.

During the year ended December 31, 2010, 80,000 shares of warrants were granted to a service provider as part of the cost of services. Details of the warrants are set out in note 13(iii).

The 80,000 shares of warrants are accounted for as equity instruments issued in exchange for receipt of services. Costs are measured at the estimated fair value of the equity instruments issued on the completion date of the services.

The following table sets forth the estimated per share fair value of the warrants in accordance with valuation reports issued by an independent professional valuer and the assumptions used by the valuer to estimate the fair value of the warrants using the Binomial Lattice option pricing model.

Common Stock Purchase Warrant	No.0001	No.0002	No.0003
Number of shares of warrants	30,000	40,000	10,000
Grant date per share fair value	4.64	16.08	7.26
Expected life	3 years	3.51 years	3 years
Expected dividend yield	0.00%	0.00%	0.00%
Expected volatility	98.85%	96.45%	98.10%
Risk-free interest risk	0.88%	1.62%	0.98%

Expected volatility is based on historical volatility of the Company's common stock. Historical volatility was computed using daily pricing observations for recent periods that correspond to the term of the warrants. The expected life is based on the remaining term of the warrants. The risk-free interest rate is based on U.S. Treasury yields in effect at the time of grant for periods corresponding with the expected life of the warrants.

For the year ended December 31, 2010, the Company recognized stock-based compensation in relation to warrants granted to non-employee of US$855,000.

18. STOCK-BASED COMPENSATION (CONTINUED)

Restricted common stock
On January 20, 2010 and June 22, 2010, the Board of Directors of TSTC approved to grant 100,000 and 10,000 shares of restricted common stock with three years restriction for sale and one year restriction for sale respectively to certain senior officers of the Company as an incentive compensation for their services rendered in previous years in improving the business result of the Company and their contribution to the success of the Company.

On December 31, 2010, the Board of Directors of TSTC approved to grant another 100,000 shares of restricted common stock with two years restriction for sale to certain senior officers of the Company as an incentive compensation for their services rendered in previous years in improving the business result of the Company and their contribution to the success of the Company and these shares were issued on August 8, 2011.

The issuance of a total of 210,000 shares of restricted common stock is accounted for as equity instruments issued in exchange for receipt of services. The stock-based compensation costs are recognized and measured at the quoted price on the date of grant.

For year ended December 31, 2010, the Company recognized stock-based compensation in relation to restricted common stock granted to employees of US$3,271,000.

During the year ended December 31, 2011, no share of restricted common stock was issued. However, as of December 31, 2011, the Company was obliged to issue 1,800,000 shares of restricted common stock of TSTC as part of the consideration for the acquisition of SRTC as detailed in note 6(i).

Stock options
During the year ended December 31, 2010, 601,663 shares of stock options were granted to certain eligible employees of the Company as an incentive compensation to attract and retain superior personnel for positions of substantial responsibility and to provide them with an additional incentive to contribute to the success of the Company. Details of the stock options granted are set out in note 17.

The 601,663 shares of stock options are accounted for as equity instruments issued in exchange for receipt of services. Costs are measured at the estimated fair value of the equity instruments issued and recognized as an expense over the employee's requisite service period.

The following table sets forth the estimated per share fair value of the stock options in accordance with valuation reports issued by an independent professional valuer and the assumptions used by the valuer to estimate the fair value of the stock options using the Binomial Lattice option pricing model.

Number of shares of stock options	72,000	466,500	63,163
Weighted average grant date per share fair value	6.80	5.80	6.64
Expected life	10 years	10 years	10 years
Expected dividend yield	0.00%	0.00%	0.00%
Expected volatility	85.59%	85.59%	85.59%
Risk-free interest risk	2.80%	2.80%	2.80%

18. STOCK-BASED COMPENSATION (CONTINUED)

<u>Stock options</u> *(Continued)*
Expected volatility is based on historical volatility of the Company's common stock. Historical volatility was computed using daily pricing observations for recent periods that correspond to the term of the stock options. The expected life is based on the remaining term of the stock options. The risk-free interest rate is based on U.S. Treasury yields in effect at the time of grant for periods corresponding with the expected life of the stock options.

For the years ended December 31, 2011 and 2010, the Company recognized stock-based compensation in relation to stock options granted to employees of US$1,578,000 and US$1,054,000 respectively.

During the year ended December 31, 2011 certain eligible employees of the Company resigned and 51,628 shares of stock options were forfeited accordingly. No stock option was granted by the Company during the year ended December 31, 2011.

A summary of stock option activity as of December 31, 2011 and 2010 and changes during the years then ended is presented below:

	Number of share	**Weighted average exercise price** *US$*
Outstanding as of January 1, 2010	-	
Granted	601,663	
Outstanding as of December 31, 2010	601,663	11.04
Forfeited during the year	(51,628)	
Outstanding as of December 31, 2011	**550,035**	**11.05**
Vested and exercisable as of December 31, 2010	179,501	11.06
Vested and exercisable as of December 31, 2011	**351,558**	**11.06**

18. STOCK-BASED COMPENSATION (CONTINUED)

Stock options (Continued)
The following table sets forth the details of stock options outstanding, vested and exercisable as of December 31, 2011.

	Outstanding			Vested and exercisable	
Exercise price	**Number of share**	**Weighted average exercise price** *US$*	**Weighted average remaining contractual life** *Years*	**Number of share**	**Weighted average exercise price** *US$*
10.91	478,035	10.91	8.91	303,558	10.91
12.00	72,000	12.00	8.91	48,000	12.00
	550,035	**11.05**	**8.91**	**351,558**	**11.06**

The following table sets forth the details of stock options outstanding, vested and exercisable as of December 31, 2010.

	Outstanding			Vested and exercisable	
Exercise price	**Number of share**	**Weighted average exercise price** *US$*	**Weighted average remaining contractual life** *Years*	**Number of share**	**Weighted average exercise price** *US$*
10.91	529,663	10.91	9.91	155,501	10.91
12.00	72,000	12.00	9.91	24,000	12.00
	601,663	11.04	9.91	179,501	11.06

The aggregate intrinsic value of all outstanding stock options and exercisable stock options at December 31, 2011 and 2010 amounted to US$Nil. There were no options exercised during the years ended December 31, 2011 and 2010. As of December 2011 and 2010, the Company had total unrecognized compensation amounting to US$668,900 and US$2,560,000 under ASC 718 respectively. The unrecognized compensation will be recognized over a weighted average period of 2 years.

19. RETIREMENT BENEFIT PLAN

As stipulated by the rules and regulations in the PRC, the Company's PRC established subsidiaries are required to contribute to a state-sponsored social security plan for all of their employees at a certain percentage of the basic salary of their employees. The state-sponsored retirement plan is responsible for the actual pension payments or any post-retirement benefits beyond the annual contributions.

During the years ended December 31, 2011 and 2010, the Company's contributions to the above retirement benefit plan amounted to US$1,202,000 and US$744,000 respectively.

20. SUBSEQUENT EVENT REVIEW

The Company has evaluated subsequent events up to the date that these consolidated financial statements were approved and authorized for issue by the Board of Directors.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

During the Company's fiscal years ended December 31, 2008 and 2007 and through July 8, 2009, the Company engaged Mazars CPA Limited previously as the independent registered public accounting firm prior to the engagement of QC CPA Group, LLC on July 9, 2009 through January 14, 2010. QC CPA Group, LLC performed the interim reviews of the Company's financial statements for the periods ended June 30, 2009 and September 30, 2009. QC CPA Group, LLC resigned on January 14, 2010 and the Company engaged Mazars CPA Limited as the Company's new independent registered public accounting firm on January 18, 2010 to audit the Company's financial statements for the year ended December 31, 2009. There were no disagreements with accountants on accounting and financial disclosure.

ITEM 9A. CONTROLS AND PROCEDURES

(a) MANAGEMENT'S REPORT ON DISCLOSURE CONTROLS AND PROCEDURES

Our management is responsible for establishing and maintaining adequate disclosure controls and procedures, as defined in Exchange Act Rules 13a-15(e) and 15d-15(e).We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Such controls and procedures, by their nature, can provide only reasonable assurance regarding management's control objectives.

Our chief executive officer and chief financial officer, after assessment of the Company's disclosure controls and procedures and internal control over financial reporting, concluded that, as of December 31, 2011, our disclosure controls and procedures were not effective due to the control weaknesses and control deficiencies in our internal control over financial reporting described below.

(b) MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Under the supervision, and with the participation, of our Chief Executive Officer and our Chief Financial Officer, we conducted an assessment of the effectiveness of our internal control over financial reporting based on criteria established in the framework in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. This assessment has identified five control deficiencies in our internal control over financial reporting that constitute material weaknesses, as defined in the standards established by the U.S. Public Company Accounting Oversight Board, that could result in more than a remote likelihood that a material misstatement in our annual or interim financial statements would not be prevented or detected on a timely basis by our internal controls.

Our chief executive officer and chief financial officer, after assessment of the Company's disclosure controls and procedures and internal control over financial reporting, concluded that, as of December 31, 2011, our internal control over financial reporting were not effective due to the control weaknesses and control deficiencies in our internal control over financial reporting described below:

1. Our internal audit team is currently understaffed. In addition, the scope and effectiveness of the internal audit function have yet to be developed. The result of these deficiencies is that the examinations of the operation flow and management function are not periodical, adequate and perfect.

Remediation Initiative

First, we plan to continue to complete and optimize our internal audit team so that the effectiveness and efficiency of their internal audit function can be developed. Furthermore, as it is one of the important functions of the internal audit team, they should inspect the status of the company's finances, flow of operations and management functions periodically. In 2011, the internal control team was stengthened via several management experts joining the Company. For example, Mr. Xiao Wenbin, whose experience in various management roles in the military, and Ms. Wu Yan, the new Manager of General Office of President, who has a number of years experience in legal services and corporate management, have both brought strong new management philosophies to the company.

Second, we intend to develop our internal audit function's policies and procedures.

2. Currently, not all of our financial and accounting staff is knowledgeable enough of U.S. GAAP accounting rules in order to support the ongoing expansion of our Company's organizational structure and financial reporting requirements. Specifically, certain positions in our accounting and finance departments at the subsidiary level are staffed with individuals who mainly deal with PRC financial reporting and do not currently have adequate knowledge, skills and training regarding U.S. GAAP.

Remediation Initiative

We have recently expanded our internal accounting staff and intend to continue this effort in the future. In particular, we are seeking accountants experienced in several key areas of accounting, including persons with experience in Chinese and U.S. GAAP, U.S. GAAP consolidation requirements, and SEC financial reporting requirements. In addition, we plan to employ consultants to supplement our financial and accounting efforts and allocate additional resources to train our existing accounting staff. In 2011, all members of our accounting team attended training regarding the differences between U.S. GAAP and Chinese GAAP.

3. The financial department has internal control policies and procedures. However, they are not integrated.

Remediation Initiative

We intend to develop financial management policies. Our financial department plans to deploy an efficient inspection system, record problems and execute reporting access. Furthermore, we intend to continuously improve our employee training program. Since 2011, the Company has significantly improved its financial and accounting policy system through the adoption of a wide range of related rules and regulations. The Company has adopted a Financial Management Policy, standardized accounting methods and tax administration systems, a Financial Software System Management Policy, a funds management system etc. Thus far the implementation of these policies has been successful and has improved our internal management.

4. We lack clear policies and procedures to correct irregularities, such as disobeying manner principles, and company and departmental policies. These policies should define all types of policy standards, such as the procedures and the responsible person, etc., and produce a report within a certain scope.

Remediation Initiative

Our Administrative Department will formulate the regulations and measures, including the correction process, content and scale. We are planning to create a department which will be in charge of investigating, correcting and announcing irregularities in employees' activities. Since 2011, our monitoring system has been enhanced to oversee the overall efficient and correct functioning of the company. The Company has also adopted standards such as ISO 9000, 14000, and 18000.

5. At present, there is a whistle-blower channel via manager's e-mail and telephone, but no formal whistle blower policy (including channel, responsible department, confidential policy, monitoring policy, etc.) exists.

Remediation Initiative

We intend to establish a formal whistle-blower program and inform all staff through an efficient channel. These channels include a confidentiality policy to ensure that a whistle-blower is not retaliated against, direct and indirect reporting channels, feedback policies, recording policies, retention policies, an employee handbook and an internal website. We also plan to appoint an adequate number of managers to collect the information and monitor the procedures and report to the board and audit committee periodically about significant irregular activities.

This Annual Report on Form 10-K does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's independent registered public accounting firm pursuant to an exemption for smaller reporting companies under Section 989G of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

(c) CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the year ended December 31, 2011, there was no change in our internal controls over financial reporting that has materially affected, or that is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Set forth below is certain information concerning each of the directors and executive officers of the Company as of March [_30], 2012:

Name	Age	Position Held
Han Daqing	48	Director, CEO, Chairman of the Board
Pan Guobin	49	Director, President
Yu Xiaoli	36	Chief Financial Officer
Xu Hancong	43	Director of Project Proposal Design
Wang Xiaozhong	43	Director of Equipment R&D
HeYuanping (1)(2)(3)	46	Director
Lu Guangjun (1)(2)(3)	62	Director
Cheng Guanghui (1)(2)(3)	69	Director

(1) Member of the Audit Committee
(2) Member of the Compensation Committee
(3) Member of the Nominating and Corporate Governance Committee

Han Daqing has served as Chairman of our Board since August 23, 2004. Mr. Han has served as a member of the Board of Telestone since its inception in October, 1997 and as Chief Executive Officer since January, 2002. Previously Mr. Han also held the title of President of the Company from August 23, 2004 until May 26, 2010. Prior to assuming his Chief Executive Officer duties with Telestone, from 1996 to 2002, Mr. Han was the Chief Representative of the Beijing Office of Allgon Systems AB, an international telecommunications conglomerate. Mr. Han holds a bachelor’s degree in Computer Engineering and a master’s degree in Digital Communication Engineering, both from the Xidian University of Electronic Science & Technology. In addition, Mr. Han holds a Master’s of Business Administration from CITY University. We believe Mr. Han’s qualifications to serve on our board include his extensive knowledge of the Company as founder, Chairman, CEO and President and his understanding and in-depth experience in dealing in the technological aspect of the business and the markets served. In addition, we believe that his vision and progressive leadership will continue to positively influence the Company’s profitable revenue growth and corresponding profitability, and his background positions him to grow the Company both organically and by acquisition.

Pan Guobin has served as President of the Company since May 26, 2010. Mr. Pan has served as a member of the Board of Director since December 28, 2009. Mr. Pan Guobin brings 24 years of IT work experience and 19 years of senior management experience to the Company. From August 2007 to the present, Mr. Pan served as the vice president of the Company. From November 2001 to August 2007, Mr. Pan served as the manager of Tianjin Branch and Northeast District Branch of the Company. From August 1985 to October 2001, Mr. Pan worked as an engineer and then served as a product manager at Tianjin Photoelectricity 754 Factory. Mr. Pan holds a bachelor’s degree in Computer Application from Xidian University, China. We believe Mr. Pan’s qualifications to serve on our board include his extensive knowledge of the Company gained working as an executive of the Company for many years, which has afforded him a detailed understanding of the business and the complexities of our operations. His technical expertise and experience as a professional in the telecommunications industry allow him to direct the operations of the Company and provide valuable insights and technical support to the Board. His support is particularly important when evaluating new ventures proposed to the Board.

Yu Xiaoli has served as Chief Financial Officer of the Company since May 11, 2010. Ms. Yu has 12 years of experience at Telestone and has held various positions at the Company during her tenure. From January 2009 to the present, Ms. Yu served as the Financial Controller where she was the assistant to the former CFO and provided oversight on audits, financial reports and reported directly to the Company's CEO on matters of internal management. Ms Yu headed the Company's Yunnan branch office from April to December 2008. From September 2005 to March 2008, Ms. Yu was the accounting manager of the Company's equipment business. From May 2001 to August 2005, Ms. Yu was Treasurer of the Company. Ms Yu served as a staff accountant from September 1999 to May 2001 of the Company. Ms Yu holds a bachelor's degree in accounting from Dongbei University of Finance and Economics, China.

Xu Hancong is the Director of Project Proposal Design of the Company. Mr. Xu has 20 years of experience in R&D and previously managed the Company's Guangxi branch office. Mr. Xu holds a bachelor's degree in electronics from Peking University in China.

Wang Xiaozhong is the Director of Equipment R&D of the Company. Mr. Wang has 20 years of experience in R&D and previously served as the Director of the Company's R&D department. Mr. Wang holds a bachelor's degree in electrical engineering from Xi'an University of Electronic Science and Technology.

He Yuanping has worked as director, vice president, chief financial officer and secretary of the board of directors of Beijing Origin Water Technology Company since June 2007. Mr. He has years of experience in investment, finance and senior management of large enterprises. From September 2005 to June 2007 Mr. He was executive vice president and chief financial officer of Beijing Science and Technology development Company. From April 2003 to August 2005 Mr. He worked as vice president and chief investment officer at Beijing Anlian Investment Co., Ltd. Mr. He holds a Bachelor's degree in Engineering from Nanjing University of Science, a Master's degree in Engineering from University of Science and Technology Beijing, and a Master's degree in Finance from Victoria University in New Zealand. Mr. He is a permanent resident of New Zealand. We believe Mr. He's wealth of experience in investment, finance, and management will enable him to provide valuable insight regarding the direction of our business operations and to serve as a important addition to the Board.

Lu Guangjun has worked as secretary of the Association of China Communication Industry since June of 2010. From September 2006 to April 2010 Mr. Lu was the chairman of the board of China Rida System & Equipment Corp. From July 2000 to September 2006 Mr. Lu worked as president and chief secretary of China TongGuang Electronic Corporation From October 1996 to June 2000 Mr. Lu was president of China TongGuang Electronic Corporation, during which time he was also on the Board of SDG Information Corporation Limited. From January 1994 to May 1996 Mr. Lu worked as president of China TongGuang Electronic Corporation. We believe Mr. Lu's extensive experience in senior management, spanning over 18 years, have furnished him with the ideal background for a Board member who will contribute new ideas on the future operations of the Company bolstered by his expert working knowledge of the technology industry.

Cheng Guanghui has served as a member of our Board since September 21, 2007. Currently, Mr. Cheng is a Director of the China Quality Management Association for Electronics Industry. From 1998 to 2004, Mr. Cheng worked as Director of the General Office of Ministry of Information Industry of the People's Republic of China. From 1993 to 1998, Mr. Cheng was Director of The General Office of Ministry of Electronics Industry of the People's Republic of China. Mr. Cheng holds a bachelor's degree from Tsinghua University. We believe Mr. Cheng's qualifications to serve on our board include his extensive knowledge of the Company, his experience serving on Chinese governmental agencies related to the telecommunications industry, his deep understanding of China's policies, and his extensive knowledge and experience of the markets in which we conduct business. Mr. Cheng's solid background provides valuable insights to the industry and China's policies to the Company.

We do not currently have a Lead Independent Director.

Each of the directors named above will serve until our next Annual Meeting of Stockholders, or until their successors are duly elected and has qualified. Directors will be elected for one-year terms at the Annual Meeting of Stockholders. Officers will hold their positions at the pleasure of the Board of Directors, absent any employment agreement, of which none currently exists or is contemplated. There is no arrangement or understanding between any of our directors or officers and any other person pursuant to which any director or officer was or is to be selected as a director or officer, and there is no arrangement, plan or understanding as to whether non-management stockholders will exercise their voting rights to continue to elect the current directors to our Board of Directors. There are also no arrangements, agreements or understandings between non-management stockholders that may directly or indirectly participate in or influence the management of our affairs.

There are no agreements or understandings for any officer or director to resign at the request of another person, and none of the officers or directors are acting on behalf of, or will act at the direction of, any other person.

Involvement in Certain Legal Proceedings

During the past ten years, no present or former director, executive officer or person nominated to become a director or an executive officer of our Company:

1) Was a general partner or executive officer of any business against which any bankruptcy petition was filed, either at the time of the bankruptcy or two years prior to that time;

2) Was convicted in a criminal proceeding or named subject to a pending criminal proceeding (excluding traffic violations and other minor offenses);

3) Was subject to any order, judgment or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities or banking activities; or

4) Was found by a court of competent jurisdiction (in a civil action), the SEC or the Commodity Futures Trading Commission to have violated a federal or state securities or commodities law, and the judgment has not been reversed, suspended or vacated.

Compliance with Section 16(a) of the Securities Exchange Act of 1934

Section 16(a) of the Securities and Exchange Act of 1934 requires our executive officers and directors and persons who own more than 10% of a registered class of our equity securities, to file with the SEC initial statements of beneficial ownership on Form 3, reports of changes in ownership on Form 4 and annual reports concerning their ownership on Form 5. Executive officers, directors and greater than 10% stockholders are required by the SEC regulations to furnish us with copies of all Section 16(a) reports they file. We believe that, during 2011, our directors, executive officers, and 10% stockholders complied with all Section 16(a) filing requirements, with the exceptions noted below.

- Two late Form 4 reports were filed for Daqing Han, our CEO, on May 11, 2011 and November 11, 2011, respectively, to report purchases of an aggregate of 100,000 shares of our common stock that were acquired in four transactions occurring on April 26, 27, and 28 of 2011 and purchases of an aggregate of 73,902 shares of our common stock that were acquired in two transactions occurring on October 3 and 4 of 2011, respectively.

- A late Form 4 report was filed for Xiaoli Yu, our Chief Financial Officer, on November 29, 2011 to report an award of 11,000 shares of restricted common stock on August 8, 2011.

- A late Form 4 report was filed for Guobin Pan, our Director, on December 9, 2011 to report an award of 20,000 shares of restricted common stock on August 8, 2011.

In making these statements, we have relied upon examination of the copies of Forms 3, 4, and 5, and amendments to these forms, provided to us and the written representations of our directors, executive officers, and 10% stockholders.

Code of Ethics

In December 2004, the Company's Board of Directors adopted a Code of Ethics. For a copy of the Code of Ethics, please write to: Assistant Secretary to the Board, Telestone Technologies Corporation, Floor 10, Ruida Plaza, No. 74 Lugu Road, Shi Jingshan District, Beijing, China 100040.

Meetings and Certain Committees of the Board

The Board of Directors held 4 meetings during the fiscal year ended December 31, 2011. All current directors attended at least 100% of the meetings of the Board of Directors and Board Committees of which they are members. We have an Audit Committee, a Compensation Committee and a Nominating and Corporate Governance Committee.

Audit Commitee

The Audit Committee is currently comprised of He Yuanping, Lu Guangjun and Cheng Guanghui, each of whom are "independent" as defined by the NASDAQ Stock Exchange listing standards. He Yuanping is the designated financial expert. The Audit Committee is directly responsible for the appointment, retention, compensation and oversight of the work of any registered public accounting firm employed by the Company (including resolution of disagreements between management and the accounting firm regarding financial reporting) for the purpose of preparing or issuing an audit report or related work or performing other audit, review or other services. Any such registered public accounting firm must report directly to the Audit Committee. The Audit Committee has the ultimate authority and responsibility to evaluate and, where appropriate, replace the registered public accounting firm.

The Audit Committee met 4 time during the fiscal year ended December 31, 2011 and 100% members of the Committee attended the meeting.

Compensation Committee

The Compensation Committee is responsible for the administration of all salary, bonus and incentive compensation plans for our officers and key employees. The members of the Compensation Committee are He Yuanping, Lu Guangjun and Cheng Guanghui, all of whom are "independent" directors as defined by the NASDAQ Stock Exchange listing standards.

The Compensation Committee held 4 meeting during the year ended December 31, 2011 and 100% members attended the meeting.

Nominating and Corporate Governance Committee

The Nominating and Corporate Governance Committee is responsible for preparing a list of candidates to fill the expiring terms of directors serving on our Board of Directors. The committee submits the list of candidates to the Board of Directors who determines which candidates will be nominated to serve on the Board of Directors. The names of nominees are then submitted for election at our Annual Meeting of Stockholders. The committee also submits to the entire Board of Directors, a list of nominees to fill any interim vacancies on the Board of Directors resulting from the departure of a member of the Board of Directors for any reason prior to the expiration of his term. In recommending nominees to the Board of Directors, the committee keeps in mind the functions of this body. The committee considers various criteria, including the ability of the individual to meet the NASDAQ Stock Market "independence" requirements, general business experience, general financial experience, knowledge of the Company's industry (including past industry experience), education, and demonstrated character and judgment. The committee will consider director nominees recommended by a stockholder if the stockholder mails timely notice to the Secretary of the Company at its principal offices, which notice includes (i) the name, age and business address of such nominee, (ii) the principal occupation of such nominee, (iii) a brief statement as to such nominee's qualifications, (iv) a statement that such nominee consents to his or her nomination and will serve as a director if elected, (v) whether such nominee meets the definition of an "independent" director under the rules of the NASDAQ Stock Market listing standards and (vi) the name, address, class and number of shares of capital stock of the Company held by the nominating stockholder. Any person nominated by a stockholder for election to the Board of Directors will be evaluated based on the same criteria as all other nominees. The committee also oversees our adherence to our corporate governance standards. The members of the committee are He Yuanping, Lu Guangjun and Cheng Guanghui.

The committee held 4 meetings during the fiscal year ended December 31, 2011 and 100% members attended the meeting.

Stockholder Communications

The Board of Directors welcomes communications from our stockholders and maintains a process for stockholders to communicate with the Board of Directors. Stockholders who wish to communicate with the Board of Directors may send a letter addressed to the Chairman of the Board of Directors of Telestone Technologies Corporation, Floor 10, Ruida Plaza, No. 74 Lugu Road, Shi Jingshan District, Beijing, China. The mailing envelope must contain a clear notation indicating that the enclosed letter is a "Stockholder-Board Communication." All such letters should identify the author as a security holder. All such letters will be reviewed by the Chairman of the Board of Directors and submitted to the entire Board of Directors no later than the next regularly scheduled Board of Directors meeting.

We currently have no policy with respect to director attendance at annual meetings.

Compensation of Directors

The independent directors were separately compensated for their services in the amount of a $5,000 retainer except Cheng Guanghui (who was paid a $10,000 retainer during the year ended December 31, 2011).

ITEM 11. EXECUTIVE COMPENSATION

The following table sets forth information regarding the compensation to our named executive officers and other relevant individuals for the fiscal year ended December 31, 2011.

Summary Compensation Table

Name and Principal Underlying Positions	Year	Salary	Bonus	Option Awards (1)	Stock Awards (2)	All Other Compensation	Total
Han Daqing (3)	2011	50,000	30,000	161,921	0		241,921
President & CEO	2010	50,000	30,000	172,246	350,460		602,706
Yu Xiaoli	2011	30,000	20,000	107,577	0		157,577
Chief Financial Officer	2010	30,000	20,000	88,057	116,820		254,877
Pan Guobin (4)	2011	40,000	20,000	195,585	0		255,585
Director & President	2010	40,000	20,000	160,105	268,155		488,260
Xu Hancong	2011	25,000	10,000	83,126	0		118,126
Director of Project Proposal Design	2010	25,000	10,000	68,047	135,405		238,452
Wang Xiaozhong	2011	25,000	10,000	29,338	0		64,338
Director of Equipment R&D	2010	25,000	10,000	24,016	47,790		106,806

*all amounts are in US$

(1) Amounts reflect the aggregate grant date fair value of option awards, as well as any modification charge computed in accordance with FASB ASC Topic 718 and are not necessarily an indication of which executives received the most gains from previously granted equity awards. The fair value of each option grant is estimated based on the fair market value on the date of grant and using the Binomial Lattice option pricing model. For a more detailed discussion on the valuation model and assumptions used to calculate the fair value of our options, refer to note 18 to the consolidated financial statements contained herein.

(2) Amounts reflect the aggregate grant date fair value of stock awards computed in accordance with FASB ASC Topic 718 and are not necessarily an indication of which executives received the most gains from previously granted equity awards. The grant date fair value of each stock award is measured based on the closing price of our common stock on the date of grant.

(3) Han Daqing received no compensation for his role as a director.

(4) Pan Guobin received no compensation for his role as a director.

Outstanding Equity Awards at Fiscal Year-End

On June 27, 2005, a Stock Option Plan (the "Plan") was approved at our 2005 Annual Meeting of Stockholders. The purpose of the Plan is to promote the growth and general prosperity of the Company by permitting the Company to grant options to purchase common stock and restricted stock of the Company to key employees, independent directors, and advisors. The Plan is designed to help the Company and its subsidiaries and affiliates attract and retain superior personnel for positions of substantial responsibility and to provide key employees, independent directors, and advisors with an additional incentive to contribute to the success of the Company. For 2011, there were no outstanding equity awards to the named executive officers requiring tabular disclosure under this Item.

Director Compensation Table

The following table summarizes compensation paid to non-employee directors during 2011.

DIRECTOR COMPENSATION FOR 2011

Name	Fees Earned or Paid in Cash ($)	Option Awards ($)	Stock Awards ($)(1)	Non-Equity Incentive Plan Compensation ($)	Nonqualified Deferred Compensation Earnings	All Other Compensation ($)	Total ($)
Li Ming (2)	$ 5,000						$ 5,000
Zhu Lian (2)	$ 5,000						$ 5,000
Cheng Guanghui	$ 10,000						$ 10,000
He Yuanping (2)	$ 5,000						$ 5,000
Lu Guangjun (2)	$ 5,000						$ 5,000

(1) The amounts in the stock awards column reflect the aggregate grant date fair value of stock granted to directors in 2011 calculated in accordance with FASB ASC Topic 718.

(2) Li Ming and Zhu Lian did not stand for reelection at the 2011 Annual Meeting of Shareholders and were replaced by He Yuanping and Lu Guangjun.

Our director compensation consists of cash only. Each director was paid an annual retainer of $5,000.

Retirement, Post-Termination and Change in Control

We have no retirement, pension, or profit-sharing programs for the benefit of directors, officers or other employees, nor do we have post-termination or change in control arrangements with directors, officer or other employees, but our Board of Directors may recommend adoption of one or more such programs in the future.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth certain information as of March 30, 2012 relating to the beneficial ownership (as defined by the rules of the SEC) of shares of common stock by (i) each person who owns beneficially more than 5% of the outstanding shares of our common stock, (ii) each of our directors, (iii) each of our executive officers as of March 30, 2012, and (iv) all of our executive officers and directors as a group.

	Amount and Nature of Beneficial Ownership(1)	
Name of Beneficial Owner	**Number of Shares (2)**	**Percent of Voting Stock (3)**
Han Daqing	3,254,000	26.38%
Cheng Guanghui	0	-
Pan Guobin	0	-
Yu Xiaoli	0	-
Lu Guangjun	0	
He Yuanpin	0	
Directors and executive officers as a group (19 persons) (4)	3,254,000	26.38%

* Less than 1%

(1) As of March 30, 2012, there were 12,333,264 shares of common stock outstanding. Each person named above has sole investment and voting power with respect to all shares of the common stock shown as beneficially owned by the person, except as otherwise indicated below.

(2) Under applicable rules promulgated by the SEC pursuant to the Exchange Act, a person is deemed the "beneficial owner" of a security with regard to which the person, directly or indirectly, has or shares (a) the voting power, which includes the power to vote or direct the voting of the security, or (b) the investment power, which includes the power to dispose or direct the disposition of the security, in each case irrespective of the person's economic interest in the security. Under these SEC rules, a person is deemed to beneficially own securities which the person has the right to acquire within 60 days through (x) the exercise of any option or warrant or (y) the conversion of another security.

(3) In determining the percent of common stock owned by a person (a) the numerator is the number of shares of common stock beneficially owned by the person, including shares the beneficial ownership of which may be acquired within 60 days upon the exercise of options or warrants or conversion of convertible securities, and (b) the denominator is the total of (i) the 12,333,264 shares of common stock outstanding as of March 30, 2012 and (ii) any shares of common stock which the person has the right to acquire within 60 days upon the exercise of options or warrants or conversion of convertible securities. Neither the numerator nor the denominator includes shares which may be issued upon the exercise of any other options or warrants or the conversion of any other convertible securities.

(4) The address for the owners and management is: Floor 10, Ruida Plaza, No. 74 Lugu Road, Shi Jingshan District, Beijing, China 100040.

For information concerning securities authorized for issuance under equity compensation plans, see Part II: Item 5 herein.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

None.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Mazars CPA Limited, Certified Public Accountants ("Mazars") performed the audits for the years ended December 31, 2011 and 2010.

Audit Fees. The aggregate fees billed by Mazars for professional services rendered for the audit of the Company's financial statements, review of our quarterly financial statements, and audit services provided in connection with other regulatory or statutory filings for the fiscal year ended December 31, 2011 was $190,500 and for fiscal year ended December 31, 2010 was $136,500.

Audit-Related Fees. There were no fees for assurance and related services by Mazars for the fiscal years ended December 31, 2011 and 2010.

Tax Fees. There were no fees for tax compliance, tax advice or tax planning services by Mazars for the fiscal years ended December 31, 2011 and December 31, 2010.

All Other Fees. The aggregate fees billed by Mazars for professional services rendered in connection with agreed-upon procedures for verification of cash balances at each bank account maintained in financial institutions located in Beijing and for the review of the Extensible Business Reporting Language during the fiscal year ended December 31, 2011 was $11,000 and no other fees were billed by Mazars for fiscal year ended December 31, 2010.

Pre-Approval Policies and Procedures. The Audit Committee's policy is to pre-approve all audit and permissible non-audit services provided by the independent registered public accounting firm. These services may include audit services, audit-related services, tax services and other services. Pre-approval is generally detailed as to the particular service or category of services and is generally subject to a specific budget. The independent registered public accounting firm and management are required to periodically report to the audit committee regarding the extent of services provided by the independent registered public accounting firm in accordance with this pre-approval, and the fees for the services performed to date. The Audit Committee may also pre-approve particular services on a case-by-case basis.

The Audit Committee pre-approved all of the aforementioned services provided by Mazars.

ITEM 15. EXHIBITS

Statements filed as part of this Report:

Exhibits

The following documents are filed as exhibits herewith or incorporated by reference to exhibits previously filed with the SEC:

Exhibit Number	Description of Exhibit
1.1	Underwriting Agreement, dated November 24, 2010 (incorporated by reference to Exhibit 1.1 to the Company's Form 8-K filed on November 24, 2010).
2	Agreement Concerning the Exchange of Securities by and among Milestone Capital, Inc. and EliteAgents, Inc., dated January 2, 2002 (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K dated January 19, 2002).
3.1	Articles of Incorporation of the Company (incorporated by reference to Exhibit 3.1 to the Company's Form 10-KSB for the year ended December 31, 1998).
3.1.1	Certificate of Amendment dated August 13, 2004, implementing the reverse merger pursuant to the Bankruptcy Court Order Approving Disclosure Statement and Confirming First Amended Plan of Liquidation and filed with the Secretary of State of the State of Delaware on the 17th day of August, 2004 (incorporated by reference to Exhibit 3.1.1 to the Company's Form 10-KSB for the year ended December 31, 2003).
3.1.2	Certificate of Incorporation dated August 13, 2004, reincorporating under the name of Telestone Technologies Corporation and filed with the Secretary of State of the State of Delaware on the 13th day of August, 2004 (incorporated by reference to Exhibit 3.1.2 to the Company's Form 10-KSB for the year ended December 31, 2003).
3.1.3	Bylaws of the Company, adopted on the 18th day of August, 2004 (incorporated by reference to Exhibit 3.1.3 to the Company's Form 10-KSB for the year ended December 31, 2003).
3.2	Articles of Amendment to the Articles of Incorporation of the Company (incorporated by reference to Exhibit 3.2 to the Company's Form 10-KSB for the year ended December 31, 1998).
3.3	Bylaws of the Company (incorporated by reference to Exhibit 3.3 to the Company's Form 10-KSB for the year ended December 31, 1998).
10.1	Warehouse Loan and Security Agreement by and among EliteAgents, Inc. and The Provident Bank, dated May 30, 2001 (incorporated by reference to Exhibit 10.1 to the Company's Form 10-KSB for the year ended December 31, 2001).
10.2	Lease Agreement by and among Ralph L. Brass & Company and EliteAgents, Inc. for the property located at 39 Plymouth Street, Fairfield New Jersey, dated March 4, 2000 (incorporated by reference to Exhibit 10.2 to the Company's Form 10-KSB for the year ended December 31, 2001).
10.3	Share Transfer Agreement, dated as of July 5, 2007 by and among Shandong Guolian Telecommunication Technology Limited Company, the transferors listed therein and Beijing Telestone Wireless Telecommunication Company Ltd (incorporated by reference to Exhibit 2.1 to the Company's Form 8-K filed on July 11, 2007).
10.4	Milestone Capital, Inc. Stock Option Plan (incorporated by reference to Exhibit 10.3 to the Company's Form 10-KSB for the year ended December 31, 2001).
10.5	Exclusive Business Cooperation Agreement, dated November 22, 2010 (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed on November 23, 2010).
10.6	Exclusive Purchase Option Agreement, dated November 22, 2010 (incorporated by reference to Exhibit 10.2 to the Company's Form 8-K filed on November 23, 2010).

10.7	Equity Pledge Agreement, dated November 22, 2010 (incorporated by reference to Exhibit 10.3 to the Company's Form 8-K filed on November 23, 2010).
10.8	Loan Agreement, dated November 22, 2010 (incorporated by reference to Exhibit 10.4 to the Company's Form 8-K filed on November 23, 2010).
10.9	Bank of Beijing Notice of Approval of Line of Credit dated September 27, 2010.
10.10*	Form of Acquisition Agreement by and between the Company and Sichuan Ruideng (translated from its original Chinese)
14.1	Code of Ethics, dated December 2004 (incorporated by reference to Exhibit 14.1 to the Company's Form 10-KSB for the year ended December 31, 2004).
21.1	Subsidiaries of the Company (incorporated by reference to Exhibit 21.1 to the Company's Form 10-KSB/A for the year ended December 31, 2007 filed on October 21, 2008).
31.1*	Statement of Chief Executive Officer Furnished Pursuant To Section 302 Of The Sarbanes-Oxley Act Of 2002, 18 U.S.C. Section 1350.
31.2*	Statement of Chief Financial Officer Furnished Pursuant To Section 302 Of The Sarbanes-Oxley Act Of 2002, 18 U.S.C. Section 1350.
32.1*	Statement of Chief Executive Officer Furnished Pursuant To Section 906 Of The Sarbanes-Oxley Act Of 2002, 18 U.S.C. Section 1350.
32.2*	Statement of Chief Financial Officer Furnished Pursuant To Section 906 Of The Sarbanes-Oxley Act Of 2002, 18 U.S.C. Section 1350.
101.INS†	XBRL Instance Document
101.SCH†	XBRL Taxonomy Extension Schema Document
101.CAL†	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF†	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB†	XBRL Taxonomy Extension Label Linkbase Document
101.PRE†	XBRL Taxonomy Extension Presentation Linkbase Document

*Filed herewith.
†Furnished herewith.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TELESTONE TECHNOLOGIES CORPORATION

Date: March 30, 2012	By: /s/ Han Daqing Han Daqing Chief Executive Officer (Principal Executive Officer)
Date: March 30, 2012	By: /s/ Yu Xiaoli By: Yu Xiaoli Han Daqing Chief Financial Officer (Principal Accounting and Financial Officer)

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Han Daqing and Li Hong, jointly and severally, his or her attorney-in-fact, with the power of substitution, for him or her in any and all capacities, to sign any amendments to this Annual Report on Form 10-K and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or his or her substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report on Form 10-K has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	**Title**	**Date**
/s/ Han Daqing Han Daqing	Director, Chief Executive Officer President & Chairman (Principal Executive Officer)	March 30, 2012
/s/Yu Xiaoli Yu Xiaoli	Chief Financial Officer (Principal Accounting and Financial Officer)	March 30, 2012
/s/ Lu Guangjun Lu Guangjun	Director	March 30, 2012
/s/ He Yuanpin He Yuanping	Director	March 30, 2012
/s/ Cheng Guanghui Cheng Guanghui	Director	March 30, 2012
/s/ Pan Guobin Pan Guobin	Director	March 30, 2012