

# ISOCIALY INC

## **FORM 10-K** (Annual Report)

Filed 04/16/12 for the Period Ending 12/31/11

Telephone	86 75583433290
CIK	0001314183
Symbol	PPPS
SIC Code	7389 - Services-Business Services, Not Elsewhere Classified
Industry	IT Services & Consulting
Sector	Technology
Fiscal Year	12/06

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: 001-15046

JINGWEI INTERNATIONAL LIMITED  
(Exact name of Registrant as Specified in its Charter)

Nevada  
(State or Other Jurisdiction of  
Incorporation or Organization)

20-1970137  
(IRS Employer Identification No.)

Unit 701-702, Building 14,  
Software Park, Keji Yuan Second Road  
Nanshan District  
Shenzhen PRC 518057  
(Address of Principal Executive Offices) (Zip Code)

+86 755-83437888  
(Registrant's telephone number, including area code)

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

None.

Securities registered pursuant to Section 12(g) of the Exchange Act:

Title of Each Class: Common Stock, \$ 0.001 par value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicated 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 Section 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 past 90 days. 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, or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer  Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

As of June 30, 2011 the aggregate market value of the voting and non-voting equity held by non-affiliates was approximately \$18.3 million.

As of April 12, 2012, there were 19,346,787 shares of Common Stock outstanding

DOCUMENTS INCORPORATED BY REFERENCE

None.

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## **Forward-Looking Information**

This Annual Report on Form 10-K contains 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. These statements relate to future events or the Company's future financial performance. The Company has attempted to identify forward-looking statements by terminology including "anticipates", "believes", "expects", "can", "continue", "could", "estimates", "expects", "intends", "may", "plans", "potential", "predict", "should" or "will" or the negative of these terms or other comparable terminology. These statements are only predictions. Uncertainties and other factors, including the risks outlined under Risk Factors contained in Item 1A of this Annual Report may cause the Company's actual results, levels of activity, performance or achievements to be materially different from any future results, levels or activity, performance or achievements expressed or implied by these forward-looking statements. Although the Company believes that the expectations reflected in the forward-looking statements are reasonable, the Company cannot guarantee future results, levels of activity, performance or achievements. The Company expectations are as of the date this Form 10-K is filed, and the Company does not intend to update any of the forward-looking statements after the date this Annual Report on Form 10-K is filed to confirm these statements to actual results, unless required by law.

## **Availability of SEC Filings**

The Company files annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and proxy and information statements and amendments to reports filed or furnished pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended. The public may read and copy these materials at the Securities and Exchange Commission's ("SEC") Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. The public may obtain information on the operation of the public reference room by calling the SEC at 1-800-SEC-0330. The SEC also maintains a website (<http://www.sec.gov>) that contains reports, proxy and information statements and other information regarding the Company and other companies that file materials with the SEC electronically. You may also obtain copies of the Company's reports filed with the SEC, free of charge, on our website at <http://www.jingweicom.com>.

## PART I

### ITEM 1. BUSINESS

#### OVERVIEW

Jingwei International Limited (“we,” “us,” the “Company,” or “Jingwei”), its subsidiaries and companies it controls through contractual agreements in the form of variable interest entities (“VIEs”) are one of the leading provider of data mining, interactive marketing and software services in China. Our business is concentrated in the telecommunications industry and the power sector, and its largest end customers are the major telecommunications carriers in China and their provincial subsidiaries, including China Mobile Communications Corporation, or China Mobile, China United Telecommunications Corporation, or China Unicom, China Telecommunications Corporation, or China Telecom, and the State Grid Corporation of China. Currently, we operate two business segments: data mining and software services.

The Company started with software services, providing data mining (DM), business intelligence (BI), billing, operational support (OSS) and customer relationship management (CRM) solutions for China’s leading telecommunications carriers and state owned enterprises. Over the years, in providing these services to our clients, we have accumulated consumer profiles, which we have compiled into a database with over 400 million profiles, and which has allowed us to build our data mining and interactive marketing services business.

In the Data Mining segment, with a proprietary customer database of over 400 million profiles operated by our patented data mining tools and software technologies, we offer a rich portfolio of data mining and interactive marketing services to enable leading corporations to more effectively reach their target consumers. Our services include market segmentation, customer trend and churn analysis, fraud detection and a range of interactive marketing and advertising services such as telemarketing, direct mailing, mobile advertising, mobile value-added services (MVAS) and bundled mobility solutions.

Today, by leveraging our strategic assets and core competences across these two segments, we continue to enhance our service offerings by partnering with our telecommunications customers to design, build and operate integrated value-added services platforms to capitalize on the burgeoning growth of mobile, internet and m-Commerce applications to serve their clients. And, by being able to leverage our resources across the two segments serving the same telecommunications customers, we have attained considerable synergies in a very effective cost structure to support the profitable growth of our business.

#### Recent Developments

The following are several significant developments in 2011 contributing to the growth of our business:

- Strategic win in data mining and interactive marketing sector – Designed, launched and operating integrated platforms for China Unicom in 4 provinces to leverage Jingwei’s core competences to support their mobile society channel and marketing initiatives to effectively and profitably support their massive channel depots in the provinces on “revenue sharing” basis.
- Capitalized on the nation’s 3-Network Convergence program and achieved leadership position in deployment of billing and OSS software solutions to support IPTV in 28 of the country’s 31 provinces for China Telecom. And, building on our successes, we have also deployed similar products for telecom carriers in more than 10 overseas countries including Africa, Middle East and Asia.
- In addition, we have secured contracts to work with seven China Unicom’s regional offices to upgrade their integrated call center platforms, and to develop new capabilities called “Communication Managers”, to support China Unicom’s launch of the “WO Family Service” offering nationwide.

On January 6, 2012, we announced the receipt of a letter from Mr. George (Jianguo) Du (“Mr. Du”), Chairman and CEO of the Company regarding a proposed transaction by which the Company would voluntarily de-list from the NASDAQ Global Market and suspend its reporting obligations under the Securities Exchange Act of 1934, as amended (the “1934 Act”), by means of effecting a reverse split of its outstanding common shares. On February 16, 2012, we announced our intent to accept the proposal proposed following the recommendation of a special committee of the company’s board of directors, comprised of independent directors, and the approval of our board of directors. Accordingly, we have submitted notification to NASDAQ Stock Market LLC regarding our plan to voluntarily delist our common shares from the NASDAQ Global Market effective March 30, 2012 and cease the registration of the Company’s common shares with the Securities and Exchange Commission (“SEC”) under the Securities Exchange Act of 1934. Upon the filing of this Annual Report on Form 10-K, we intend to file a Form 15 with the SEC to suspend our obligations to continue reporting under the 1934 Act.

## Corporate Structure

Jingwei International Limited (the “Company”), formerly known as Neoview Holdings Inc. (“Neoview”), was established in Nevada on November 17, 2004. On May 16, 2007, Neoview and Synergy Business Consulting LLC, a principal shareholder of Neoview, entered into a share exchange agreement with the shareholders of Jingwei BVI. Pursuant to the share exchange agreement, Neoview acquired all of Jingwei BVI’s issued and outstanding shares from Jingwei BVI’s shareholders in exchange for the issuance to Jingwei BVI’s shareholders of 11,554,000 shares of Neoview’s common stock, constituting 86.4% of outstanding common shares of Neoview on a fully-diluted basis.

As a result of this transaction, Jingwei BVI became a wholly-owned subsidiary of Neoview. Under accounting principles generally accepted in the United States, or US GAAP, the share exchange is considered to be a capital transaction in substance, rather than a business combination. That is, the share exchange is equivalent to the issuance of stock by Jingwei BVI for the net monetary assets of Neoview, accompanied by a recapitalization, and is accounted for as a change in capital structure. Accordingly, the accounting for the share exchange will be identical to that resulting from a reverse acquisition, except no goodwill will be recorded. Under reverse takeover accounting, the post reverse acquisition comparative historical financial statements of the legal acquirer, Neoview, are those of the legal acquiree, Jingwei BVI, which is considered to be the accounting acquirer. Shares and per share amounts stated have been adjusted to reflect the merger.

Immediately following the closing of the merger, Neoview changed its name to Jingwei International Limited and consummated a private placement of 3,395,000 units, each consisting of one (1) share of Common Stock and 0.3 of a Warrant to purchase one (1) share of common stock, for aggregate gross proceeds of \$16,975,000 or \$5.00 per unit.

Jingwei International Investments Limited (“Jingwei BVI”) was incorporated in May 2006 under the laws of the British Virgin Islands.

Jingwei International Investment (HK) Ltd. (“Jingwei HK”), a wholly owned subsidiary of Jingwei BVI, was established on October 31, 2006 in Hong Kong.

Jingwei Hengtong Technology (ShenZhen) Co. Ltd (“Jingwei Hengtong”), a wholly owned subsidiary of Jingwei HK, was established in People’s Republic of China (the “PRC”) on February 8, 2007.

On the same day, Jingwei Hengtong entered into a series of contractual agreements (“contractual agreements”) for a ten-year term with Shenzhen Jingwei Communication Co., Ltd. (“Jingwei Communication”), a PRC company established on May 8, 2001. Jingwei Hengtong has agreed to exclusively provide to Jingwei Communication technology consulting services, and to pay all of the operating costs incurred by Jingwei Communication, in exchange for all of its income from the business operations. Jingwei Hengtong also agrees to guarantee Jingwei Communication’s performance of its obligations under contracts, agreements and transactions between Jingwei Communication and third party customers. In return, Jingwei Communication had pledged its accounts receivables and all of its assets to Jingwei Hengtong. The stockholders of Jingwei Communication have also entered into pledge agreements with Jingwei Hengtong, pursuant to which they agreed to pledge all their rights and interests, including voting rights, in favor of Jingwei Hengtong. Jingwei Hengtong also has the option to acquire the equity interests of the Jingwei Communication for a purchase price equal to its original purchase price or such higher price as required under PRC laws at the time of such purchase. Finally, Jingwei Hengtong had made an interest-free loan to Jingwei Communication to fund its capitalization, upon which the shareholders of Jingwei Communication transferred their equity interests to Jingwei Hengtong, and used the proceeds from such a transfer to repay the loan. Upon the execution of these agreements, the Company became the primary beneficiary of Jingwei Communication which was treated as a variable interest entity (“VIE”) of the Company.

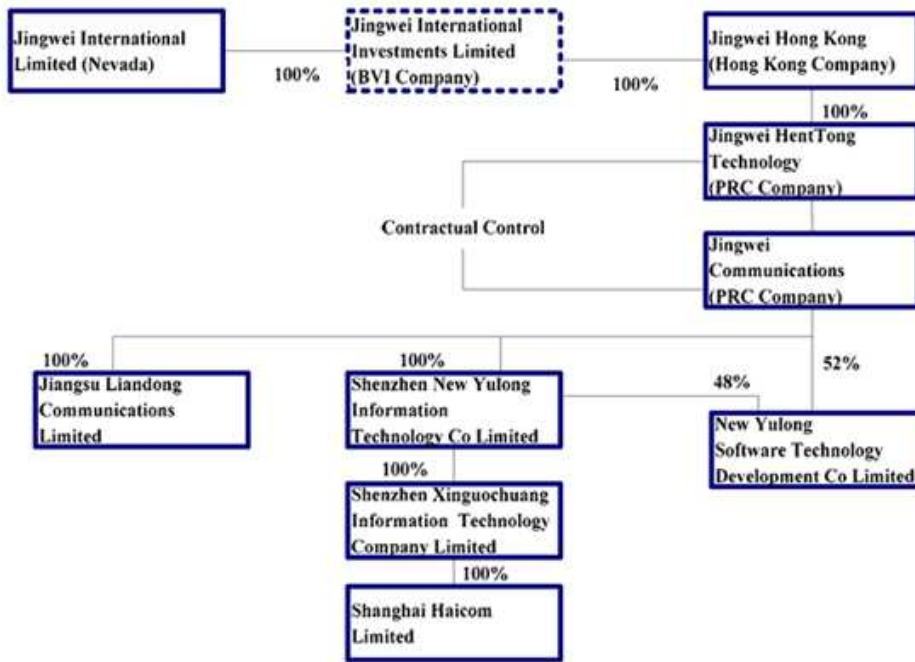
Jingwei Communication has three subsidiaries: New Yulong Information Technology Co. Ltd. (“New Yulong IT”) (100% owned), New Yulong Software Technology Development Co. Ltd. (“New Yulong Software”) (jointly owned with New Yulong IT), and Jiangsu Liandong Communication Ltd. (“Jiangsu Liandong”) (100% owned).

New Yulong IT established Beijing New Media Advertising Co. Ltd. (“Beijing New Media”), a 100%-owned subsidiary, on July 23, 2008. Then New Yulong IT established Shenzhen Xinguochuang Information Technology Company Limited (“Xinguochuang”), a wholly-owned subsidiary, on April 29, 2009.

On November 9, 2010, Xinguochuang completed the acquisition of 100% equity interest of Shanghai Haicom Telecommunication Technology Limited (“Haicom”), a corporation registered in Shanghai, China that provides Internet and mobile value added service platforms to telecommunication carriers in more than ten provinces.

On September 23, 2011, the Company, New Yulong Information Technology Co. Ltd. (“New Yulong IT”), a VIE of the Company, and Mr. Du, entered into a Stock Purchase Agreement (the “Purchase Agreement”), pursuant to which New Yulong IT agreed to sell and Mr. Du agreed to acquire all of the outstanding shares of Beijing New Media Advertising Co. Ltd. (“Beijing New Media”). Under the terms of the Purchase Agreement, Mr. Du agreed to pay New Yulong IT a purchase price of \$858,149,(RMB 5,546,216) which is equal to the net book value of Beijing New Media, although the Company and New Yulong IT waived such payment and consummated the sale of Beijing New Media, giving rise to an amount due from Mr. Du equal to such consideration. The company subsequently received a payment from Mr. Du of \$635,000 in March 2012. Section 13(k) of the Securities Exchange Act of 1934, as amended prohibits the Company from extending, directly or indirectly, a personal loan to its executive officers, and while the Company believes that the waiver of payment does not amount to a personal loan in view of its business purpose primarily furthering the interests of the Company in facilitating the sale of Beijing New Media, there can be no assurance that this arrangement will not be subsequently found to have violated the prohibitions of Section 13(k), which could give rise to claims against the Company.

The following is a pictorial representation of the corporate structure of Jingwei at the end of 2011:



Although we are organized as a Nevada corporation, our business is conducted through a number of operating subsidiaries, most of which are organized under the laws of the PRC, and are directly or indirectly wholly-owned by us. In addition to our wholly-owned subsidiaries, we operate certain businesses through domestic Chinese companies in which we hold no equity interests, but which we control through a series of contractual arrangements with those companies and their respective equity holders. Under the laws and regulations of the PRC, foreign persons and foreign companies are restricted from investing directly in certain businesses within the PRC, including value-added telecommunications services businesses. To comply with PRC laws and regulations, the Company engages in such businesses through its VIEs, principally Jingwei Communication. US GAAP requires us to consolidate VIEs in our financial statements because our contractual arrangements related to those entities provide us with the risks and rewards associated with equity ownership.

#### Industry Background and Market Opportunities

Jingwei is focused on leveraging its data mining, interactive marketing and software services capabilities to capitalize on several high growth segments in China including: (1) the continued high growth of mobile and internet users, (2) the robust growth of mobile value-added services, mobile internet marketing and the wide adoption of m-Commerce applications enabled by the rollout of 3G in 2009; (3) the transformation of the telecommunications and the cable TV industries through the 3-Network Convergence program that started in 2010. The following are several key indicators that reflect China’s economic growth and the growth of the industries that will support the growth of Jingwei’s business.

#### China Economic Growth

In 2011, China's GDP grew 9.2% to reach \$7.25 trillion, is the world's second largest economy after the U.S. China was poised to move from export dependency to development of an internal market. Wages were rapidly rising in all areas of the country and Chinese leaders were calling for an increased standard of living.

#### Large and Growing Mobile User Population

According to the February 2012 report released by National Bureau of Statistics, the number of mobile users in China in 2011 has reached 986 million.

#### Large and Growing Internet User Population

According to the January 2012 report released by Royal Pingdom, the number of Internet users in China in 2011 has reached 485 million, becoming the world largest.

#### Large and Growing e-Commerce Market

According to a report released by Ministry of Commerce, the e-Commerce sales in China are over \$0.9 trillion.

#### Rising Consumer Spending

According to the annual report of 2011 released by National Bureau of Statistic of China, consumer goods and retail sales increased more than 18.1% year over year.

#### Nationwide 3G User Growth

According to reports published by Ministry of Industry and Information Technology, the penetration rate of 3G user has reached 14% in 2011.

China Mobile, with over 650 million subscribers, China Unicom, with over 200 million subscribers, and China Telecom with over 126 million subscribers are currently the three wireless carriers in China. As such, they are focused on managing their rapid subscriber growth and network infrastructure, and have decentralized Mobile Value Added Services and software service management to their provincial subsidiaries. Mobile Value-Added Services servicers aggregate and/or develop digital content for telecommunications carriers, and rely on the carriers' networks to deliver their content.

By leveraging our data mining assets, interactive marketing capabilities and own development of innovative content, we are able to provide telecommunications carriers with a significant, high margin revenue opportunity by bringing in valuable 3G mobile service subscribers and service subscriber for various highly profitable mobile value added services. As competition increases among the incumbent telecommunications carriers, some of the regional subsidiaries will look for help from companies like Jingwei to complement and enhance their effectiveness in sales and marketing as well as to expand distribution platforms in a short period of time, thus effectively driving subscriber as well as ARPU growth.

In late 2009, China's State Council announced its decision to promote the advancement of a 3-Network Convergence project, to integrate the country's telecom, broadcasting, and Internet networks. The project is enabling players in all three industries to offer triple-play services, i.e. communications, television broadcast and Internet access, spurring competition among the various businesses. Two phases are planned: 2010-2012 for launching trial sites for convergent services and firming up the related regulatory policies / framework; then 2013-2015 for the launch of commercial convergent services.

We expect to see increased capital expenditures by both telecommunications carriers and cable operators, to upgrade their network capabilities in the coming years. Along with cable network upgrade making progress, and the innovative new services introduced to cable service users, we expect to team up with traditional partners in telecommunications carriers, to expand our Operation Support Services (OSS) and Business Support Services (BSS) offerings to the IPTV/DTV market.



## Business Overview

We are one of the leading providers of data mining, interactive marketing and software services in the PRC. We have established multiple anchor customers in both the Telecom & Power sectors with long-term relationships since 2001. These relationships are expected to continue and further strengthen in 2012 as result of our technical competency and services leadership which continued to bring high value to the business of these customers. We offer a rich portfolio of business intelligence and interactive marketing services powered by a proprietary database with more than 400 million consumer profiles and a complementary set of Data Mining and Business Intelligence tools to enable customers to reach their targeted Chinese consumers. Services include market segmentation, customer churn, fraud detection, trend analysis, self-service reporting, database marketing, contact center services, mobile value-added services (MVAS) and multi-media, multi-channel advertising. We have successfully designed and deployed mobile value-added services (“MVAS”) Society Channel and marketing support system for China Unicom in 4 provinces, to leverage our core competences in data mining and interactive marketing to help them effectively operate and expand the society distribution channels on partnership and revenue sharing basis for mutual benefits.

Our services assist customers in improving product development and marketing effectiveness, increase operational efficiency and profitability, helps identify new market trends, target audiences and opportunities, delivers effective marketing messages to targeted consumers and provides interactive, proactive and personalized marketing and advertising for optimal results. We have sharpened our focus to further develop our interactive marketing platform and integrated mobile value added service platforms with targeted outbound sales campaigns via mobile phone advertising and value added services, as well as customer service/order fulfillment using online stores throughout the country.

Along-with our core data mining and interactive marketing services segment, we also operate a software services business, with proven leadership in quality billing, Business Intelligence, Provisioning Support, Decision Support, Operations Support and Customer Relationship Management software applications, primarily for China’s leading telecommunication services carriers. The software services business also strengthens sales opportunities for our high margin interactive marketing and data mining platform, and allows us to enhance our customer database. At present, we have achieved leadership position in the deployment of billing and OSS solutions to support IPTV rollout for China Telecom in 28 out of the country’s 31 provinces. And, through our channel partners, we have also deployed our billing and OSS solution for telecom carriers in more than 10 overseas countries including Africa, Middle East and Asia.

Currently, we offer 30 data mining and software platforms registered with the Shenzhen Bureau of Science, Technology and Information and National Government. And our intellectual property portfolio is covered by 37 patents issued by National Intellectual Property Administration of the People’s Republic of China. When these patents were registered with the appropriate authority, we receive a certificate with respect to protected intellectual property in such software; we then license the software to the customers for a usage fee as well as an optional annual maintenance fee after the standard warranty period. Our software services streamline back-office operations for the customers, enable accurate billing and provisioning, improve business operational efficiency, as well as enable intimate and personalized relationship management for their end-customers.

In the data mining segment, we presently own and manage a database containing detailed biographical, demographic and purchasing information on over 400 million Chinese consumers and a selected group of SMEs. We believe our database is one of the largest in China, and that it would be difficult for competitors to duplicate. The breadth of our database affords us the ability to conduct a wide range of interactive marketing and data mining processes. Once a target audience is identified through data mining analysis, we assist our customers in the promotion and marketing of new products and services through telemarketing, direct marketing and mobile text and interactive advertising. We share in the revenues derived from consumer purchases resulting from our marketing and promotion activities. Within our data mining services operations, we also offer carriers a vast range of MVAS. Unlike our competitors who mainly use carriers’ networks simply as a distribution channel, we work with telecommunications carriers to design, build, operate and manage MVAS platforms jointly with them to offer to their customers under their own brands; based on which we have a share of the revenue derived from the services provided to their customers

The primary geographic focus of our operations is in China, with presence in more than 20 cities, where we derive most of our revenues. We conduct our business operations through Jingwei Hengtong, a wholly-owned subsidiary company of Jingwei that became the primary beneficiary of Jingwei Communication via various contractual agreements. Both companies are registered in China.

Our future plans are to stay sharply focused to capitalize on the favorable industry trends to grow our business. By leveraging our core competence and the multiple long term relationships with our clients in the telecommunications and power sectors, we are confident of our unique and competitive position to benefit from the significant growth waves unfolding in China.

#### How the Company Generates Revenue

We derive our revenues from the two business segments we operate in China, i.e., data mining and software services. Our products and services are sold by our sales and marketing organization, as well as an established reseller network. Our services are sold both on a project by project basis and on a service agreement basis based on which we derive our revenue in several ways depending on the contractual agreement with the customers: (a) a contracted project development and implementation fee for the project; (b) a licensing fee an annual maintenance for the use of our software; (c) an agreed share of the revenues with the service provider derived either from consumer purchases resulting from our database marketing and promotion activities, or from revenue generated from the integrated platform we design, develop and operate for the carriers; and (d) a combination of (a), (b) and (c) above.

We work with business partners and operate under exclusive software licensing and revenue sharing agreements with China Telecom in 16 provinces, China Unicom in 27 provinces and China Mobile in 6 provinces.

We own and manage a database containing detailed biographical, demographic and purchasing information on about 400 million Chinese consumers and a selected group of small and medium-sized enterprises. We believe our database is the largest in China, and that it would be difficult for competitors to duplicate. The breadth of our database affords us the ability to conduct a wide range of data mining processes. Once a target audience is identified through data mining analysis, we assist our customers in the promotion and marketing of new products and services through telemarketing, direct marketing, mobile text and interactive advertising. We share in the revenues derived from consumer purchases resulting from our marketing and promotion activities.

For example, within our data mining services operations, we help telecommunications carriers acquire 3G service subscribers, as well as sign up users for highly profitable mobile value added services, some of which were developed by us. Fees are charged to a subscriber's monthly bill. Telecommunications carriers typically charge a predetermined percentage of this fee and remit the remainder to the service provider like us. For advanced services, revenue sharing varies among products and services offered.

Our software services include a broad range of data mining, business intelligence, billing, provisioning support, decision support, operations support and customer relationship management systems, primarily for China's leading telecommunications carriers, systems vendors and the State Grid Corporation of China. By leveraging our strong relationships with these customers and business partners, we have been effective at cross-selling our comprehensive high margin data mining and interactive marketing services, both directly and indirectly to a wide spectrum of customer base through these service providers, thereby also allows us to refresh, enhance and update our customer database for other opportunities for incremental revenues.

Our software and data mining products and services assist customers in improving operational efficiency and identifying new market opportunities, trends and target audiences. Once identified, we assist in the promotion and marketing of new product and service offerings directly to end-users on behalf of our customers through a combination of mobile value-added services and interactive marketing campaigns through multi-media channels including mobile Internet marketing solutions.

Our products and services are sold by our sales and marketing organization, as well as an established reseller network in China including Hong Kong SAR. Our reseller networks consist of systems integration houses and telecommunications carriers where Jingwei's products and services are sold as part of their systems solution package for their customers. We also contract other third parties as resellers to sell our software and mobile value added services. For software, we typically provide our resellers with a fixed cost and the resellers would sell the system with their own margins. For mobile value-added services, we would pay a percentage from our revenue as commissions, which are typically between 10% and 15%. All other products and services are sold through our direct sales. Data mining services are sold on a project by project basis. In addition to one time fees, we share future revenue streams from consumer purchases, as a result of our marketing and promotion activities.

## Software Services Overview

Our software services include a broad range of operation and business support systems, such as data mining, billing systems, provisioning solutions, maintenance support, decision support and customer relationship management systems. Our software products are engineered to allow our customers to integrate our software with existing applications and services with minimal effort and programming overhead, which helps customers to improve their customer relationships and operating efficiency. Although typically sold together, our software services are segmented into business intelligence, operation and business support services.

All telecommunications carriers and cable operators require operation support services (OSS) to provide services to their customers. Once OSSs are installed, business support services (BSS) are required to maintain and manage customers. Whenever Jingwei sells its proprietary OSS, BSS is also generally sold along with it, although each can be purchased on a stand-alone basis to supplement another provider. For most of the customers for whom Jingwei maintains third party OSS, BSS was sold as a replacement for the third party's BSS. Going forward, Jingwei expects to focus its software in billing, business intelligence analysis and CRM for 3G related services. Telecommunications carriers typically already receive Operating Support Services (OSS) since this system is the base for them to offer their services. Once OSS is installed, it is almost impossible for the carriers to replace those services with a different system due to service disruption risk. Hence, we only sell OSS to telecommunications carriers for new service offerings that require a new OSS.

On the other hand, Business Support Services (BSS) is an add-on to the base operating system which does not disrupt the operator's service. Therefore, we can sell BSS to telecommunications carriers to replace their existing system or sell additional modules to enhance their existing system whether this system is from Jingwei or third party. We expect to sell more BSS than OSS to the telecommunications carriers. Whenever we sell OSS, we also bundled BSS with the sale.

Many cable operators are starting to convert their cable system to digital. They all immediately require a new OSS to get their digital service started and then typically install BSS later when they see fit. Therefore, cable operators require more OSS than BSS during this conversion period. Capitalizing on the 3-Network Convergence program in China and in support of the IPTV and Digital TV rollout, Jingwei has so far implemented OSS and billing software in 28 provinces for China Telecom by the end of 2012.

### Operation Support Services (OSS)

NYL-RAS (Revenue Assurance)	Analyzes operations to prevent loss of revenue
GT800 OBSS (Operation Billing Support System)	Provides operation and billing support for GT800 system
JF2000 Billing and Accounting System	Provides operation and billing support for Internet protocol television (IPTV) system
NGN Integrated Accounting System	Provides operating and billing support for NGN systems
YLDC-2000 Online Collection System	Collects call record data and translates it for use by business operation support systems
Interconnect Monitor and Analysis System	Monitors calls between different networks to provide real-time settlement analysis
Charge Simulation System	Simulates billing charges based on historical data, market information and simulated future scenarios to analyze customer reactions
Data Warehousing	Assists companies in the collection and management of their customer data
Customer-turn Prediction Model	Identifies the most valuable customers so that proper measures can be taken to prevent the loss of such customers

Customer Classification Model	Assists companies in categorizing their customers based on similar characteristics
Customer Terminal Value Model	Determines the total value of a customer
Customer Lifecycle Identification Model	Helps identify the lifecycle positioning of a customer
Digital TV System	Billing and OSS for Digital TV
Cross Royalty Rating Model	Analyzes the amount of incentive that customers should receive
Customer Call Patent Fingerprint ID Model	Analyzes individual customer behaviors
Cross-sell and Up-sell Model	Analyzes a customer's purchasing activity and helps identify probable future purchases based on historical activity
Customer Credit Rating Model	Predicts the probability that a customer will breach its contract

In addition to the above, Jingwei has also successfully capitalized on the continuing growth of mobile, internet and mobile commerce applications to design, develop and operate integrated hardware and software platforms for the telecommunications carriers to offer enhanced mobile value-added services (MVAS) to the consumers and business enterprises. Platforms that have been deployed last year include "society channel" and "3G Video Customer Care", etc. These opportunities not only helped to secure our leadership position in software services, they also helped to strengthen our data mining business, as we gain momentum in securing support from provincial carriers to leverage our core competence in data mining and interactive marketing to help them operate the systems we developed and deployed for optimal marketing results.

#### Data Mining (and Business Intelligence Analysis) Overview

Data mining is a technology that assists companies in identifying the most important information within the data they have collected on their current and potential customers. Through the use of data mining, companies are able to improve operational efficiency and identify new market opportunities, trends and target audiences enabling them to achieve increased revenues and profitability.

Our proprietary database contains the name, age, gender, identification number, income level, address, work status and type, mobile phone usage and pattern, telecommunications service subscriptions and purchasing history information of over 400 million Chinese consumers. This database is a key component of our business strategy in the telecom industry and our recent expansion into non-telecom areas such as the automobile, cable, financial services, retail and utility industries. The initial data was collected from our predecessor company's 70 million paging subscribers. We received additional consumer profiles through strategic partners, such as China Photar Electronics Group Limited ("Photar"), a manufacturer of consumer electronics and office automation products.

The breadth of our database affords us the ability to conduct a wide range of data mining and business intelligence analysis processes including:

Market Segmentation	Identifies common characteristics of customers who buy similar products
Customer Churn	Predicts which customers are likely to switch service providers
Fraud Detection	Identifies which transactions are most likely to be fraudulent

Direct Marketing	Identifies which prospects should be included in a mailing list in order to obtain the higher response rate
Interactive Marketing	Predicts what each individual accessing a website is most likely interested in seeing
Vertical Search	Identify potential customers from high-volume based on spider-based search engine and self-learning algorithm
Market-bases Analysis	Predicts what products or services are commonly purchased together
Public feeling analysis	Manage, track and analyze important public events with vertical search and data mining technologies
Trend Analysis	Reveals differences among customers on a timely basis

Once a target audience is identified through data mining analysis, we assist our customers in the promotion and marketing of new products and services through telemarketing, direct marketing and Mobile VAS. We share in the revenues derived from consumer purchases resulting from our marketing and promotion activities.

Within our data mining services segment, we also offer telecommunications carriers a vast range of Mobile VAS. Unlike our competitors who use telecommunications carriers' networks simply as a distribution channel or a virtual MVAS operator, we create and manage Mobile VAS for the telecommunications carriers to offer to their customers under their own brands. We would typically charge telecommunications carriers a onetime fee for each data mining project based on estimated costs plus profits. For data marketing, we would charge the telecommunications carrier on a per target customer basis for promoting the products and services to the prospective customer and also receive a fee for each prospective customer who buys a product or service. For example with respect to a ring tone or music download subscription, we would charge the telecommunications carrier a marketing fee on a per prospect basis, and when the prospective customer becomes a subscriber, we would receive a commission for each download. In addition, we may enter into revenue sharing arrangements with the telecommunications carrier which would typically be on a one to three year term with automatic renewal annually. In most of the arrangements, we provide the hardware and software systems for an application such as magic call or missed call. Once a user is converted to become a service subscriber, we would receive a one-time success fee that ranges from 10 to 15 RMB per user plus a percentage of recurring monthly revenues of approximately 10 to 15% of the total monthly fees.

Our Mobile Value Added Services offerings include:

114 Outsourcing	Provides a comprehensive 114 directory assistance service with enhanced features and superior service quality
Stock Market Assistant	Provides a comprehensive stock market information and trading assistance, through short message service (SMS) and live customer service representatives
Weekly Billing Reminder	Provides comprehensive billing information through short message service (SMS) daily, weekly or monthly on demand or as scheduled
Virtual Operation Platform	Offers technologies that help mobile and content companies provide information and entertainment services to their subscribers
One Card with Multi-numbers	Enables subscribers to apply for multiple telephone numbers with a single subscriber identity module (SIM) card
Coloring Ring back Tone	Enables subscribers to use various ring tones
Coloring Echo Background Tone	Enables telecommunications subscribers to choose and/or change background sounds during the course of a phone call

Magic Call	Enables the caller to change their voice; conceals the originating caller's telephone number
Short Message Multilevel Transmit	Sends promotional messages to subscribers who are likely to forward the messages to other users; subscribers earn incentives through this service
Short Message Signature	Enables subscribers to use individualized signatures when using short message service (SMS)
2-dimensional Barcode	Enables subscribers to purchase and receive electronic tickets and receive incentives through mobile devices
Voice Blog	Enables subscribers to leave a voice-based message and subsequently search content through a mobile device

#### Growth Strategy

Drive Organic Growth and Invest in R&D – Jingwei aims to drive continued growth of its data mining and software services businesses by investing in new products and services as well as by expanding its geographic reach to provide enhanced, high quality services to its customers

3-Network Convergence – With the introduction of China's 3-Network Convergence project, similar to the "Triple Play" transformation of the telecommunications, cable TV and Internet networks in the US several years ago, carriers have budgeted major spending programs on software services to upgrade their support systems to introduce new services and sign up subscribers. A compelling opportunity for Jingwei is the recent deployment of IPTV/DTV (Internet Protocol TV / Digital TV) services by the telecommunications and cable operators. Jingwei has already secured contracts to provide billing and BSS software for a major telecommunications carrier in 28 of China's 31 mainland provinces. The Company also has secured a contract to support DTV rollout for a Cable TV operator. In addition to these software services, Jingwei can help clients compete for new IPTV/DTV customers by utilizing its data mining and interactive marketing competencies.

New Geographies – Jingwei is pursuing geographic expansion of its mobile value added society channel through organic and/or external means, from its current presence in four provinces.

New Capabilities – Jingwei intends to better position its current offerings by adding capabilities to address the large smart grid spending opportunity and to strengthen our consumer interactive marketing expertise, among other areas.

#### Competition

The software and data mining services markets in China are highly competitive. Although we do not currently compete against any one entity with respect to all aspects of our businesses, we do compete with various companies with respect to specific elements of our business. Many of our competitors are large companies with substantially greater resources. In the software services market, we compete with AsiaInfo Holdings, Inc., Lian Chuang, Neusoft and Digital China. In data mining services market, we compete primarily with Sinobase and NCR Corp.

The principal competitive factors in our markets include

- ability to provide products and services that are innovative and attractive to customers and their end-users;
- service functionality, quality and performance;
- customer service and support;
- pricing;
- establishment of a significant customer base; and

- ability to introduce new products and services to the market in a timely manner.

#### Sales and Marketing

Our sales and marketing strategy has focused primarily on the telecom and power sectors. Historically, our top five end-customers – with four from the telecom sector and one from the power sector – accounted for over 48% of our total revenues. These top five customers include China Mobile, China Telecom, China Unicom, Huawei Technologies and the State Grid Corporation of China. In 2011, our top three customers represented 29% of our total revenues. In addition to continuing to grow our presence in the telecommunications sector, we plan to focus on the cable, financial services, and utility industries for further expansion. Our sales and marketing organization is structured into four strategic groups: (i) major account sales; (ii) branch sales; (iii) marketing; and (iv) customer service.

**Major Account Sales** The major account sales group, with 10 account managers and support engineers, focuses its efforts on companies having a national presence. The major account sales group currently manages China Mobile, China Unicom and Huawei.

**Branch Sales** The major account sales group is supported by our 20 strategically-located regional sales offices, allowing effective servicing of customers on a local basis. Each regional sales office is self-sufficient with a sales, engineering and support staff.

**Marketing** The marketing department focuses on strategic partner development, market analysis and strategy and product development planning, in addition to the promotion of our brand, products and services. We also utilize an established reseller network to assist in the marketing of our data mining services. Through our partners program, in 2011, we have also been able to market our billing and OSS software solutions to telecom carriers in overseas countries including Africa, Middle East and Asia.

**Customer Service** Due to the importance of our products and services to our customers' daily back office operations, we place a significant emphasis on customer service activities. Customer service is handled on a local level by support engineers and on a national level by research and development specialists. We also maintain telephone and e-mail support for general product and service support.

The typical sales cycle for both software and data mining services is between two to six months. For software installations, we charge a one-time license fee, which can range from \$50,000 to \$500,000 per installation, and an annual maintenance fee equivalent to 10-15% of the initial amount, creating a recurring revenue stream. Data mining services are sold on a project by project basis and we share in the revenues derived from consumer purchases resulting from our marketing and promotion activities. Based on historical trends, management estimates that approximately 70%, 25% and 5% of our annual revenues would be derived from license fees, revenue sharing agreements and maintenance fees, respectively.

#### Regulatory Matters

The Chinese telecommunications industry, in which most of our customers operate, is subject to extensive government regulation and control. Currently, all the major telecommunications and Internet service providers in China are primarily state owned or state controlled and their business decisions and strategies are affected by the government's budgeting and spending plans. In addition, they are required to comply with regulations and rules promulgated from time to time by the MIIT and other ministries and government departments.

In September 2000, China published the Regulations of the People's Republic of China on Telecommunications, or the Telecommunications Regulations. The Telecommunications Regulations were the first comprehensive set of regulations governing the conduct of telecommunications businesses in China. In particular, the Telecommunications Regulations set out in clear terms the framework for operational licensing, network interconnection, the setting of telecommunications charges and standards of telecommunications services in China. In the same month, China's State Council approved the Administrative Measures on Internet Information Services, which provide for control and censoring of information on the Internet.

In December 2001, the Ministry of Information Industry, or MII, which was reorganized as the MIIT in June 2008, promulgated the Administrative Measures for Telecommunications Business Operating Licenses, as amended. This regulation provides for two types of telecommunications operating licenses for carriers in the PRC, namely licenses for basic services and licenses for value-added services. In February 2003, the MII issued a new classification of basic and value-added telecommunications services. The revised classification maintains the general distinction between basic telecommunications services, or BTS, and value-added telecommunications services, or VATS, and attempts to define the scope of each service. In particular, the 2003 classification delineated the differences between “Type 1” and “Type 2” value-added services. Type 1 includes online data and transaction processing, domestic multi-party communications services, domestic Internet VPN services and Internet data center services. Type 2 covers storage and retransmission (email, voice mail, facsimile), call centers, Internet access and information services.

Under regulations introduced in December of 2001, qualified foreign investors are permitted to invest in certain sectors of China’s telecommunications industry through Sino-foreign joint ventures, including Type 2 VATS providers, although there have been few reported investments of this nature to date. These regulations, known as the Provisions on the Administration of Foreign-Invested Telecommunications Enterprises, or the Provisions, were the result of China’s accession to the World Trade Organization. Under these provisions, certain qualifying foreign investors are permitted to own up to 49% of basic telecommunications businesses in China, and up to 50% of value-added telecommunications services businesses (which include Internet service providers and Internet content providers) and wireless paging businesses.

Despite the introduction of the provisions in 2001, PRC regulations still restrict most direct foreign ownership of VATS businesses in the PRC. We are considered foreign persons or foreign-invested enterprises under PRC laws, and are therefore subject to foreign ownership restrictions in connection with our limited VATS Type 2 business activities. In order to comply with these restrictions, we entered into a series of contractual arrangements with Jingwei Communications, to allow us to exercise significant rights over the business operations of Jingwei Communications and its subsidiaries (VIEs), and to conducting value-added telecommunications services business in the PRC. Our VIEs receive any revenue we generate in the VATS business. We do not have any equity interest in the VIEs but instead have the right to enjoy economic benefits similar to equity ownership, through our contractual arrangements with our VIEs and their respective shareholders.

In addition, in anticipation of China’s developing 3G telecommunications systems, in May 2008, MIIT, the Ministry of Finance, and the National Development and Reform Commission, or NDRC, jointly issued a notice, known as “The Announcement on Deepening the Reform of the Structure of the Telecommunications Sector,” which mandates further reforms to China’s telecommunications system. The regulatory authorities indicated that additional policies and measures to encourage innovation and to strengthen supervision of the telecommunications industry would be promulgated.

#### Employees

As of December 31, 2011 Jingwei had 371 employees, including 33 in management, 123 in research and development, 61 in sales and marketing and 18 in administrative/sales support. None of our employees are represented by labor unions or subject to collective bargaining agreements. We believe our employee relations are good.

#### Intellectual Property

Currently, we offer 30 data mining and software platforms registered with the Shenzhen Bureau of Science, Technology and Information, Shanghai Bureau of Science, Technology and Information and National Government. And our intellectual property portfolio is covered by 37 patents issued by National Intellectual Property Administration of the People’s Republic of China. When these patents were registered with the appropriate authority, we received a certificate with respect to our protected intellectual property in such software. We then license the software to our customers for a usage fee. We presently do not have any registered trademarks. In addition we have received certificates with respect to two registered copyrights.



**ITEM 1A. RISK FACTORS**

In addition to the other information in this annual report, the following factors should be considered carefully in evaluating the Company's business and prospects. THE FOLLOWING MATTERS, AMONG OTHERS, MAY HAVE A MATERIAL ADVERSE EFFECT ON THE BUSINESS, FINANCIAL CONDITION, LIQUIDITY, RESULTS OF OPERATIONS OR PROSPECTS, FINANCIAL OR OTHERWISE, OF THE COMPANY. REFERENCE TO THIS CAUTIONARY STATEMENT IN THE CONTEXT OF A FORWARD-LOOKING STATEMENT OR STATEMENTS SHALL BE DEEMED TO BE A STATEMENT THAT ANY ONE OR MORE OF THE FOLLOWING FACTORS MAY CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE IN SUCH FORWARD-LOOKING STATEMENT OR STATEMENTS. We are subject to, among others, the following risks:

### ***Risks Related to Our Business***

Our business depends to a large extent on mobile telecommunications service providers in China and any deterioration of such relationships may result in severe disruptions to our business.

We have derived, and believe we will continue to derive, a significant portion of our revenues from a limited number of large customers, such as China Mobile, China Telecom and China Unicom which are our major customers who have been customers for many years. We work with and through business partners to operate under exclusive software licensing and revenue sharing arrangements with China Mobile and China Unicom. Currently, China Mobile, China Telecom and China Unicom are the only mobile telecommunications service providers in China that have platforms for Mobile Value Added Services. Our agreements with them are generally for a period of less than one year and generally do not have automatic renewal provisions. Each of these carriers retain the ability to renegotiate the terms of the agreement with the Company, either pursuant to the ability to terminate the existing agreement in favor of a new agreement or by means of the amendment provisions of such agreements. Such opportunities for expansion of services provided to such customers are not specifically contemplated by the terms of the current software license agreements. If neither of them is willing to continue to cooperate and negotiate with us upon expiration, we may not be able to conduct our existing Mobile Value Added Services business. In 2011, approximately 40 % of our revenues were derived from top five end customers. The loss, cancellation, deferral or renegotiation of any large agreements with telecommunications carriers or other major customers could have a material adverse effect on our profitability.

In addition, if either of these major carriers decides to change its content or transmission fees or its share of revenues, or does not comply with the terms and conditions of our agreements with them, our revenues and profitability could also be materially adversely affected.

Our financial condition and results of operations may be materially affected by the changes in policies or guidelines of the telecommunications carriers.

The telecommunications carriers in China may, from time to time, issue certain operating policies or guidelines, requesting or stating its preference for certain actions to be taken by all Mobile Value-Added Services providers using their platforms. Due to our reliance on the communications carriers, a significant change in their policies or guidelines may have a material adverse effect on us. Such change in policies or guidelines may result in lower revenue or additional operating costs for us, and as such, we cannot assure you that our financial condition and results of operations will not be materially adversely affected by any such policy or guideline change.

Our customers are concentrated in a limited number of industries and a slowdown in these industries could have an adverse effect on our business.

Our customers are concentrated primarily in the telecommunications, media and technology industries, and to a lesser extent, the automobile, financial services, retail and utility industries, where the current trend is to outsource certain customer relationship management and value-added services. Our ability to generate revenue depends on continuous demand for our services in these industries. An economic downturn, or a slowdown or reversal of the tendency in any of these industries to rely on outsourcing could have a material adverse effect on our business, results of operations or financial condition.

The long and variable sales cycles for our software services can cause our revenues and operating results to vary significantly from period to period.

Our revenues and operating results will vary significantly from quarter to quarter due to a number of factors, many of which are outside of our control. A customer's decision to purchase our software services involves a significant commitment of its resources and extended evaluation. As a result, our sales cycles tend to be lengthy. We spend considerable time and expense educating and providing information to prospective customers about features and applications of our software services. A large part of the contract amount of our projects sometimes relates to hardware procurement. Since we recognize most of the revenues relating to hardware at the time of hardware delivery, the timing of hardware delivery can cause our quarterly gross revenues to fluctuate significantly. The combination of these factors can cause our revenues and results of operations to vary significantly and unexpectedly from quarter to quarter.

The markets in which we operate are highly competitive and fragmented and we may not be able to maintain market share.

We operate in highly competitive markets and expect competition to persist and intensify in the future. Our competitors are mainly leaders in the software and data mining services markets, such as AsiaInfo-Linkage Inc., Lian Chuang, Neusoft and Digital China and NCR Corp. Our competitors also include small firms offering specific applications, divisions of large entities and other large independent firms. We face the risk that new competitors with greater resources than us will enter our markets.

Increasing competition among telecommunication companies in Greater China has led to a reduction in telecommunication services fees that can be charged by such companies. If a reduction in telecommunication services fees negatively impacts revenue generated by our customers, they may require us to reduce the price of our services, or seek competitors that charge less, which could reduce our market share. If we must significantly reduce the price of our services, the decrease in revenue could adversely affect our profitability.

Key employees are essential to growing our business and could choose to work elsewhere.

George Du, President, CEO and Chairman, and Lisuwen, Interim Chief Financial Officer, are essential to our ability to continue to grow our business. Du and Li have established relationships within the industries in which we operate. If either of them were to leave the Company, our growth strategy might be hindered, which could limit our ability to increase revenue.

Although individual members of our management team have experience as officers of publicly-traded companies, much of that experience came prior to the adoption of the Sarbanes-Oxley Act and we may be required to implement compliance infrastructure without adequate resources.

It may be time consuming, difficult and costly for us to develop and implement the internal controls and reporting procedures required by the Sarbanes-Oxley Act. We may need to hire additional financial reporting, internal controls and other finance staff in order to develop and implement appropriate internal controls and reporting procedures. Unlike other, larger companies, our ability to dedicate resources for compliance purposes is limited. If we are unable to comply with the Sarbanes-Oxley Act's internal controls requirements, we may not be able to obtain the independent auditor certifications that Sarbanes-Oxley Act requires publicly-traded companies to obtain.

In this regard, in connection with the sale of Beijing New Media to Mr. Du, the Company and New Yulong IT waived payment of the purchase price and consummated the sale, giving rise to an amount due from Mr. Du equal to such consideration. The Company subsequently received a payment from Mr. Du of \$635,000 in March 2012. Section 13(k) of the Securities Exchange Act of 1934, as amended, adopted as part of the Sarbanes Oxley Act, prohibits the Company from extending, directly or indirectly, a personal loan to its executive officers. While the Company believes that the waiver of payment does not amount to a personal loan in view of its business purpose primarily furthering the interests of the Company in facilitating the sale of Beijing New Media, there can be no assurance that this arrangement will not be subsequently found to have violated the prohibitions of Section 13(k), which could give rise to claims against the Company.

Failure to provide significant management attention to international operations may negatively affect our business.

Our operations in China and in other Asian countries are subject to risks, including the following, which, if not planned and managed properly, could materially adversely affect our business, financial condition and operating results:

- legal uncertainties or unanticipated changes regarding regulatory requirements, political instability, liability, export and import restrictions, tariffs and other trade barriers;
- longer customer payment cycles and greater difficulties in collecting accounts receivable;
- uncertainties of laws and enforcement relating to the protection of intellectual property; and
- potentially uncertain or adverse tax consequences.

If we need additional funding, it may not be available on satisfactory terms or at all.

We believe that our existing cash will be sufficient to support our current operating plan for at least the next 18 months. However, our capital requirements may be accelerated as a result of many factors, including timing of development activities, underestimates of budget items, unanticipated expenses or capital expenditures, limitation of development of new potential products, future product opportunities with collaborators, future licensing opportunities and future business combinations. Consequently, we may need to seek additional debt or equity financing, which may not be available on favorable terms, if at all, and which may be dilutive to you.

We may seek to raise additional capital through public or private equity offerings, debt financings or additional corporate collaboration and licensing arrangements. To the extent we raise additional capital by issuing equity securities, our stockholders may experience dilution. To the extent that we raise additional capital by issuing debt securities, we would incur substantial interest obligations, may be required to pledge assets as security for the debt and may be constrained by restrictive financial and/or operational covenants. Debt financing would also be superior to your interest in bankruptcy or liquidation. To the extent we raise additional funds through collaboration and licensing arrangements, it may be necessary to relinquish some rights to our technologies or product candidates, or grant licenses on unfavorable terms.

We must respond quickly and effectively to new technological developments in order to remain competitive.

Our business is highly dependent on our computer and telecommunications equipment and software systems. Our failure to maintain our technological capabilities or to respond effectively to technological changes could adversely affect our business, results of operations or financial condition. Our future success also depends on our ability to enhance existing software and systems and to respond to changing technological developments. If we are unable to successfully develop and bring to market new software and systems in a timely manner, our competitors' technologies or services may render our products or services noncompetitive or obsolete.

If we fail to protect adequately or enforce our intellectual property rights, or to secure rights to patents of others, the value of our intellectual property rights could diminish.

Our success, competitive position and future revenues will depend in part on our ability, and the ability of our licensors, to obtain and maintain patent protection for our products, methods, processes and other technologies, to preserve our trade secrets, to prevent third parties from infringing on our proprietary rights and to operate without infringing the proprietary rights of third parties.

To date, we have 37 patents issued by the National Intellectual Property Administration of the PRC. We anticipate filing additional patent applications both in the PRC and in other countries, as appropriate. However, we cannot predict the degree and range of protection patents will afford us against competitors, including whether third parties will find ways to invalidate or otherwise circumvent our patents, if and when patents will issue, whether or not others will obtain patents claiming aspects similar to our patent applications, or if we will need to initiate litigation or administrative proceedings, which may be costly whether we win or lose.

Our success also depends on the skills, knowledge and experience of our scientific and technical personnel, consultants, advisors, licensors and contractors. To help protect our proprietary know-how and inventions for which patents may be unobtainable or difficult to obtain, we rely on trade secret protection and confidentiality agreements. To this end, we require all of our employees, consultants, advisors and contractors to enter into confidentiality and, where applicable, grant-back agreements. These agreements may not provide adequate protection in the event of unauthorized use or disclosure or the lawful development by others of such information. If any of our intellectual property is disclosed, our value would be significantly impaired, and our business and competitive position would suffer.

If we infringe the rights of third parties, we could be prevented from selling products, forced to pay damages and compelled to defend against litigation.

If our products, methods, processes and other technologies infringe proprietary rights of other parties, we could incur substantial costs, and may have to obtain licenses (which may not be available on commercially reasonable terms, if at all), redesign our products or processes, stop using the subject matter claimed in the asserted patents, pay damages, or defend litigation or administrative proceedings, which may be costly whether it wins or loses. All these could result in a substantial diversion of valuable management resources.

We believe we have taken reasonable steps, including comprehensive internal and external prior patent searches, to ensure we have freedom to operate and that our development and commercialization efforts can be carried out as planned without infringing others' proprietary rights. However, we cannot guarantee that no third party patent has been filed or will be filed that may contain subject matter of relevance to our development, causing a third party patent holder to claim infringement. Resolving such issues has traditionally resulted, and could in our case result, in lengthy and costly legal proceedings, the outcome of which cannot be predicted accurately.

Our holding company structure may limit the payment of dividends.

We have no direct business operations, other than our ownership of our subsidiaries. While we have no current intention of paying dividends, should we decide in the future to do so, as a holding company, our ability to pay dividends and meet other obligations depends upon the receipt of dividends or other payments from our operating subsidiaries and other holdings and investments. In addition, our operating subsidiaries, from time to time, may be subject to restrictions on their ability to make distributions to us, including as a result of restrictive covenants in loan agreements, restrictions on the conversion of local currency into U.S. dollars or other hard currency and other regulatory restrictions as discussed below. If future dividends are paid in RMB, fluctuations in the exchange rate for the conversion of RMB into U.S. dollars may reduce the amount received by U.S. stockholders upon conversion of the dividend payment into U.S. dollars. Chinese regulations currently permit the payment of dividends only out of accumulated profits as determined in accordance with Chinese accounting standards and regulations. Our subsidiaries in China are also required to set aside a portion of their after tax profits according to Chinese accounting standards and regulations to fund certain reserve funds. Currently, our subsidiaries in China are the only sources of revenues or investment holdings for the payment of dividends. If they do not accumulate sufficient profits under Chinese accounting standards and regulations to first fund certain reserve funds as required by Chinese accounting standards, we will be unable to pay any dividends.

We have never paid cash dividends and are not likely to do so in the foreseeable future.

We have never declared or paid any cash dividends on our common stock. We currently intend to retain any future earnings for use in the operation and expansion of our business. We do not expect to pay any cash dividends in the foreseeable future but will review this policy as circumstances dictate.

Increases in wages for sales and marketing, research and development, and management personnel will increase our net cash outflow, and our gross margin and profit margin may decline.

In recent years, with the rapidly rising property prices and steady increase in CPI, China's telecommunications and software industry are constantly under pressure to increase wages to retain and attract high quality staff. In 2012, wages may continue to increase at faster rates.

Wage increases will increase our cost of our products and services of the same quality and increase our cost of operations. As a result, our gross margin and profit margin may decline. In the long term, unless offset by increases in efficiency and productivity of our work force, wage increases may also result in increased prices for our solutions and services, making us potentially less competitive. Increases in wages, including an increase in the cash component of our compensation expenses, will increase our net cash outflow and our gross margin and profit margin may decline.

We are exposed to certain tax risks in China under the new Enterprise Income Tax Law of the PRC, or the EIT Law.

The EIT Law, which took effect on January 1, 2008, has applied a uniform 25% enterprise income tax rate to all "resident enterprises" in China, including foreign invested enterprises, or FIEs. However, certain of our subsidiaries in China are likely to continue to enjoy preferential tax rate as they have been qualified as a Key Software Enterprise or a High and New Technology Enterprise, or HNTE, under the EIT Law. The qualification of our subsidiaries as a Key Software Enterprise or HNTE and the preferential tax rate enjoyed or to be enjoyed by them in relation with such qualification may be challenged, revoked or rejected by tax authority in the future, which would have a material adverse effect on our future financial condition and results of operations.

We may undertake acquisitions, investments or other strategic alliances, which could have a material adverse effect on our ability to manage our business. In addition, such undertakings may not be successful.

Our strategy includes plans to grow both organically and through acquisitions. We may not be able, however, to identify suitable future acquisition candidates or alliance partners. Even if we identify suitable candidates or partners, we may be unable to complete an acquisition or alliance on terms commercially acceptable to us. If we fail to identify appropriate candidates or partners, or complete desired acquisitions, we may not be able to implement our strategies effectively or efficiently.

In addition, our ability to successfully integrate acquired companies and their operations may be adversely affected by a number of factors. These factors include:

- diversion of management's attention;
- difficulties in retaining customers of the acquired companies;
- difficulties in retaining personnel of the acquired companies;
- entry into unfamiliar markets;
- unanticipated problems or legal liabilities; and
- tax and accounting issues.

If we fail to integrate acquired companies efficiently, our earnings, revenues growth and business could be negatively affected. Furthermore, the acquired companies may not perform to our expectations for various reasons, including the loss of key customers and personnel. If we are not able to realize the benefits envisioned for such acquisitions or other strategic alliances, our overall profitability and growth plans may be adversely affected.

Asset impairment reviews may result in future write-downs.

Our accounting policies require us, among other things, to conduct annual reviews of goodwill, and to test intangible assets for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. In connection with our business acquisitions as well as intangible asset acquisition from Newway, we make assumptions regarding estimated future cash flows and other factors to determine the fair value of goodwill and intangible assets. In assessing the related useful lives of those assets, we have to make assumptions regarding their fair value, our recoverability of those assets and our ability to successfully develop and ultimately commercialize acquired technology. If those assumptions change in the future when we conduct our periodic reviews in accordance with applicable accounting standards, we may be required to record impairment charges. It is possible that future reviews will result in further write-downs of goodwill and other intangible assets.

#### Risks Associated With Doing Business in Greater China

There are substantial risks associated with doing business in greater China, as set forth in the following risk factors:

Our operations and assets in Greater China are subject to significant political and economic uncertainties.

Changes in PRC laws and regulations, or their interpretation, or the imposition of confiscatory taxation, restrictions on currency conversion, imports and sources of supply, devaluations of currency or the nationalization or other expropriation of private enterprises could have a material adverse effect on our business, results of operations and financial condition. Under our current leadership, the Chinese government has been pursuing economic reform policies that encourage private economic activity and greater economic decentralization. There is no assurance, however, that the Chinese government will continue to pursue these policies, or that it will not significantly alter these policies from time to time without notice.

Currency fluctuations and restrictions on currency exchange may adversely affect our business, including limiting our ability to convert Chinese RMB into foreign currencies and, if Chinese RMB were to decline in value, reducing our revenue in U.S. dollar terms.

Our reporting currency is the U.S. dollar and our operations in China use their local currency as their functional currencies. Substantially all of our revenue and expenses are in Chinese RMB. We are subject to the effects of exchange rate fluctuations with respect to any of these currencies. For example, the value of the RMB depends to a large extent on Chinese government policies and China's domestic and international economic and political developments, as well as supply and demand in the local market. Since 1994, the official exchange rate for the conversion of RMB to the U.S. dollar had generally been stable and the RMB had appreciated slightly against the U.S. dollar. However, on July 21, 2005, the Chinese government changed its policy of pegging the value of Chinese RMB to the U.S. dollar. Under the new policy, Chinese RMB may fluctuate within a narrow and managed band against a basket of certain foreign currencies. As a result of this policy change, Chinese RMB appreciated approximately 2.5% against the U.S. dollar in 2005 and has continued to appreciate measurably since that time. It is possible that the Chinese government could adopt a more flexible currency policy, which could result in more significant fluctuation of Chinese RMB against the U.S. dollar. We can offer no assurance that Chinese RMB will be stable against the U.S. dollar or any other foreign currency.

The income statements of our international operations are translated into U.S. dollars at the average exchange rates in each applicable period. To the extent the U.S. dollar strengthens against foreign currencies, the translation of these foreign currencies denominated transactions results in reduced revenue, operating expenses and net income for our international operations. Similarly, to the extent the U.S. dollar weakens against foreign currencies, the translation of these foreign currency denominated transactions results in increased revenue, operating expenses and net income for our international operations. We are also exposed to foreign exchange rate fluctuations as we convert the financial statements of our foreign subsidiaries into U.S. dollars in consolidation. If there is a change in foreign currency exchange rates, the conversion of the foreign subsidiaries' financial statements into U.S. dollars will lead to a translation gain or loss which is recorded as a component of other comprehensive income. In addition, we have certain assets and liabilities that are denominated in currencies other than the relevant entity's functional currency. Changes in the functional currency value of these assets and liabilities create fluctuations that will lead to a transaction gain or loss. We have not entered into agreements or purchased instruments to hedge our exchange rate risks, although we may do so in the future. The availability and effectiveness of any hedging transaction may be limited and we may not be able to successfully hedge our exchange rate risks.

Although Chinese governmental policies were introduced in 1996 to allow the convertibility of Chinese RMB into foreign currency for current account items, conversion of Chinese RMB into foreign exchange for capital items, such as foreign direct investment, loans or securities, requires the approval of the State Administration of Foreign Exchange, or SAFE, which is under the authority of the People's Bank of China. These approvals, however, do not guarantee the availability of foreign currency conversion. We cannot be sure that we will be able to obtain all required conversion approvals for our operations or that Chinese regulatory authority will not impose greater restrictions on the convertibility of Chinese RMB in the future. Because a significant amount of our future revenue may be in the form of Chinese RMB, our inability to obtain the requisite approvals or any future restrictions on currency exchanges could limit our ability to utilize revenue generated in Chinese RMB to fund our business activities outside of China, or to repay foreign currency obligations, including our debt obligations, which would have a material adverse effect on our financial condition and results of operations.

We are required to obtain licenses to expand our business into other provinces of mainland China.

Our activities must be reviewed and approved by various national and local agencies of the Chinese government before they will issue business licenses to us. There can be no assurance that the current Chinese government, or successors, will continue to approve and renew our licenses. If we are unable to obtain licenses or renewals, we will not be able to continue our business operations in mainland China, which would have a material adverse effect on our business, financial condition and results of operations.

Existing and proposed regulation in the areas of consumer privacy, data use and/or security could affect our financial condition.

We and our customers are subject to regulations related to privacy and data use security in the PRC, and could be negatively impacted by these regulations. Our data mining services depend in large part on the use of consumer information obtained from former customers of Shenzhen Yulong Communications and various third-party sources. Regulation of privacy and data use and security in the PRC may increase the costs relating to our business. Any additional regulations in these areas may also increase our costs to comply with such regulations and could materially and adversely affect our profitability. Finally, failure to comply with the privacy and data use and security laws and regulations to which we are subject could result in fines, sanctions or other penalties, which could materially and adversely affect our results of operations and overall business.

We may have limited legal recourse under PRC law if disputes arise under our contracts with third parties.

The Chinese government has enacted some laws and regulations dealing with matters such as corporate organization and governance, foreign investment, commerce, taxation and trade. However, their experience in implementing, interpreting and enforcing these laws and regulations is limited, and our ability to enforce commercial claims or to resolve commercial disputes is unpredictable. If our new business ventures are unsuccessful, or other adverse circumstances arise from these transactions, we face the risk that the parties to these ventures may seek ways to terminate the transactions, or, may hinder or prevent us from accessing important information regarding the financial and business operations of these acquired companies. The resolution of these matters may be subject to the exercise of considerable discretion by agencies of the Chinese government, and forces unrelated to the legal merits of a particular matter or dispute may influence their determination. Any rights we may have to specific performance, or to seek an injunction under PRC law, in either of these cases, are severely limited, and without a means of recourse by virtue of the Chinese legal system, we may be unable to prevent these situations from occurring. The occurrence of any such events could have a material adverse effect on our business, financial condition and results of operations.

We must comply with the Foreign Corrupt Practices Act which could disadvantage us in the markets in which we operate.

We are required to comply with the United States Foreign Corrupt Practices Act, which prohibits U.S. companies from engaging in bribery or other prohibited payments to foreign officials for the purpose of obtaining or retaining business. Foreign companies, including some of our competitors, are not subject to these prohibitions. Corruption, extortion, bribery, pay-offs, theft and other fraudulent practices occur from time-to-time in mainland China. If our competitors engage in these practices, they may receive preferential treatment from personnel of some companies, giving our competitors an advantage in securing business or from government officials who might give them priority in obtaining new licenses, which would put us at a disadvantage. Although we inform our personnel that such practices are illegal, we cannot assure you that our employees or other agents will not engage in such conduct for which we might be held responsible. If our employees or other agents are found to have engaged in such practices, we could suffer severe penalties.

PRC laws and regulations restrict foreign investment in China's telecommunications service industry and we have entered into contractual agreements with Jingwei Communications to control and realize the benefits of the business. We are relying upon PRC laws and there is substantial uncertainty regarding the interpretation and application of current or future PRC laws and regulations.

We are deemed to be foreign persons or foreign-funded enterprises under PRC laws, and cannot directly invest in companies operating in the telecommunications industry. Therefore, we operate our businesses in China through Jingwei Communications, an operating company that is owned by PRC citizens and not by us. We control Jingwei Communications through a series of contractual arrangements. Although we believe we are in compliance with current PRC regulations, we cannot be sure that the PRC government would view these contractual arrangements to be in compliance with PRC licensing, registration or other regulatory requirements, with existing policies or with requirements or policies that may be adopted in the future. In the opinion of Guang Dong Jindi Law Office, our PRC legal counsel, our current ownership structure and the contractual arrangements comply with all existing applicable PRC laws, rules and regulations. Because this structure has not been challenged or examined by PRC authorities, uncertainties exist as to whether the PRC government may interpret or apply the laws governing these arrangements in a way that is contrary to the opinion of our PRC counsel. If we, our wholly-owned subsidiaries or Jingwei Communications, were found to be in violation of any existing PRC laws or regulations, the relevant regulatory authorities would have broad discretion to deal with such violation, including, but not limited to the following:

- levying fines;
- confiscating income;
- revoking licenses;
- shutting down servers or blocking websites;
- requiring a restructure of ownership or operations; and/or
- requiring the discontinuance of Wireless Value Added Services businesses.



Any of these or similar actions could cause significant disruption to our business operations or render us unable to conduct our business operations and may materially adversely affect our business, financial condition and results of operations.

The contractual agreements between Jingwei Hengtong and Jingwei Communications may not be as effective in providing operational control as direct ownership of these businesses and may be difficult to enforce.

We depend on Jingwei Communications, an operating company in which we have no equity ownership interest, for substantially all of our operations, revenues and net income, and must rely on contractual agreements to control and operate these businesses. Although we have been advised by PRC legal counsel that our contractual arrangements with the operating company are valid, binding and enforceable under PRC laws and regulations, these contractual agreements may not be as effective in providing and maintaining control over the operating company and its business operations as direct ownership of these businesses. For example, we may not be able to take control of Jingwei Communications upon the occurrence of certain events, such as the imposition of statutory liens, judgments, court orders, death or incapacity. Furthermore, if the operating company and its shareholders fail to perform as required under those contractual agreements, we will have to rely on the PRC legal system to enforce those agreements, and due to the uncertainties that exist under PRC law about its structure, there is no guarantee that we will be successful in an enforcement action and any action could result in the disruption of our business, damage to our reputation, diversion of our resources and significant costs. In addition, the PRC government may propose new laws or amend current laws that may be detrimental to our current contractual agreements with the operating company, which may in turn have a material adverse effect on our business operations.

Investors may not be able to enforce judgments entered by United States courts against certain of our officers and directors.

We are incorporated in the State of Nevada. However, all of our directors, executive officers and principal stockholders live outside of the U.S., principally in China and Hong Kong. As a result, you may not be able to effect service of process upon those persons within the U.S., or enforce against those persons judgments obtained in United States courts, including judgments relating to the federal securities laws of the U.S.

#### Risks Related to the Common Stock

**We are in the Process of Implementing a Reverse/Forward Stock Split Following the Acceptance of a “Going Private” Proposal from Mr. Du.**

On January 6, 2012, we announced the receipt of a letter from Mr. Du, Chairman and CEO of the Company regarding a proposed transaction by which the Company would voluntarily de-list from the NASDAQ Global Market and suspend its reporting obligations under the 1934 Act, by means of affecting a reverse split of its outstanding common shares. On February 16, 2012, we announced our intent to accept the proposal proposed following the recommendation of a special committee of the company’s board of directors, comprised of independent directors, and the approval of our board of directors. Accordingly, we have submitted notification to NASDAQ Stock Market LLC regarding our plan to voluntarily delist our common shares from the NASDAQ Global Market effective March 30, 2012 and cease the registration of the Company’s common shares with the SEC under the Securities Exchange Act of 1934. Upon the filing of this Annual Report on Form 10-K, we intend to file a Form 15 with the SEC to suspend our obligations to continue reporting under the Securities Exchange Act of 1934.

In the event Mr. Du does not fulfill his obligation to provide financing necessary to fund the payments to be made to shareholders holding less than 20,000 common shares, we may not be able to proceed with the transaction, could give rise to claims from such shareholders, which would have an adverse effect on our financial condition.

In March 2012, two putative class actions were filed in District Court for Clark County, Nevada, against the Company and a number of the Company’s directors and current and former executive officers on behalf of all owners of our common shares (other than the defendants), seeking injunctive and other relief with regard to the Going Private proposal made by Mr. Du. The cases are in preliminary stages according the Company is unable to predict the outcome of these actions or whether the Company will incur any liability associated with the actions or estimates the effect such outcome would have on the Consolidate Financial Statements. The Company denies liability and intends to vigorously defend itself.

We are controlled by a small number of existing shareholders, who may make decisions with which you may disagree

Our directors, officers and principal shareholders currently beneficially own approximately 48.3% of our outstanding shares in the aggregate. The interests of these shareholders may differ from your interests. These shareholders, acting together, could exercise significant influence over our operations and business strategy and will have sufficient voting power to influence all matters requiring approval by our shareholders, including the ability to elect or remove directors to approve or reject mergers or other business combination transactions, the raising of future capital and the amendment of our articles of association, which govern the rights attached to our common stock. In addition, this concentration of ownership may delay, prevent or deter a change in control, or deprive you of a possible premium for your common stock as part of a sale of our company.

## Techniques Employed by Manipulative Short Sellers in Chinese Stocks May Drive Down the Market Price of Our Common Stock

Short selling is the practice of selling securities that the seller does not own but rather has, supposedly, borrowed from a third party with the intention of buying identical securities back at a later date to return to the lender. The short seller hopes to profit from a decline in the value of the securities between the sale of the borrowed securities and the purchase of the replacement shares, as the short seller expects to pay less in that purchase than it received in the sale. As it is therefore in the short seller's best interests for the price of the stock to decline, many short sellers (sometimes known as "disclosed shorts") publish, or arrange for the publication of, negative opinions regarding the relevant issuer and its business prospects in order to create negative market momentum and generate profits for themselves after selling a stock short. While traditionally these disclosed shorts were limited in their ability to access mainstream business media or to otherwise create negative market rumors, the rise of the Internet and technological advancements regarding document creation, videotaping and publication by weblog ("blogging") have allowed many disclosed shorts to publicly attack a company's credibility, strategy and veracity by means of so-called research reports that mimic the type of investment analysis performed by large Wall Street firm and independent research analysts. These short attacks have, in the past, led to selling of shares in the market, on occasion in large scale and broad base. Issuers with business operations based in China and who have limited trading volumes and are susceptible to higher volatility levels than U.S. domestic large-cap stocks, can be particularly vulnerable to such short attacks.

These short seller publications are not regulated by any governmental, self-regulatory organization or other official authority in the U.S., are not subject to the certification requirements imposed by the Securities and Exchange Commission in Regulation AC (Regulation Analyst Certification) and, accordingly, the opinions they express may be based on distortions of actual facts or, in some cases, fabrications of facts. In light of the limited risks involved in publishing such information, and the enormous profit that can be made from running just one successful short attack, unless the short sellers become subject to significant penalties, it is more likely than not that disclosed shorts will continue to issue such reports.

While we intend to strongly defend our public filings against any such short seller attacks, oftentimes we are constrained, either by principles of freedom of speech, applicable state law (often called "Anti-SLAPP statutes"), or issues of commercial confidentiality, in the manner in which we can proceed against the relevant short seller. You should be aware that in light of the relative freedom to operate that such persons enjoy – oftentimes blogging from outside the U.S. with little or no assets or identity requirements – should we be targeted for such an attack, our stock will likely suffer from a temporary, or possibly long term, decline in market price should the rumors created not be dismissed by market participants.

### **ITEM 1B UNRESOLVED STAFF COMMENTS.**

Not applicable.

### **ITEM 2. PROPERTIES**

Our headquarters is located at Unit 701-702, Building 14, Software Park, Keji Yuan Second Road, Nanshan District, Shenzhen, PRC 518057. We have 20 branch offices strategically-located throughout China, affording our customers local expertise and management. Our facilities are used for sales and marketing, research and development and administrative functions. All of the facilities are leased. We believe our facilities are adequate for our current needs.

### **ITEM 3. LEGAL PROCEEDINGS**

In March 2012, two putative class actions were filed in District Court for Clark County, Nevada, against the Company and a number of the Company's directors and current and former executive officers on behalf of all owners of our common shares (other than the defendants), seeking injunctive and other relief with regard to the Going Private proposal made by Mr. Du. The cases are in preliminary stages according the Company is unable to predict the outcome of these actions or whether the Company will incur any liability associated with the actions or estimates the effect such outcome would have on the Consolidate Financial Statements. The Company denies liability and intends to vigorously defend itself.

### **ITEM 4. MINE SAFETY DISCLOSURE**

Not applicable.

## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

#### MARKET PRICES OF COMMON STOCK

Our common stock price was traded on the NASDAQ Global Market under the symbol "JNGW" until March 29, 2012, following which date it has been eligible for trading in the OTC Market. The high and low sales price per share of our common stock as reported on the consolidated reporting system are set forth below for the periods indicated.

Year Ending December 31, 2011	High	Low
First Quarter	\$ 4.11	2.71
Second Quarter	3.35	1.39
Third Quarter	2.85	1.43
Fourth Quarter	1.69	1.15

Year Ending December 31, 2010	High	Low
First Quarter	\$ 5.00	1.99
Second Quarter	6.93	4.10
Third Quarter	6.01	3.91
Fourth Quarter	4.96	3.65

#### *Holdings*

As of April 12, 2012, there were approximately 14 stockholders of record of our common stock, par value \$0.001 per share.

#### *Dividends*

We have not paid any cash dividends in the past and do not intend to pay cash dividends on our capital stock for the foreseeable future. Instead, we intend to retain all earnings, if any, for use in the operation and expansion of our business. The payment of any dividends in the future will be at the sole discretion of our Board of Directors.

## RECENT SALES OF UNREGISTERED SECURITIES

There were no sales of unregistered equity securities during the fiscal year ended December 31, 2011.

## EQUITY COMPENSATION PLAN INFORMATION

The following table sets forth aggregate information regarding the Company's equity compensation plans, including individual compensation arrangements, in effect as of December 31, 2011.

	Number of securities to be issued upon exercise of outstanding options	Weighted - average exercise price of outstanding options	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans not approved by security holders	355,453	\$ 4.02	236,815
Total	355,453	\$ 4.02	236,815

## SELECTED CONSOLIDATED FINANCIAL DATA

The following table summarizes our consolidated financial data and should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" set forth elsewhere in this annual report .

	For the years ended December 31,	
	2011	2010
Dollars in thousands		
Software Services	\$ 20,986	\$ 19,737
Data Mining	14,974	17,904
Total Revenues	\$ 35,960	\$ 37,641
% Growth(loss)	(4)%	24%
Gross Profit	\$ 15,969	\$ 18,164
% Margin	44%	48%
Income (loss) from operations	\$ (548)	\$ 9,076
% Margin	(2)%	24%
Net Income	\$ 1,158	\$ 9,884
% Margin	3%	26%
Cash and Cash Equivalents	\$ 9,292	\$ 7,519
Net Working Capital	\$ 49,530	\$ 43,737
Total Assets	\$ 79,830	\$ 76,188
Stockholders' Equity	\$ 60,277	\$ 59,347
Capital Expenditures	\$ 699	\$ 826

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

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 Securities and Exchange Commission from time to time, which could cause actual results or outcomes to differ materially from those projected. Undue reliance should not be placed 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 "Item 6. Selected Financial Data" and our consolidated financial statements and the related notes thereto and other financial information contained elsewhere in this Form 10-K.

### OVERVIEW

We are one of the leading providers of data mining, interactive marketing and software services in the PRC. We have established multiple anchor customers in both the Telecom & Power sectors with long-term relationships since 2001. These relationships are expected to continue and further strengthen in 2012 as result of our technical competency and services leadership which continued to bring high value to the business of these customers. We offer a rich portfolio of business intelligence and interactive marketing services powered by a proprietary database with more than 400 million consumer profiles and a complementary set of Data Mining and Business Intelligence tools to enable customers to reach their targeted Chinese consumers. Services include market segmentation, customer churn, fraud detection, trend analysis, self-service reporting, database marketing, contact center services, mobile value-added services (MVAS) and multi-media, multi-channel advertising. We have successfully designed and deployed mobile value-added services ("MVAS") Society Channel and marketing support system for China Unicom in 4 provinces, to leverage our core competences in data mining and interactive marketing to help them effectively operate and expand the society distribution channels on partnership and revenue sharing basis for mutual benefits.

Our services assist customers in improving product development and marketing effectiveness, increase operational efficiency and profitability, helps identify new market trends, target audiences and opportunities, delivers effective marketing messages to targeted consumers and provides interactive, proactive and personalized marketing and advertising for optimal results. We have sharpened our focus to further develop our interactive marketing platform and integrated mobile value added service platforms with targeted outbound sales campaigns via mobile phone advertising and value added services, as well as customer service/order fulfillment using online stores throughout the country.

Along-with our core data mining and interactive marketing services segment, we also operate a software services business, with proven leadership in quality billing, Business Intelligence, Provisioning Support, Decision Support, Operations Support and Customer Relationship Management software applications, primarily for China's leading telecommunication services carriers. The software services business also strengthens sales opportunities for our high margin interactive marketing and data mining platform, and allows us to enhance our customer database. At present, we have achieved leadership position in the deployment of billing and OSS solutions to support IPTV rollout for China Telecom in 28 out of the country's 31 provinces. And, through our channel partners, we have also deployed our billing and OSS solution for telecom carriers in more than 10 overseas countries including Africa, Middle East and Asia.

Currently, we offer 30 data mining and software platforms registered with the Shenzhen Bureau of Science, Technology and Information and National Government. And our intellectual property portfolio is covered by 37 patents issued by National Intellectual Property Administration of the People's Republic of China. When these patents were registered with the appropriate authority, we receive a certificate with respect to protected intellectual property in such software; we then license the software to the customers for a usage fee as well as an optional annual maintenance fee after the standard warranty period. Our software services streamline back-office operations for the customers, enable accurate billing and provisioning, improve business operational efficiency, as well as enable intimate and personalized relationship management for their end-customers.

In the data mining segment, we presently own and manage a database containing detailed biographical, demographic and purchasing information on over 400 million Chinese consumers and a selected group of SMEs. We believe our database is one of the largest in China, and that it would be difficult for competitors to duplicate. The breadth of our database affords us the ability to conduct a wide range of interactive marketing and data mining processes. Once a target audience is identified through data mining analysis, we assist our customers in the promotion and marketing of new products and services through telemarketing, direct marketing and mobile text and interactive advertising. We share in the revenues derived from consumer purchases resulting from our marketing and promotion activities. Within our data mining services operations, we also offer carriers a vast range of MVAS. Unlike our competitors who mainly use carriers' networks simply as a distribution channel, we work with telecommunications carriers to design, build, operate and manage MVAS platforms jointly with them to offer to their customers under their own brands; based on which we have a share of the revenue derived from the services provided to their customers

The primary geographic focus of our operations is in China, with presence in more than 20 cities, where we derive most of our revenues. We conduct our business operations through Jingwei Hengtong, a wholly-owned subsidiary company of Jingwei that became the primary beneficiary of Jingwei Communication via various contractual agreements. Both companies are registered in China.

Our future plans are to stay sharply focused to capitalize on the favorable industry trends to grow our business. By leveraging our core competence and the multiple long term relationships with our clients in the telecommunications and power sectors, we are confident of our unique and competitive position to benefit from the significant growth waves unfolding in China.

The following is a summary of the industry drivers that will continue to fuel our growth

#### China Economic Growth

In 2011, China's GDP grew 9.2% to reach \$7.25 trillion, is the world's second largest economy after the U.S. China was poised to move from export dependency to development of an internal market. Wages were rapidly rising in all areas of the country and Chinese leaders were calling for an increased standard of living.

#### Large and Growing Mobile User Population

According to the February 2012 report released by National Bureau of Statistics, the number of mobile users in China in 2011 has reached 986 million.

#### Large and Growing Internet User Population

According to the January 2012 report released by Royal Pingdom, the number of Internet users in China in 2011 has reached 485 million, become the world largest.

#### Large and Growing e-Commerce Market

According to a report released by Ministry of Commerce, the e-Commerce sales in China are over \$0.9trillion with greater than 30% growth.

#### Rising Consumer Spending

According to the annual report of 2011 released by National Bureau of Statistic of China, consumer goods and retail sales increased more than 18.1% year over year.

#### Nationwide 3G User Growth

According to reports published by Ministry of Industry and Information Technology, the penetration rate of 3G user has reached 14% in 2011.

### HOW THE COMPANY GENERATES REVENUE

We derive our revenues from the two business segments we operate in China, i.e., data mining and software services. Our products and services are sold by our sales and marketing organization, as well as an established reseller network. Our services are sold both on a project by project basis and on a service agreement basis based on which we derive our revenue in several ways depending on the contractual agreement with the customers: (a) a contracted project development and implementation fee for the project; (b) a licensing fee an annual maintenance for the use of our software; (c) an agreed share of the revenues with the service provider derived either from consumer purchases resulting from our database marketing and promotion activities, or from revenue generated from the integrated platform we design, develop and operate for the carriers; and (d) a combination of (a), (b) and (c) above.

We work with business partners and operate under exclusive software licensing and revenue sharing agreements with China Telecom in 16 provinces, China Unicom in 27 provinces and China Mobile in 6 provinces.

We own and manage a database containing detailed biographical, demographic and purchasing information on about 400 million Chinese consumers and a selected group of small and medium-sized enterprises. We believe our database is the largest in China, and that it would be difficult for competitors to duplicate. The breadth of our database affords us the ability to conduct a wide range of data mining processes. Once a target audience is identified through data mining analysis, we assist our customers in the promotion and marketing of new products and services through telemarketing, direct marketing, mobile text and interactive advertising. We share in the revenues derived from consumer purchases resulting from our marketing and promotion activities.

For example, within our data mining services operations, we help telecommunications carriers acquire 3G service subscribers, as well as sign up users for highly profitable mobile value added services, some of which were developed by us. Fees are charged to a subscriber's monthly bill. Telecommunications carriers typically charge a predetermined percentage of this fee and remit the remainder to the service provider like us. For advanced services, revenue sharing varies among products and services offered.

Our software services include a broad range of data mining, business intelligence, billing, provisioning support, decision support, operations support and customer relationship management systems, primarily for China's leading telecommunications carriers, systems vendors and the State Grid Corporation of China. By leveraging our strong relationships with these customers and business partners, we have been effective at cross-selling our comprehensive high margin data mining and interactive marketing services, both directly and indirectly to a wide spectrum of customer base through these service providers, thereby also allows us to refresh, enhance and update our customer database for other opportunities for incremental revenues.

Our software and data mining products and services assist customers in improving operational efficiency and identifying new market opportunities, trends and target audiences. Once identified, we assist in the promotion and marketing of new product and service offerings directly to end-users on behalf of our customers through a combination of mobile value-added services and interactive marketing campaigns through multi-media channels including mobile Internet marketing solutions.

Our products and services are sold by our sales and marketing organization, as well as an established reseller network in China including Hong Kong SAR. Our reseller networks consist of systems integration houses and telecommunications carriers where Jingwei's products and services are sold as part of their systems solution package for their customers. We also contract other third parties as resellers to sell our software and mobile value added services. For software, we typically provide our resellers with a fixed cost and the resellers would sell the system with their own margins. For mobile value-added services, we would pay a percentage from our revenue as commissions, which are typically between 10% and 15%. All other products and services are sold through our direct sales. Data mining services are sold on a project by project basis. In addition to one time fees, we share future revenue streams from consumer purchases, as a result of our marketing and promotion activities.

#### Recent Developments

The following are several significant developments in 2011 contributing to the growth of our business:

- Strategic win in data mining and interactive marketing sector – Designed, launched and operating integrated platforms in for China Unicom in 4 provinces to leverage Jingwei's core competences to support their mobile society channel and marketing initiatives to effectively and profitably support their massive channel depots in the provinces on "revenue sharing" basis.

- Capitalized on the nation's 3-Network Convergence program and achieved leadership position in deployment of billing and OSS software solutions to support IPTV in 28 of the country's 31 provinces for China Telecom. And, building on our successes, we have also deployed similar products for telecom carriers in more than 10 overseas countries including Africa, Middle East and Asia.
- In addition, we have secured contracts to work with seven China Unicom's regional offices to upgrade their integrated call center platforms, and to develop new capabilities called "Communication Managers", to support China Unicom's launch of the "WO Family Service" offering nationwide

On January 6, 2012, we announced the receipt of a letter from Mr. Du, Chairman and CEO of the Company regarding a proposed transaction by which the Company would voluntarily de-list from the NASDAQ Global Market and suspend its reporting obligations under the 1934 Act, by means of affecting a reverse split of its outstanding common shares. On February 16, 2012, we announced our intent to accept the proposal proposed following the recommendation of a special committee of the company's board of directors, comprised of independent directors, and the approval of our board of directors. Accordingly, we have submitted notification to NASDAQ Stock Market LLC regarding our plan to voluntarily delist our common shares from the NASDAQ Global Market effective March 30, 2012 and cease the registration of the Company's common shares with the SEC under the Securities Exchange Act of 1934. Upon the filing of this Annual Report on Form 10-K, we intend to file a Form 15 with the SEC to suspend our obligations to continue reporting under the 1934 Act.

## **CRITICAL ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES**

We prepare our consolidated financial statements in accordance with generally accepted accounting principles in the United States. In doing so, we have to make estimates and assumptions that affect our reported amount of assets, liabilities, revenues and expenses, as well as related disclosure of contingent assets and liabilities. In some cases, changes in the accounting estimates are reasonably likely to occur from period to period. Accordingly, actual results could differ materially from our estimates. To the extent that there are material differences between these estimates and actual results, our financial condition or results of operations will be affected. We base our estimates on historical data and trends and other assumptions that we believe are reasonable under the circumstances, and we evaluate these estimates on an ongoing basis.

### ***Revenue Recognition***

The Company recognizes revenue when the amount of revenue can be reliably measured, it is probable that economic benefits will flow to the entity and specific criteria have been met for each of the Company's activities as described below.

#### **i. Software and system services**

Subject to these criteria and in accordance with ASC 985 Software Revenue Recognition, the Company generally recognizes revenue from software and system services when: a) a contract has been signed by the customers, b) the Company has delivered software and system services to the customers as defined by the customers receiving the work product, c) the project milestone delivered is assigned a fixed price pursuant to the percentage-of-completion method of accounting, and d) evidence of customers' acceptance of milestone achievement. The Company's software and system services sale arrangements do not have multiple deliverables.

As the software and system services typically takes more than three months to complete, the Company accounts for the timing and amount of revenue using the percentage-of-completion method based on proportion of work done. The percentage of work done is determined based on milestones agreed in the contract and percentage of total contract value due to be paid upon achievement of such milestones. The amount due after reaching certain milestones agreed in the contract generally reflects the progress of work at that point.

#### **ii. Data mining services**

Revenue from data mining services is recognized when the services are rendered.



### iii. Bundled mobile products

In accordance with ASC 605-25, *Revenue Recognition*, the Company recognizes revenue, net of taxes, when persuasive evidence of a customer or distributor arrangement exists or acceptance occurs, receipt of goods by customer occurs, the price is fixed or determinable, and the sales revenues are considered collectible.

The Company followed Emerging Issues Task Force (“EITF”) No. 99-19, “Reporting Revenue as a Principal versus Net as an Agent”. Under the guidance of this EITF, the assessment of whether revenue should be reported gross with separate display of cost of sales to arrive at gross profit should be based on the following considerations: the Company acts as principal in the transaction, takes titles to the products and has risk and rewards of ownership (such as the risk of loss for collection, delivery or return). During the years ended December 31, 2010 and 2009, the Company has recognized a large amount sales order of handsets with customized mobile VAS software built-in on a gross basis, as the Company acts as the primary obligor in the arrangement, has latitude in establishing price and physically changes products in most cases, the Company recognized all revenue from these sales of bundled mobile product on a gross basis, based on EITF No.99-19. The sale of bundled mobile product is classified as data mining service for the years ended December 31, 2011 and 2010.

#### ***Allowance for Doubtful Accounts***

Significant management judgment is required to estimate our allowance for doubtful accounts in any accounting period. The Company establishes an allowance for doubtful accounts based on management’s assessment of the collectability of trade and other receivables. The Company makes judgments about the creditworthiness of each customer based on ongoing credit evaluations, and monitors current economic trends that might impact the level of credit losses in the future. If the financial condition of the customers is to deteriorate resulting in their inability to make payments, a larger allowance may be required.

Based on the above assessment, the Company established the general provisioning policy to make the allowance for doubtful accounts according to the aging of trade and other receivables as follows:

Trade and other receivables due:	
Within one year	0.3%
After one year but within two years	5.0%
After two years but within three years	20.0%
Over three years	100.0%

Additional specific provisions are made against trade and other receivables aged for more than one year to the extent which they are considered to be doubtful.

Bad debts are written off when identified. The Company does not accrue interest on trade and other receivables.

#### ***Foreign Currency***

The consolidated financial statements have been prepared in accordance with US GAAP. The functional currency of the operating subsidiaries in PRC is the Chinese Yuan Renminbi (“RMB”). However, the reporting currency is the United States dollar (“USD”). Assets and liabilities of these companies have been translated into dollars using the exchange rate at the balance sheet date. Equity amounts are translated at historical exchange rates, income and expense items are translated at average rate for the year. Translation adjustments are reported separately and accumulated in a separate component of equity (accumulated other comprehensive income).

The exchange rates adopted are as follows:

	2011	2010
Year end RMB exchange rate	6.35	6.61
Average yearly RMB exchange rate	6.45	6.78

No representation is made that the RMB amounts could have been, or could be, converted into U.S. dollars at the rates used in translation

There is no significant fluctuation in exchange rate for the conversion of RMB to U.S. dollars after the balance sheet date.

### ***Stock-Based Compensation***

The Company adopted ASC 718 *Stock Compensation*, effective on January 1, 2006. We recognize the cost resulting from all share-based payment transactions in our financial statements using a fair-value-based method. We measure compensation cost for all outstanding unvested stock-based awards made to our employees and directors based on estimated fair values and recognize compensation over the service period for awards expected to vest. The estimated fair value of stock options and stock purchase rights granted pursuant to our employee stock purchase plan is determined using the Black-Scholes valuation model. The Black-Scholes valuation model requires us to make certain assumptions about the future. Estimation of these equity instruments' fair value is affected by our stock price, as well as assumptions regarding subjective and complex variables such as employee exercise behavior and our expected stock price volatility over the term of the award. Generally, our assumptions are based on historical information and judgment is required to determine if historical trends may be indicators of future outcomes. Where such historical information is not available, we applied the "Simplified Method" in accordance with ASC 718-10-S99-1 in valuation of all our options, which are granted at-the-money, nontransferable and nonhedgeable, and vest based upon a service condition alone. For stock options and common stock warrants issued to non-employees, they are measured as of the date required by ASC 505-50 *Equity-Based Payments to Non-Employees*.

### ***Goodwill***

The excess of the purchase price over the fair value of net assets acquired is recorded on the consolidated balance sheets as goodwill. Goodwill is not amortized but is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired.

Goodwill is tested following a two-step process. The first step compares the fair value of each reporting unit to its carrying amount, including goodwill. If the fair value of each reporting unit exceeds its carrying amount, goodwill is not considered to be impaired and the second step will not be required. If the carrying amount of a reporting unit exceeds its fair value, the second step compares the implied fair value of goodwill to the carrying value of a reporting unit's goodwill.

The implied fair value of goodwill is determined in a manner similar to accounting for a business combination with the allocation of the assessed fair value determined in the first step to the assets and liabilities of the reporting unit. The excess of the fair value of the reporting unit over the amounts assigned to the assets and liabilities is the implied fair value of goodwill. An impairment loss is recognized for any excess in the carrying value of goodwill over the implied fair value of goodwill. We recognized no impairment loss on goodwill in 2011.

### ***Intangible assets***

Intangible assets represent database, software, strategic alliance, non-compete agreement, customer relationship, competed technology and partnership agreement. The value of the database and software was established based on historic acquisition costs. The valuation and allocation of intangible assets of strategic alliance, non-compete agreement, customer relationship, competed technology and partnership agreement were measured based on fair value.

The finite lived intangible assets are amortized over their estimated useful lives, and are reviewed annually for impairment, or more frequently, if indications of possible impairment exist.

## RESULTS OF OPERATIONS

### Net Revenues

	Years Ended December 31					
	2011			2010		
	(In thousands, except percentage)					
		% of Net Revenue		% of Net Revenue	% of Change YOY	
Net Revenues						
Data mining	\$ 14,974	42%	\$ 17,904	48%	(16)%	
Software	20,986	58%	19,737	52%	6%	
Total Net Revenues	<u>\$ 35,960</u>	<u>100%</u>	<u>\$ 37,641</u>	<u>100%</u>	<u>(4)%</u>	

Our total net revenue decreased 4% year over year to \$35.9 million in 2011 from \$37.6 million in 2010, which mainly due to some softness in our key BSS/OSS product offerings to the telecom carriers. Management changes within a major telecom carrier have also impacted the expected ramp-up of our interactive marketing services in 2011; which in turn negatively impacted our cost structure for the services. The revenue from data mining decrease 16% year over year, which mainly due to some softness in the call center and mobile value-added services (MVAS).

### Cost of Sales

	Years Ended December 31					
	2011			2010		
	(In thousands, except percentage)					
		% of Cost of sales		% of Cost of sales	% of Change YOY	
Cost of Sales						
Data mining	\$ 7,224	36%	\$ 10,561	54%	(32)%	
Software	12,767	64%	8,916	46%	43%	
Total	<u>\$ 19,991</u>	<u>100%</u>	<u>\$ 19,477</u>	<u>100%</u>	<u>3%</u>	

Our total cost of sales increased 3% to \$20.0 million in 2011 from \$19.5 million in 2010, primarily driven by surge in demand for our software and system integration solutions, and the change in product mixes to low-margin system integration products. The cost of sales from data mining decreased to \$7.2 million in 2011 from \$10.6 million in 2010, which was in line with the 16% decline in sales from 2010 and the sales increase from high margin product. The cost of sales from software increased 43% to \$12.8 million in 2011 from \$8.9 million in 2010, which was mainly the change in product mixes to low-margin system integration products.

## Gross profit margin

	Years Ended December 31	
	2011	2010
Gross profit margins:		
Data Mining	52%	41%
Software Services	39%	55%
Overall	44%	48%

Our overall gross profit margin was 44% in 2011, down 4% as compared to 48% in 2010. The margin decline was mainly due to the increase in low-margin system integration products sales.

## Operating Expenses

	Years Ended December 31				
	2011		2010		
	(In thousands, except percentage)				
	% of		% of		% of Change
	Net		Net		YOY
	Revenue		Revenue		
Operating Expenses					
Selling, general and administrative expenses	\$ 12,920	36%	\$ 6,328	17%	104%
Research and development	3,597	10%	2,415	6%	49%
Total	<u>\$ 16,517</u>	<u>46%</u>	<u>\$ 8,743</u>	<u>24%</u>	<u>89%</u>

Our total operating expenses increased 89% to \$16.5 million in 2011 from \$8.7 million in 2010, primarily driven by our efforts in sales and marketing to open new interactive marketing opportunities with 3G service rollout, continuous investment in research and development, and the acquisition of HAICOM.

Selling, general and administrative expenses increased 104% to \$12.9 million in 2011 from \$6.3 million in 2010. The increase consisted mainly of a \$0.6 million increase in salary and benefits, a \$0.5 million increase in office expenses, a \$0.4 million increase in travel and lodging, a \$0.6 million increase in amortization of acquired intangible assets, and a \$4.5 million increase in bad debt.

Research and development expenses increased 49% to \$3.6 million in 2011 from \$2.4 million in 2010, mainly reflecting the emphasis we place on the research and development of products and solutions in order to strengthen our competitiveness, including a \$0.2 million increase in salary and benefits, a \$0.4 million increase in cooperating with the profession institute, and a \$0.6 million increase in amortization of acquired intangible assets.

## Subsidy income

The following table provides detailed information about our subsidy income for the year ended December 31, 2010.

	Year ended		% of Change YOY
	2011	2010	
	(In thousands, except percentage)		
VAT refund	\$ 932	\$ 272	243%
Subsidies for R&D	623	248	151%
	<u>\$ 1,555</u>	<u>\$ 520</u>	<u>199%</u>

Our subsidy income increased 199% to \$1.5 million in 2011 from \$0.5 million in 2010.

VAT refunds from the government increased 243% to \$0.9 million in 2011 from \$0.3 million in 2010, mainly because the company received \$0.6 million of the funds which belonged to 2010.

Subsidies for R&D from the government increased 151% to \$0.6 million in 2011 from \$0.2 million in 2010, mainly because the government enhanced the investment in software enterprise's innovation in 2011, and the company met the requirements .

## Income tax expense

Based on our current operating structure and preferential tax treatments available to us in China, for the year ended December 31, 2011, the Company recognized an income tax benefit of \$0.08 million representing an effective income tax rate of (7.1%), as compared to an income tax expense of \$0.1 million representing an effective income tax rate of 1.3% in 2010. The low effective tax rate in current year is attributed to the following factor: 1. To make the best use of Xinguochuang's preferential tax status starting from 2010, the Company has shifted a significant portion of business operations from New Yulong Software and other affiliates to Xinguochuang, resulting in a significant tax saving in 2010 and in 2011 . The company obtained large tax exemption from its PRC subsidiaries.

## LIQUIDITY AND CAPITAL RESOURCES

	As of December 31	
	2011	2010
	(In thousands)	
Cash and cash equivalents	\$ 9,292	\$ 7,519
Working capital	\$ 49,530	\$ 43,737
Shareholder's equity	\$ 60,277	\$ 59,347

Our capital requirements are primarily working capital requirements related to hardware sales in system integration and bundled mobile solution, as well as costs associated with the expansion of our business, such as research and development and sales and marketing expenses. We recognize hardware costs in full upon delivery of the hardware to our customers. We typically place orders for hardware against back-to-back orders from customers and seek favorable payment terms from hardware vendors. However, we sometimes obtain less favorable payment terms from our customers, thereby increasing our working capital requirements.

As of December 31, 2011, we had \$9.3 million in cash and cash equivalents to meet the future requirements of our operating activities. We believe that our existing cash and cash equivalents will be sufficient to fund our operating activities, capital expenditures and other obligations for at least the next twelve months.

The following table provides detailed information about our net cash flow for the years ended December 31, 2011 and 2010.

	Years Ended December 31,	
	2011	2010
	(in thousands)	
Net cash flows provided by operating activities	\$ 3,286	\$ 778
Net cash flows used in investing activities	(2,651)	(4,922)
Net cash flows used in financing activities	(436)	(93)
Effect of exchange rate changes on cash and cash equivalents	1,574	1,517
Net increase (decrease) in cash and cash equivalents	\$ 1,773	\$ (2,720)

#### Operating activities

Net cash provided by operating activities for the year ended December 31, 2011 was \$3.3 million, primarily driven by net income of \$1.2 million in current year, increase trade payables by \$2.3 million, offset by \$3.8 million used in accounts receivable, and \$3.5 million used in inventory.

#### Investing activities

For 2011, \$2.7 million net cash used in investing activities was primarily attributable to \$2.0 million used in the acquisition of 100% equity interest of Haicom, and \$0.6 million used in purchasing property and equipment.

For 2010, \$4.9 million net cash used in investing activities was primarily attributable to \$4.1 million used in the acquisition of 100% equity interest of Haicom, and \$0.6 million used in purchasing property and equipment.

#### Financing activities

Net cash used in financing activities for the year ended December 31, 2011 was \$0.5 million, as compared to the net cash of \$0.1 million used in financing activities in 2010. The net cash used in financing activities in 2011 was mainly to payback of a loan provided by a major shareholder in prior years.

#### OFF-BALANCE SHEET ARRANGEMENTS

We do not have any off-balance sheet arrangements.

## **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK.**

### **Foreign Exchange Exposure**

#### **Translations**

Our reporting currency is USD. The functional currency of our operating subsidiary in the PRC is RMB and our operating subsidiary also maintains its books and records in RMB. Accordingly, we are exposed to foreign currency translation effects as described in our consolidated financial statements.

#### **Transactions**

We are, to a certain extent, exposed to transaction foreign currency exposure arising from our operations in the PRC.

Our foreign currency exchange risk arises mainly from this mismatch between the currency of our sales, purchases and operating expenses. To the extent that our sales, purchases and operating expenses are not matched in exactly the same currency, we may be susceptible to foreign exchange exposure.

In addition, we also maintain a US dollars account with a financial institution for our US dollars receipts and US dollars payments. We may also incur foreign exchange gains or losses when we convert the US dollars balances into RMB.

## **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.**

Our independent registered public accounting firm's report and our consolidated financial statements begin on page F-1.

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

There were no changes in or disagreements with accountants on accounting and financial disclosure.

## **ITEM 9A. CONTROLS AND PROCEDURES.**

### **Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures**

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934. Based on this evaluation, our principal executive officer and principal financial officer have concluded that during the period covered by this report, such disclosure controls and procedures were effective to ensure that information required to be disclosed that we file under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

### **Management's Report on Internal Control over Financial Reporting**

This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit us to provide only management's report in this annual report.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation, our principal executive officer and principal financial officer have concluded that during the period covered by this report, our internal controls over financial reporting were effective.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can only provide reasonable assurances with respect to financial statement preparation and presentation. 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 or procedures may deteriorate.

#### **Changes in Internal Control over Financial Reporting**

There have been no changes in our internal controls over financial reporting that occurred during the year ended December 31, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

#### **Management Process to Assess the Effectiveness of Internal Control over Financial Reporting**

To comply with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002, the Company followed a comprehensive compliance process across our major operations to evaluate our internal control over financial reporting, engaging employees at all levels of the organization. Our internal control environment includes a corporate-wide attitude of integrity and control consciousness. This is exemplified by our ethics education program that includes long-standing principles and policies on ethical business conduct that require employees to maintain the highest ethical and legal standards in the conduct of our business. We have distributed the Board of Directors approved policy on ethics and code of business conduct to all employees and required them to study and abide by the policy. We encourage any employee may report suspected violations of law or our policy. The internal control system further includes careful selection and training of supervisory and management personnel, appropriate delegation of authority and division of responsibility, dissemination of accounting and business policies throughout the Company, and an extensive program of internal audits with management follow-up. Our Board of Directors, assisted by the Audit Committee, monitors the integrity of our financial statements and financial reporting procedures, the performance of our internal audit function and independent auditors, and other matters set forth in its charter. The Committee, which currently consists of three independent directors, meets regularly with representatives of management, and with the independent auditors and the Internal Auditor, with and without management representatives in attendance, to review their activities.

#### **Attestation Report of the Registered Public Accounting Firm**

This Annual Report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. As a smaller reporting company, management's report is not subject to attestation by our registered public accounting firm.

#### **ITEM 9B. OTHER INFORMATION**

None.

### **PART III.**

#### **ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.**

Our current directors and executive officers are as follows:

Name	Age	Position
George (Jianguo) Du	48	Chairman, President and Chief Executive Officer
Suwen Li	40	Interim Chief Financial Officer and Finance Controller
Corla Chen	42	Director
Jason Chen	47	Director
Lily Sun	35	Director



George (Jianguo) Du, Chairman, President and Chief Executive Officer

Mr. Du has been President, General Manager and Chairman of the Board of Directors since the May 16, 2007. Prior to that date, Mr. Du served as Chairman of the Board of Directors at Jingwei BVI from its inception in 2001. Mr. Du began his career as an engineer at the Shanghai 710 Research Institute (the "Institute") in 1987 and later became the youngest Deputy Director of the Institute and General Manager of one of its subsidiaries in 1991. In 1993, Mr. Du founded Shenzhen Yulong Communications with fellow researcher, Mr. Guo Deying, to provide mobile paging software systems in China. In 1999, Shenzhen Yulong Communications split into two entities: Jingwei Communication and China Wireless Technologies Limited. In December 2004, China Wireless Technologies Limited was listed on the Hong Kong Stock Exchange (ticker: 2369), and subsequently, Mr. Du became the Chairman of Jingwei Communication. Mr. Du received his B.S. in Precision Instruments from Shanghai Jiaotong University in 1987 and a special M.B.A. from the joint program conducted by Duke University and Peking University in 2004.

Suwen Li, Interim Chief Financial Officer and Finance Controller

Ms. Li is a Certified Public Accountant (CPA) in China. She has over 10 years of senior financial planning and accounting management, investment analysis experience in China. Prior to joining Jingwei in 2010, Ms. Li was a finance manager of Shenzhen D&S Industrial Limited and Shenzhen Maxonic Automation Control Limited from prior to 2001 to 2010. Ms. Li obtained her master degree in Financial Accounting from the Chinese University of Hong Kong in 2010.

Jason Chen, Director

Mr. Chen joined Jingwei as a director in 2007. Mr. Chen is currently the founder and chairman of Guangdong Photar Real Estate Development Co., Ltd., which position he took on November 4, 1997. Prior to this, he was the founder and Chairman of the former China Photar Electronics Group Limited, a company previously listed in the Hong Kong stock exchange. Mr. Chen is the People's Representative for Heyuan City in the Guangdong province. Mr. Chen received his B.A. in Chinese from Shenzhen University in 1998 and his Masters Degree in Administration Management from Shenzhen University in 2003.

Corla Chen, Director

Ms. Chen joined Jingwei as a director in 2007. Since 2004, Ms. Chen has been the General Manager of Motion Telecom Holdings Ltd. She was the Secretary of the Board of Directors of Motion Telecom Holdings Ltd. from 2003 to 2004. Ms. Chen received her I.M.B.A. from Peking University in Business Administration in 2004 and received her B.A. in English from Chengdu University in 1991.

Lily Sun, Director

Ms. Sun has been a Vice President at Photar International Investment since 2004. Prior to joining Photar International Investment, Ms. Sun was the Sales Director at Shenzhen Modern Computing Limited from 2001 to 2004. From 1999 to 2001, Ms. Sun was a Sales Manager at Yulong Communications. Ms. Sun received her B.S. in Technology Management from Wuhan Technology Institute in 1999.

## **ITEM 11. EXECUTIVE COMPENSATION**

### **COMPENSATION DISCUSSION AND ANALYSIS**

The Compensation Committee of our board of directors and our CEO, CFO and head of Human Resources are collectively responsible for implementing and administering all aspects of our benefit and compensation plans and programs, as well as developing specific policies regarding compensation of our executive officers. The Board of Directors has determined that all of the members of our Compensation Committee, Corla Chen, Lily Sun and Jason Chen, are independent directors.

## Compensation Objectives

Our primary goal with respect to executive compensation has been to set compensation at levels that attract and retain the most talented and dedicated executives possible. Individual executive compensation is set at levels believed to be comparable with executives in other companies of similar size and stage of development operating in China. We also link long-term stock-based incentives to the achievement of specified performance objectives and to align executives' incentives with stockholder value creation. The Committee has implemented and maintained compensation policies that tie a portion of executives' overall compensation to our financial and operational performance, as measured by revenues and net income, and to accomplishing strategic goals such as merger and acquisitions, and fund raising.

## Elements of Compensation

*Base Salary* . All full time executives are paid a base salary. In all cases, the Committee establishes a minimum base salary for our executive officers. Base salaries for our executives are established based on the scope of their responsibilities, taking into account competitive market compensation paid by other companies in our industry for similar positions, professional qualifications, academic background, and the other elements of the executive's compensation, including stock-based compensation. Our intent is to set executives' base salaries near the median of the range of salaries for executives in similar positions with similar responsibilities at comparable companies, in line with our compensation philosophy. Base salaries are reviewed annually, and may be increased to align salaries with market levels after taking into account the subjective evaluation described previously.

*Equity Incentive Compensation* . We believe that long-term performance is achieved through an ownership culture participated in by our executive officers through the use of stock-based awards. Currently, we do not maintain any incentive compensation plans based on pre-defined performance criteria. The Compensation Committee has the general authority, however, to award equity incentive compensation, i.e. stock options, to our executive officers in such amounts and on such terms as the committee determines in its sole discretion. The Committee does not have a determined formula for determining the number of options available to be granted. Incentive compensation is intended to compensate officers for accomplishing strategic goals such as mergers and acquisitions and fund raising. The Compensation Committee will review each executive's individual performance and his or her contribution to our strategic goals periodically and determine the amount of incentive compensation towards the end of the fiscal year. Our Compensation Committee grants equity incentive compensation at times when we do not have material non-public information to avoid timing issues and the appearance that such awards are made based on any such information.

*Chinese Government Imposed Compensation*. As a result of mandatory government employment standards, our executives are also entitled to certain annual statutory benefits, including fully subsidized, Company-paid health insurance, seven days of paid vacation and unlimited paid sick leave.

## Determination of Compensation

Our president and Chairman, CEO, CFO and head of Human Resources meet regularly during the fiscal year to evaluate the performance of each non-executive management employee and determine his or her compensation for the following year. In the case of our executive officers, the Compensation Committee meets twice a year to evaluate the executive's performance relative to corporate objectives and sets guidelines for executive compensation plan to insure competitiveness with the market.. The Compensation Committee will also determine whether an executive officer is eligible for incentive compensation and if it is deemed in the best interests of the Company to grant a number of stock options to the executive officer as compensation for the fiscal year.

The following table sets forth the cash and other compensation paid by us in 2010 to all our executives of the Company, who we collectively refer to as the named executive officers ("NEOs"). No other executives received total compensation greater than \$100,000 in 2011.

## Summary Compensation Table

Name and Principal Position	Summary Compensation of Named Executive Officers					
	Fiscal Year	Salary(\$)	Bonus(\$)	Options (\$) <sup>(1)</sup>	All Other Awards(\$)	Total (\$)
George (Jianguo) Du President, General Manager and Chairman	2011	316,063	—	—	—	316,063
	2010	301,330	—	—	—	301,330
	2009	145,000	—	—	—	145,000
Rick Luk <sup>(2)</sup> Chief Executive Officer	2011	52,868	—	17,660	—	70,528
	2010	118,015	—	114,790	—	232,805
	2009	29,306	—	17,660	—	46,986
Yong Xu <sup>(3)</sup> Chief Financial Officer	2011	105,355	—	60,500	—	147,263
	2010	85,866	—	90,750	—	176,616

- (1) Represents the expense recognized by the Company in fiscal 2010, as well as in the prior fiscal years presented, for financial statement reporting purposes in accordance with FASB ASC 718, Compensation—Stock Compensation, for awards of stock options granted to the Named Executive Officers. The amounts do not reflect whether the recipient has actually realized a financial benefit from the awards (such as by exercising stock options). No stock options were forfeited by any of the Named Executive Officers in fiscal 2011.
- (2) Rick Luk was appointed as CEO on September 29, 2009, resigned as CEO on May 1, 2011 and served as a director of the board and an advisor to the Company until December 31, 2011.
- (3) Yong Xu was appointed as CFO on February 23, 2010, resigned as CFO on January 13, 2012 and serves as an advisor to the Company now.

During each of the last two fiscal years, none of our other officers had salary and bonus greater than \$100,000. In addition, our executive officers and/or their respective affiliates will be reimbursed by us for any out-of-pocket expenses incurred in connection with activities conducted on our behalf. There is no limit on the amount of these out-of-pocket expenses and there will be no review of the reasonableness of such expenses by anyone other than our Board of Directors, which includes persons who may seek reimbursement, or a court of competent jurisdiction if such reimbursement is challenged.

### Outstanding Equity Awards at Fiscal Year-end

The following table shows information regarding all outstanding equity awards held by the Named Executive Officers as of the end of fiscal 2011.

Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price (\$)	Option Expiration Date
Yong Xu	25,000	3 <sup>(1)</sup>	\$ 2.05	February 23, 2020

<sup>(1)</sup> Options vest in the following manner: 50,000 shares on March 24, 2010; 25,000 shares on July 31, 2010; 25,000 shares on January 31, 2011; 25,000 shares on July 31, 2011; 25,000 shares on January 31, 2012

### **Director Compensation**

Our directors are reimbursed for expenses incurred by them in connection with attending Board of Directors' meetings, but they do not receive any other compensation for serving on the Board of Directors.

#### Pension Benefits

We do not sponsor any qualified or non-qualified defined benefit plans.

#### Nonqualified Deferred Compensation

We do not maintain any non-qualified defined contribution or deferred compensation plans.

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

The following table sets forth, as of April 12, 2012, certain information concerning the beneficial ownership of common stock by (i) each stockholder known to us to beneficially own five percent or more of our outstanding Common Stock; (ii) each director; (iii) each executive officer; and (iv) all of our executive officers and directors as a group, and their percentage ownership and voting power. As of April 12, 2012, there were 19,346,787 shares of common stock outstanding.

Name	Amount and Nature of Beneficial Ownership	Percentage of Outstanding Shares <sup>(1)</sup>
George (Jianguo) Du	8,396,110	43.4%
Corla Chen	—	*
Suwen Li	—	*
Jason Chen	—	*
Lily Sun	—	*
Ruizhi Cao	1,095,723	5.7%
Lin Song	1,095,722	5.7%
Guilan Wang	1,095,722	5.7%
All Directors, Executive Officers and Director Nominees, as a group (5 persons)	8,396,110	43.4%

\* Less than 1% of the outstanding common stock.

<sup>(1)</sup> Calculated on the basis of 19,346,787 shares of our common stock outstanding as of April 12, 2012.

### **ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.**

The Company currently has three independent directors, Corla Chen, Lily Sun and Jason Chen.

Before the completion of private placement in 2007, Mr. George Du, Chairman and CEO of the Company, from time to time had financed the operations personally. The Company currently has a loan payable to Mr. Du. An interest free loan from Mr. Du still has a payable balance of \$174 and \$262 at December 31, 2011 and 2010. The loan is unsecured and repayable on demand. Interest expenses recorded for the years ended December 31, 2011 and 2010 were both \$0 respectively.

On September 23, 2011, the Company, New Yulong IT, a VIE of the Company, and Mr. Du, entered into the “Purchase Agreement, pursuant to which New Yulong IT agreed to sell and Mr. Du agreed to acquire all of the outstanding shares of Beijing New Media. Under the terms of the Purchase Agreement, Mr. Du agreed to pay New Yulong IT a purchase price of \$858,149(RMB 5,546,216), which is equal to the net book value of Beijing New Media, although the Company and New Yulong IT waived such payment and consummated the sale of Beijing New Media, giving rise to an amount due from Mr. Du equal to such consideration. The company subsequently received a payment from Mr. Du of \$635,000 in March 2012. Section 13(k) of the Securities Exchange Act of 1934, as amended prohibits the Company from extending, directly or indirectly, a personal loan to its executive officers, and while the Company believes that the waiver of payment does not amount to a personal loan in view of its business purpose primarily furthering the interests of the Company in facilitating the sale of Beijing New Media, there can be no assurance that this arrangement will not be subsequently found to have violated the prohibitions of Section 13(k), which could give rise to claims against the Company.

**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.**

Our Board has appointed Marcum Bernstein & Pinchuk LLP (“MarcumBP”) as its independent registered public accounting firm for the fiscal year ending December 31, 2011. The Company’s previous independent registered public accounting firm, Bernstein & Pinchuk (“B&P”), entered into a joint venture agreement with MarcumBP in a transaction pursuant to which, effective April 18, 2011, B&P merged its China operations into MarcumBP and certain of the professional staff of B&P joined MarcumBP. Accordingly, as of April 18, 2011, B&P resigned as the Company’s independent registered public accounting firm. B&P has audited our financial statements since 2009.

The following is a summary of the fees billed to the Company by its principal accountants for professional services rendered for the fiscal years ended December 31, 2011 and 2010:

	2011	2010
Audit Fees	\$201,413	\$217,094
Audit Related Fees	-	5,796
Tax Fees	8,000	10,735
All other fees	-	-

Audit Fees were for professional services rendered for the audit of the Company’s annual financial statements, the review of quarterly financial statements, and the preparation of statutory and regulatory filings. Audit-Related Fees relate to professional services rendered in connection with accounting consultations relating to SEC reviews on filings. Tax fees would consist of fees billed for professional services for tax compliance, tax planning and tax advice. These services would include assistance regarding federal, state and international tax compliance and planning, tax audit defense, and mergers and acquisitions.

**Pre-Approval Policies and Procedures**

In accordance with the SEC’s auditor independence rules, the Audit Committee has established the following policies and procedures by which it approves in advance any audit or permissible non-audit services to be provided to the Company by its independent auditor.

Prior to the engagement of the independent auditor for any fiscal year’s audit, management submits to the Audit Committee for approval lists of recurring audit, audit-related, tax and other services expected to be provided by the auditor during that fiscal year. The Audit Committee adopts pre-approval schedules describing the recurring services that it has pre-approved, and is informed on a timely basis, and in any event by the next scheduled meeting, of any such services rendered by the independent auditor and the related fees.

The fees for any services listed in a pre-approval schedule are budgeted, and the Audit Committee requires the independent auditor and management to report actual fees versus the budget periodically throughout the year. The Audit Committee will require additional pre-approval if circumstances arise where it becomes necessary to engage the independent auditor for additional services above the amount of fees originally pre-approved. Any audit or non-audit service not listed in a pre-approval schedule must be separately pre-approved by the Audit Committee on a case-by-case basis. Every request to adopt or amend a pre-approval schedule or to provide services that are not listed in a pre-approval schedule must include a statement by the independent auditors as to whether, in their view, the request is consistent with the SEC’s rules on auditor independence.

The Audit Committee will not grant approval for:

- any services prohibited by applicable law or by any rule or regulation of the SEC or other regulatory body applicable to the Company;
- provision by the independent auditor to the Company of strategic consulting services of the type typically provided by management consulting firms; or
- the retention of the independent auditor in connection with a transaction initially recommended by the independent auditor, the tax treatment of which may not be clear under the Internal Revenue Code and related regulations and which it is reasonable to conclude will be subject to audit procedures during an audit of the Company's financial statements.

Tax services proposed to be provided by the auditor to any director, officer or employee of the Company who is in an accounting role or financial reporting oversight role must be approved by the Audit Committee on a case-by-case basis where such services are to be paid for by the Company, and the Audit Committee will be informed of any services to be provided to such individuals that are not to be paid for by the Company.

In determining whether to grant pre-approval of any non-audit services in the "all other" category, the Audit Committee will consider all relevant facts and circumstances, including the following four basic guidelines:

- whether the service creates a mutual or conflicting interest between the auditor and the Company;
- whether the service places the auditor in the position of auditing his or her own work;
- whether the service results in the auditor acting as management or an employee of the Company; and
- whether the service places the auditor in a position of being an advocate for the Company.

PART IV.

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.**

(a) List the following documents filed as a part of the report:

1. Financial Statements

An index to Consolidated Financial Statements appears on page F-1.

2. Schedules

All financial statement schedules are omitted because they are not applicable, not required under the instructions or all the information required is set forth in the financial statements or notes thereto.

3. Exhibits

Number	Description
2.1	Share Exchange Agreement, dated as of May 16, 2007 (1)
2.2	Agreement and Plan of Merger, dated May 17, 2007 (1)
3.1	Certificate of Incorporation (2)

- 3.2 By-laws of the Company (2)
- 4.1 Form of Lock-Up Agreement, dated as of May 16, 2007 (1)
- 4.2 Form of Warrant (1)
- 4.3 Registration Rights Agreement, dated as of May 16, 2007 (1)
- 10.13 Acquisition Agreement among Shenzhen Newway Digital S&T Co., Ltd., Shenzhen Xinguochuang Information Technology Co. Ltd. and Jingwei International Limited, dated July 31, 2009 (7)
- 10.14 Employment Offer Letter between the Company and Rick Luk, dated September 29, 2009 (9)
- 10.15 Supplemental Acquisition Agreement among Jingwei International Limited, Shenzhen Xinguochuang Information Technology Co., Ltd. and Shenzhen Newway Digital S&T Co., Ltd., dated January 22, 2010 (10)
- 10.16 Stock Purchase Agreement by and among Jingwei International Limited, New Yulong Information Technology Co. Ltd., and Mr. George Du dated as of September 23, 2011 (11)
- 10.17 Funding and Indemnification Agreement, dated February 16, 2012, between the Company and George (Jianguo) Du (12)
- 16.1 Letter from Bernstein & Pinchuk LLP to the U.S. Securities Exchange Commission, dated September 14, 2009 (8)
- 21.1 List of subsidiaries, filed herewith.
- 31.1 Certification of Chief Executive Officer pursuant to Rule 13A-14(A)/15D-14(A) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.
- 31.2 Certification of the Principal Financial Officer pursuant to Rule 13A-14(A)/15D-14(A) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.
- 32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. 1350 (Section 906 of the Sarbanes-Oxley Act of 2002), filed herewith.
- 32.2 Certification of Principal Financial Officer Pursuant to 18 U.S.C. 1350 (Section 906 of the Sarbanes-Oxley Act of 2002), filed herewith.

- (1) Incorporated by reference herein to the corresponding exhibit to the Current Report on Form 8-K filed on May 21, 2007.
- (2) Incorporated by reference herein to the corresponding exhibit to the Company's registration statement on Form SB-2 (File No. 333-122557).
- (3) Incorporated by reference herein to the corresponding exhibit to the Company's registration statement on Form SB-2 (File No. 333-145496).
- (4) Incorporated by reference herein to the corresponding exhibit to the Current Report on Form 8-K filed on June 5, 2008.
- (5) Incorporated by reference herein to the corresponding exhibit to the Current Report on Form 8-K filed on February 17, 2009.
- (6) Incorporated by reference herein to the corresponding exhibit to the Current Report on Form 8-K filed on June 18, 2009.
- (7) Incorporated by reference herein to the corresponding exhibit to the Current Report on Form 8-K filed on August 6, 2009.

- (8) Incorporated by reference herein to the corresponding exhibit to the Current Report on Form 8-K filed on September 15, 2009.
- (9) Incorporated by reference herein to the corresponding exhibit to the Current Report on Form 8-K filed on September 30, 2009.
- (10) Incorporated by reference herein to the corresponding exhibit to the Current Report on Form 8-K filed on January 26, 2010.
- (11) Incorporated by reference herein to Exhibit 10.1 to the Current Report on Form 8-K filed on September 29, 2011.
- (12) Incorporated by reference herein to Exhibit 16(d) to the Rule 13E-3 Transaction Statement filed on February 17, 2012.



SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: April 16, 2012

JINGWEI INTERNATIONAL LIMITED

By: /s/ George (Jianguo) Du  
Name: George (Jianguo) Du  
Title: Chairman and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Dated: April 16, 2012

By: /s/ George (Jianguo) Du  
Name: George (Jianguo) Du  
Title: Chairman and Chief Executive Officer (principal executive officer)

Dated: April 16, 2012

By: /s/ Suwen Li  
Name: Suwen Li  
Title: Interim Financial Officer and Finance Controller (principal financial and accounting officer)

Dated: April 16, 2012

By: /s/ Corla Chen  
Name: Corla Chen  
Title: Director

Dated: April 16, 2012

By: /s/ Jason Chen  
Name: Jason Chen  
Title: Director

Dated: April 16, 2012

By: /s/ Lily Sun  
Name: Lily Sun  
Title: Director

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**JINGWEI INTERNATIONAL LIMITED AND SUBSIDIARIES**

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**Bernstein & Pinchuk**  
ACCOUNTANTS AND CONSULTANTS

Report of independent registered public accounting firm

To the Board of Directors and Stockholders of  
Jingwei International Limited

We have audited the accompanying consolidated balance sheet of Jingwei International Limited and Subsidiaries (the "Company") as of December 31, 2010 and the related consolidated statements of income and comprehensive income, changes in equity, and cash flows (together the "consolidated financial statements") for the year then ended. The Company's management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated 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 audit included consideration of internal control over financial reporting as a basis for designing audit 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. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

/s/ Bernstein & Pinchuk LLP

New York, New York  
March 30, 2011

Bernstein & Pinchuk LLP

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Report of independent registered public accounting firm

To the Board of Directors and Stockholder of  
Jingwei International Limited

We have audited the accompanying consolidated balance sheet of Jingwei International Limited and Subsidiaries (the "Company") as of December 31, 2011, and the related consolidated statements of income and comprehensive income, changes in equity and cash flows (together the "consolidated financial statements") for the year 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 audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated 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 audit included consideration of internal control over financial reporting as a basis for designing audit 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. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 audit provides a reasonable basis for our opinion.

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

/s/ Marcum Bernstein & Pinchuk LLP

New York, New York  
April 16, 2012



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**Jingwei International Limited and Subsidiaries**  
**Consolidated Balance Sheets**  
(in US dollars thousands, except share and par value)

	December 31,	
	2011	2010
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 9,292	\$ 7,519
Accounts receivable, less allowance of doubtful accounts of \$6,403 and \$2,040, respectively	33,607	34,558
Other receivables, prepayments and deposits, less allowance for doubtful accounts of \$1,132 and \$134, respectively	6,585	3,610
Inventories	9,280	5,780
Deferred tax assets	671	413
Amount due from a stockholder	873	-
<b>Total current assets</b>	<b>60,308</b>	<b>51,880</b>
<b>Non-current assets</b>		
Property, plant and equipment, net	1,663	1,854
Intangible assets, net	14,079	17,448
Long-term investment	453	1,797
Goodwill	3,340	3,209
<b>Total assets</b>	<b>\$ 79,843</b>	<b>\$ 76,188</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities</b>		
Trade payables(including accounts payable of the consolidated VIE without recourse to Jingwei of \$3,479 and \$1,482 as of December 31, 2011 and 2010, respectively)	\$ 6,452	\$ 4,122
Accruals and other payables (including accruals and other payable of the consolidated VIE without course to Jingwei of \$2,102 and \$1,808 as of December 31, 2011 and 2010, respectively)	2,176	1,890
Income tax payable (including income tax payable of the consolidated VIE without recourse to Jingwei of \$1,707 and \$1,610 as of December 31, 2011 and 2010, respectively)	1,707	1,610
Loan from a stockholder (including loan from a stockholder of the consolidated VIE without recourse to Jingwei of nil and \$1 as of December 31, 2011 and 2010, respectively)	174	262
Deferred tax (including deferred tax liability of the consolidated VIE without recourse to Jingwei of \$269 and \$259 as of December 31, 2011 and 2010, respectively)	269	259
<b>Total current liabilities</b>	<b>10,778</b>	<b>8,143</b>
<b>Non-current liabilities</b>		
Deferred tax liabilities – non current (including deferred tax liabilities – noncurrent of the consolidated VIE without recourse to Jingwei of \$739 and \$965 as of December 31, 2011 and 2010, respectively)	739	965
<b>Total liabilities</b>	<b>11,517</b>	<b>9,108</b>
<b>Commitments and contingencies</b>		
	-	-
<b>Equity</b>		
Common stock, (\$0.001 par value; 75,000,000 shares authorized; 20,478,676 and 20,350,167 shares issued as of December 31, 2011 and 2010, respectively; 20,434,280 and 20,347,167 shares outstanding as of December 31, 2011 and 2010, respectively)	20	20
Additional paid-in capital	20,421	22,502
Treasury Stock, at cost (44,396 and 3,000 shares as of December 31, 2011 and 2010, respectively)	(131)	(12)
Statutory and other reserves	3,795	3,590
Retained earnings	29,901	28,948
Accumulated other comprehensive income	6,271	4,299
<b>Total Company's stockholders' equity</b>	<b>60,277</b>	<b>59,347</b>
Noncontrolling interest	8,049	7,733
<b>Total equity</b>	<b>68,326</b>	<b>67,080</b>
<b>Total liabilities and equity</b>	<b>\$ 79,843</b>	<b>\$ 76,188</b>

See notes to consolidated financial statements

**Jingwei International Limited and Subsidiaries**  
**Consolidated Statements of Income and Comprehensive Income**  
(in US dollars thousands, except share and per share data)

	<b>Years Ended December 31,</b>	
	<b>2011</b>	<b>2010</b>
Sales	\$ 35,960	\$ 37,641
Cost of sales	19,991	19,477
<b>Gross profit</b>	<b>15,969</b>	<b>18,164</b>
<b>Operating expenses</b>		
Selling, general and administrative expenses	12,920	6,328
Research and development costs	3,597	2,415
	<b>16,517</b>	<b>8,743</b>
<b>Income (loss) from operations</b>	<b>(548)</b>	<b>9,421</b>
<b>Other income (expenses)</b>		
Subsidy income	1,555	520
Interest income	80	61
Interest expense	-	(33)
Other income (expense)	(2)	445
	<b>1,633</b>	<b>993</b>
<b>Income before income taxes (benefits) and discontinued operations</b>	<b>1,085</b>	<b>10,414</b>
Income tax (benefits) expense	(77)	129
<b>Income from continuing operations</b>	<b>1,162</b>	<b>10,285</b>
<b>Discontinued operations:</b>		
Income(loss) from discontinued operations	(4)	(401)
<b>Net income</b>	<b>1,158</b>	<b>9,884</b>
Less: Net income attributable to noncontrolling interest	-	-
<b>Net income attributable to the Company's stockholders</b>	<b>1,158</b>	<b>9,884</b>
Foreign currency translation adjustment	2,288	1,896
<b>Comprehensive income</b>	<b>\$ 3,446</b>	<b>\$ 11,780</b>
Comprehensive income attributable to noncontrolling interest	316	255
<b>Comprehensive income attributable to the Company's stockholders</b>	<b>3,130</b>	<b>11,525</b>
<b>Earnings Per Share</b>		
<b>Net income from continuing operations attributable to common stockholders:</b>		
Basic earnings per share	\$ 0.06	\$ 0.55
Diluted earnings per share	\$ 0.06	\$ 0.54
<b>Net income from discontinued operations attributable to common stockholders:</b>		
Basic earnings per share	\$ (0.00)	\$ (0.02)
Diluted earnings per share	\$ (0.00)	\$ (0.02)
<b>Net income attributable to common stockholders:</b>		
Basic earnings per share	\$ 0.06	\$ 0.53
Diluted earnings per share	\$ 0.06	\$ 0.52
<b>Weighted average common shares outstanding</b>		
Basic	20,413,826	18,707,424
Diluted	20,448,659	18,933,659

See notes to consolidated financial statements

**Jingwei International Limited and Subsidiaries**  
**Consolidated Statements of Changes in Equity**  
(in US dollars thousands, except share amounts)

	Company's Stockholder's Equity								
	Total Stockholder's equity	Number of shares of common stock	Common stock	Additional paid-in capital	Treasury stock	Statutory and other reserves	Retained earnings	Accumulated other comprehensive income	Noncontrolling interest
Balance, January 1, 2010	\$ 51,738	17,049,000	\$ 17	\$ 18,931	\$ 0	\$ 2,916	\$ 19,738	\$ 2,658	\$ 7,478
Issuance of common shares in connection with an asset acquisition from Newway	-	3,287,167	3	(3)	-	-	-	-	-
Issuance of common shares under incentive plan	26	14,000	-	26	-	-	-	-	-
Common shares to be issued in connection with acquisition of Haicom	2,992	-	-	2,992	-	-	-	-	-
Repurchase of common stock	(12)	(3,000)	-	-	(12)	-	-	-	-
Foreign currency translation adjustment	1,896	-	-	-	-	-	-	1,641	255
Share based compensation cost	556	-	-	556	-	-	-	-	-
Transfer to statutory and other reserves	-	-	-	-	-	674	(674)	-	-
Net income	9,884	-	-	-	-	-	9,884	-	-
Balance, December 31, 2010	<u>\$ 67,080</u>	<u>20,347,167</u>	<u>\$ 20</u>	<u>\$ 22,502</u>	<u>\$ (12)</u>	<u>\$ 3,590</u>	<u>\$ 28,948</u>	<u>\$ 4,299</u>	<u>\$ 7,733</u>
Issuance of common shares under incentive plan	78	128,509	-	78	-	-	-	-	-
Shares to be issued as acquisition consideration	(2,393)	-	-	(2,393)	-	-	-	-	-
Repurchase of common stock	(119)	(41,396)	-	-	(119)	-	-	-	-
Foreign currency translation adjustment	2,288	-	-	-	-	-	-	1,972	316
Share based compensation cost	234	-	-	234	-	-	-	-	-
Transfer to statutory and other reserves	-	-	-	-	-	205	(205)	-	-
Net income	1,158	-	-	-	-	-	1,158	-	-
Balance, December 31, 2011	<u>\$ 68,326</u>	<u>20,434,280</u>	<u>\$ 20</u>	<u>\$ 20,421</u>	<u>\$ (131)</u>	<u>\$ 3,795</u>	<u>\$ 29,901</u>	<u>\$ 6,271</u>	<u>\$ 8,049</u>

See notes to consolidated financial statements

**Jingwei International Limited and Subsidiaries**  
**Consolidated Statements of Cash Flows**  
(in US dollars thousands)

	<b>Years Ended December 31</b>	
	<b>2011</b>	<b>2010</b>
<b>Cash flows from operating activities</b>		
Net income	\$ 1,158	\$ 9,884
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation & amortization	4,958	3,970
Allowance for doubtful accounts	5,713	1,409
Share-based compensation expense	234	556
Deferred tax	(539)	(134)
Changes in operating assets and liabilities:		
Accounts receivable	(3,786)	(10,946)
Other receivables, prepayments and deposits	(2,535)	(632)
Inventories	(3,501)	(2,591)
Trade payables	2,267	(249)
Accruals and other payables	(780)	(302)
Income tax payable	97	(187)
Net cash provided by operating activities	<u>3,286</u>	<u>778</u>
<b>Cash flows from investing activities</b>		
Acquisition of property and equipment	(635)	(601)
Acquisition of intangible assets	(6)	(225)
Cash paid for business acquisition	(2,010)	(4,096)
Net cash used in investing activities	<u>(2,651)</u>	<u>(4,922)</u>
<b>Cash flows from financing activities</b>		
Proceeds from exercise of stock options	-	14
Repurchase of common shares	(40)	
Proceeds from Stockholder loan	118	
Repayment of stockholder loans	(514)	(107)
Net cash used in financing activities	<u>(436)</u>	<u>(93)</u>
Effect of foreign currency translation on cash and cash equivalents	1,574	1,517
Net increase (decrease) in cash and cash equivalents	<u>1,773</u>	<u>(2,720)</u>
Cash and cash equivalents - beginning of year	<u>7,519</u>	<u>10,239</u>
Cash and cash equivalents - end of year	<u>\$ 9,292</u>	<u>\$ 7,519</u>
<b>Supplemental disclosure of cash flow information</b>		
Income tax paid	\$ 412	\$ 404
Interest paid	\$ -	\$ -
<b>Non-cash activities</b>		
Share consideration issued for acquisition of intangible assets from Newway	\$ -	\$ 3,287
Capital withdrawn from long-term investment	\$ 1,417	\$ -
Amount due from a stockholder for disposal of subsidiary	\$ 858	\$ -
Issuance of common shares under incentive plan	\$ 78	\$ -

See notes to consolidated financial statements



**Jingwei International Limited and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**(Stated in US dollars thousands, except per share amounts)**

**NOTE 1. CORPORATE INFORMATION AND DESCRIPTION OF BUSINESS**

The consolidated financial statements include the financial statements of Jingwei International Limited (“Jingwei”), its subsidiaries and variable interest entities (“VIEs”). Jingwei International Investments Limited (“Jingwei BVI”), Jingwei International Investment (HK) Ltd. (“Jingwei HK”), Jingwei Hengtong Technology (ShenZhen) Co. Ltd (“Jingwei Hengtong”), Shenzhen Jingwei Communication Co., Ltd. (“Jingwei Communication”), New Yulong Information Technology Co. Ltd. (“New Yulong IT”), New Yulong Software Technology Development Co. Ltd. (“New Yulong Software”), Shenzhen Xinguochuang Information Technology Company Limited (“Xinguochuang”), Shanghai Haicom Telecommunication Technology Limited (“Haicom”), and Jiangsu Liandong Communication Ltd. (“Jiangsu Liandong”). Jingwei International Limited, its subsidiaries and VIEs are collectively referred to as the “Company”. All significant inter-company accounts and transactions have been eliminated in consolidation.

**Corporation Information**

The Company, formerly known as Neoview Holdings Inc. (“Neoview”), was established in Nevada, US on November 17, 2004, as a public shell company. On May 16, 2007, Neoview and Synergy Business Consulting LLC, a principal stockholder of Neoview, entered into a share exchange agreement with the stockholders of Jingwei BVI. Pursuant to the share exchange agreement, Neoview acquired all of Jingwei BVI’s issued and outstanding shares from Jingwei BVI’s stockholders in exchange for the issuance to Jingwei BVI’s stockholders of 11,554,000 shares of Neoview’s common stock, constituting 86.4% of outstanding common shares of Neoview on a fully-diluted basis.

As a result of this share exchange transaction, Jingwei BVI became a wholly-owned subsidiary of Neoview. Under accounting principles generally accepted in the United States of America (“U.S. GAAP”), the share exchange transaction was treated as a reverse acquisition, with Jingwei BVI as the accounting acquirer and Neoview as the acquired party.

Immediately following the closing of the merger, Neoview changed its name to Jingwei International Limited (“the Company”), and consummated a private placement of 3,395,000 units on May 16, 2007, each consisting of one (1) share of its common stock and 0.3 of a warrant to purchase one (1) share of its common stock, at a price per unit of \$5.00 for aggregate gross proceeds of \$16,975,000.

Jingwei BVI was incorporated in British Virgin Islands (“BVI”) in May 2006, and is a holding company without any operation.

Jingwei HK, a wholly owned subsidiary of Jingwei BVI, was established on October 31, 2006 in Hong Kong. It is engaged in telecommunication equipment sales, software development and e-commerce.

Jingwei Hengtong, a wholly owned subsidiary of Jingwei HK, was established in People’s Republic of China (“PRC”) on February 8, 2007. It is engaged in computer hardware and software development, and business consulting services.

On February 8, 2007, Jingwei Hengtong entered into a series of contractual agreements (“Contractual Agreements”) for a ten-year term with Jingwei Communication, a PRC company established on May 8, 2001 to develop computer software and telecommunication equipments, to operate call center, as well as to provide internet and mobile value added service. Pursuant to the Contractual Agreements, Jingwei Hengtong has agreed to exclusively provide to Jingwei Communication technology consulting services, and bear all of Jingwei Communication’s operating costs, in exchange for all of its income from the business operations. Jingwei Hengtong has also agreed to guarantee Jingwei Communication’s performance of its obligations under contracts, agreements and transactions between Jingwei Communication and third party customers. In return, Jingwei Communication had pledged its accounts receivables and all of its assets to Jingwei Hengtong. Moreover, the stockholders of Jingwei Communication had also entered into pledge agreements with Jingwei Hengtong, pursuant to which they agreed to pledge all their rights and interests, including voting rights, in favor of Jingwei Hengtong. Jingwei Hengtong was also granted an option to acquire the equity interests of Jingwei Communication within 10 years for a purchase price equal to its shareholders’ original paid-in price or the lowest price permissible under PRC laws. Finally, Jingwei Hengtong had made an interest-free loan to Jingwei Communications to fund its capitalization, which can only be repaid upon the shareholders of Jingwei Communications transferring their equity interests to Jingwei Hengtong.

The noncontrolling interest does not change since 100% of all income and losses are allocated to the Company in accordance with the Contractual Agreements. Since there is no dividend distribution to noncontrolling interest, its balance changed between periods according to the exchange rate during that period.

PRC regulations prohibit direct foreign ownership of entities engaged in certain restricted businesses, including the provision of value-added telecommunications services in the PRC where certain licenses are required for the provision of such services. To comply with PRC laws and regulations, the Company engages in such businesses through contractual commitments with the VIEs, principally Jingwei Communication and the subsidiaries directly or indirectly controlled by Jingwei Communication, included New Yulong IT, New Yulong Software, Jiangsu Liandong, Xinguochuang and Haicom.

New Yulong IT, a wholly owned subsidiary of Jingwei Communication, was established on January 4, 1999 in Shenzhen, China. It mainly conducts mobile value added service, software development and computer information system integration,

New Yulong Software, wholly owned by Jingwei Communication directly and indirectly through New Yulong IT, was established on June 14, 2005 in Shenzhen, China. It is engaged in software development and computer information system integration.

Jiangsu Liandong, a wholly owned subsidiary of Jingwei Communication, was established on December 11, 2009 in Suqian, China. It is engaged in software development and computer information system integration.

Beijing New Media, a wholly owned subsidiary of New Yulong IT, was established on July 23, 2008 in Beijing, China. It is engaged in creating, planning and handling advertising , as well as providing branding strategy and sales promotions for its clients.

Xinguochuang, a wholly owned subsidiary of New Yulong IT, was established on April 29, 2009, in Shenzhen, China. It is engaged in software development and computer information system integration, domestic and international trade.

On November 9, 2010, Xinguochuang completed the acquisition of 100% equity interest of Haicom, a corporation registered in Shanghai, China that provides internet and mobile value added service platforms to telecommunication operators in more than ten provinces in China.

On September 23, 2011, the Company, New Yulong Information Technology Co. Ltd. (“New Yulong IT”), a VIE of the Company, and Mr. Du, entered into a Stock Purchase Agreement (the “Purchase Agreement”), pursuant to which New Yulong IT agreed to sell and Mr. Du agreed to acquire all of the outstanding shares of Beijing New Media Advertising Co. Ltd. (“Beijing New Media”). Under the terms of the Purchase Agreement, Mr. Du agreed to pay New Yulong IT a purchase price of \$858,149, (RMB 5,546,216) which is equal to the net book value of Beijing New Media, although the Company and New Yulong IT waived such payment and consummated the sale of Beijing New Media, giving rise to an amount due from Mr. Du equal to such consideration. The company subsequently received a payment from Mr. Du of \$635,000 in March 2012.

The Company presents its financial statements on a consolidated basis with those of Jingwei Communication and its subsidiaries, as a result of its controlling financial interest in accordance with ASC 810-10.

## **Description of Business**

The Company is one of the leading providers of data mining and interactive marketing and software services in the PRC. The Company's services include market segmentation, customer trend and churn analysis, fraud detection and direct marketing services such as telemarketing, direct mailing and wireless value added services. The Company also operates a software services business, which provides a broad range of billing systems, provisioning solutions, decision support and customer relationship management systems for the leading mobile telecommunication carriers in the PRC.

## **NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **a) Basis of presentation and consolidation**

The consolidated financial statements of the Company, its subsidiaries and its VIEs have been prepared in conformity with U.S. GAAP. All significant inter-company accounts and transactions have been eliminated in consolidation.

The Company adopted the purchase method to consolidate Jingwei Communication, with the current assets and liabilities recorded at fair value which approximated their historic book value on February 8, 2007, the effective date ("effective date") of the Contractual Agreements. The fair value of the acquired net assets of Jingwei Communication was \$6.6 million on the effective date, after eliminating all the intercompany transaction and balances, and was recognized as noncontrolling interest on the consolidated balance sheet. The noncontrolling interest changes only for translation adjustments since 100% of all income and losses are allocated to the Company in accordance with the Contractual Agreements and there are no dividend distributions to noncontrolling interest. The noncontrolling interest amounted to \$8.0 million and \$7.7 million as of December 31, 2011 and 2010, respectively. The change in amount was the result of foreign currency translation adjustment.

Certain 2010 amounts have been reclassified to conform to the current year's consolidated financial statements presentation. These reclassifications had no significant impact on previously reported financial position, results of operations or cash flows.

### **b) Use of estimates**

In preparing consolidated financial statements in conformity with U.S. GAAP, management makes estimates and assumptions that affect the amounts of assets and liabilities and disclosures of contingent assets and liabilities at the dates of the consolidated financial statements, as well as the amounts of revenues and expenses during the years ended December 31, 2011 and 2010. Actual results could differ from those estimates.

Significant estimates based on management's best estimation include, but are not limited to, revenue recognition, the valuation of trade receivables and other receivables, inventories, the estimation on useful lives of property and equipment and intangible assets, the valuation of options, and the deferred tax asset valuation allowance.

### **c) Business combination**

For a business combination with acquisition date on or after January 1, 2009, the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree were recognized at the acquisition date, measured at their fair values as of that date. In a business combination achieved in stages, the identifiable assets and liabilities, as well as the noncontrolling interest in the acquiree, were recognized at the full amounts of their fair values. In a bargain purchase in which the total acquisition-date fair value of the identifiable net assets acquired exceeds the fair value of the consideration transferred plus any noncontrolling interest in the acquiree, that excess in earnings was recognized as a gain attributable to the Company.

Deferred tax liability and asset were recognized for the deferred tax consequences of differences between the tax bases and the recognized values of assets acquired and liabilities assumed in a business combination in accordance with Accounting Standards Codification (“ASC”) Topic 740-10.

Goodwill represents the excess of the purchase price over the fair value of the net assets acquired in business combinations. Goodwill is not amortized; rather, impairment tests are performed at least annually or more frequently if circumstances indicate impairment may have occurred. If impairment exists, goodwill is immediately written off to its fair value and the best estimate of that loss is recognized in those financial statements.

**d) Cash and cash equivalents**

Cash includes not only currency on hand but demand deposits with banks or other financial institutions. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and have original maturities of three months or less. No cash and cash equivalents are restricted as to withdrawal or usage.

**e) Accounts receivable, net and other receivables**

Accounts receivable are recognized and carried at original sales amounts less an allowance for uncollectible accounts, as needed.

The Company establishes an allowance for doubtful accounts based on management’s assessment of the collectability of trade and other receivables. A considerable amount of judgment is required in assessing the amount of the allowance and the Company considers the historical level of credit losses and applies percentages to aged receivable categories. The Company makes judgments about the credit worthiness of each customer based on ongoing credit evaluations, and monitors current economic trends that might impact the level of credit losses in the future. If the financial condition of the customers is to deteriorate, resulting in their inability to make payments, a larger allowance may be required.

Based on the above assessment, during the reporting years, the management establishes the general provisioning policy to make allowance according to the aging of trade and other receivables as follows:

**Account and other receivables due:**

Within one year	0.3%
After one year but within two years	5.0%
After two years but within three years	20.0%
Over three years	100.0%

Additional specific provision is made against trade and other receivables aged for more than one year to the extent when collection appears doubtful.

Bad debts are written off when identified. The Company does not accrue interest on trade and other receivables.

**f) Inventories**

Inventories consist of direct materials, labor costs and those indirect costs related to contract performance and are stated at the lower of cost or market. The cost of inventories is determined principally by the specific identification method.

Where there is evidence that the utility of inventories, in their disposal in the ordinary course of business, will be less than cost, whether due to physical deterioration, obsolescence, changes in price levels, or other causes, the inventories is written down to their fair value for the difference with charges to cost of sales.

**g) Property and equipment, net**

Property and equipment are stated at cost less accumulated depreciation. Cost represents the purchase price of the asset and other costs incurred to bring the asset into its existing use.

Depreciation is provided on straight-line basis over the assets' estimated useful lives as follows:

	Estimated Useful lives (years)	Residual value
Leasehold improvements	5	0%
Motor vehicles	10	10%
Office equipment and computers	5	10%

Maintenance or repairs are charged to expense as incurred. Upon sale or disposition, the applicable amounts of asset cost and accumulated depreciation are removed from the accounts and the net amount less proceeds from disposal is charged or credited to income.

**h) Intangible assets**

Intangible assets represent database, software, strategic alliance, non-compete agreement, customer relationship, competed technology and partnership agreement. The value of the database and software was established based on historic acquisition costs. The valuation and allocation of intangible assets of strategic alliance, non-compete agreement, customer relationship, competed technology and partnership agreement were measured based on fair value.

The finite lived intangible assets are amortized over their estimated useful lives, and are reviewed annually for impairment, or more frequently, if indications of possible impairment exist.

**i) Long term investment**

Long term investment with equity interest of less than 20% is recorded at cost and carried at that amount until it is sold or otherwise disposed of or until it is written down. A write-down from original cost is appropriate when dividends received represent a dividend received in excess of earnings subsequent to the investment date. Otherwise, dividends received are recorded as investment income.

**j) Impairment of long-lived assets**

The Company follows ASC 360-10 *Impairment or Disposal of Long-Lived Assets*. The Statement requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Long-lived assets and intangibles are tested for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. The Company recognizes impairment of long-lived assets and intangibles in the event that the net book values of such assets exceed the future undiscounted cash flows attributable to such assets. The Company is not aware of any events or circumstances which indicate the existence of an impairment which would be material to the Company's consolidated financial statements.

**k) Concentration of Credit Risks**

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash and cash equivalents, trade and other receivables. As of December 31, 2011 and 2010, substantially all of the Company's cash and cash equivalents were held by major financial institutions located in PRC. With respect to trade and other receivables, the Company establishes credit based on an evaluation of the customer's and other debtor's financial condition. The Company generally does not require collateral for trade and other receivables and maintains an allowance for doubtful accounts of trade and other receivables.

**l) Fair value of financial instruments**

The carrying values of the Company's financial instruments, including cash and cash equivalents, accounts receivable, other receivables, prepayments and deposits, account payable, accruals and other payables, and loan from a stockholder approximate their fair values due to the short-term maturity of such instruments.

**m) Comprehensive income**

The Company follows ASC 220-10 *Reporting Comprehensive Income* . Comprehensive income is defined as the change in equity of a company during a period from transactions and other events and circumstances excluding transactions resulting from investments from owners and distributions to owners. For the Company, comprehensive income for the years ended December 31, 2011 and 2010 presented includes foreign currency translation adjustments.

**n) Revenue recognition**

The Company recognizes revenue when the amount of revenue can be reliably measured, it is probable that economic benefits will flow to the entity and specific criteria have been met for each of the Company's activities as described below.

*i. Software and system services*

Subject to these criteria and in accordance with ASC 985 *Software Revenue Recognition* , the Company generally recognizes revenue from software and system services when: a) a contract has been signed by the customers, b) the Company has delivered software and system services to the customers as defined by the customers receiving the work product, c) the project milestone delivered is assigned a fixed price pursuant to the percentage-of completion method of accounting, and d) evidence of customers' acceptance of milestone achievement. The Company's software and system services sale arrangements do not have multiple deliverables.

As the software and system services typically takes more than three months to complete, the Company accounts for the timing and amount of revenue using the percentage-of-completion method based on proportion of work done. The percentage of work done is determined based on milestones agreed in the contract and percentage of total contract value due to be paid upon achievement of such milestones. The amount due after reaching certain milestones agreed in the contract generally reflects the progress of work at that point.

*ii. Data mining services*

Revenue from data mining services is recognized when the services are rendered.

*iii. Bundled mobile products*

In accordance with ASC 605-25, *Revenue Recognition* , the Company recognizes revenue, net of taxes, when persuasive evidence of a customer or distributor arrangement exists or acceptance occurs, receipt of goods by customer occurs, the price is fixed or determinable, and the sales revenues are considered collectible.

Under the guidance of this ASC Topic 605-45, the assessment of whether revenue should be reported gross with separate display of cost of sales to arrive at gross profit should be based on the following considerations: the Company acts as principal in the transaction, takes titles to the products and has risk and rewards of ownership (such as the risk of loss for collection, delivery or return). During the year ended December 31, 2011 and 2010, the Company has recognized a large amount sales order of handsets with customized VAS softwares built in on a gross basis as the Company acts as the primary obligor in the arrangement, has latitude in establishing price and physically changes products in most cases, the Company recognized all revenue from these sales of bundled mobile product on a gross basis, based on ASC Topic 605-45. The sale of bundled mobile product is classified as data mining service for the years ended December 31, 2011 and 2010.

**o) Subsidy income**

Subsidy income is recognized as income in the period in which funds were received from the government. We received VAT refund and other local government funds in support of our R&D activities and hi-tech development.

**p) Statutory and other reserves**

In accordance with the relevant PRC regulations and the articles of association of the Company's PRC subsidiaries and VIEs, allocation from net income to the following reserves is required:

*i. Statutory surplus reserve*

In accordance with the relevant laws and regulations of PRC and the articles of association of our PRC subsidiaries and VIEs, these companies are required to appropriate 10% of their net income reported in PRC statutory accounts, after offsetting prior years' losses, to the statutory surplus reserve. When the balance of such reserve reaches 50% of the respective registered capital of the subsidiaries, any further appropriation is optional.

The statutory surplus reserve can be used to offset prior years' losses, if any, and may be converted into registered capital, provided that the remaining balance of the reserve after such conversion is not less than 25% of registered capital. The statutory surplus reserve is non-distributable.

*ii. Discretionary surplus reserve*

In accordance with the articles of association of our PRC subsidiaries and VIEs, the appropriation of net income reported in PRC statutory accounts to the discretionary surplus reserve and its utilization are subject to the stockholders' approval at their general meeting. None of our PRC subsidiaries and VIEs had appropriated their earnings to discretionary surplus reserve from their respective dates of inception to December 31, 2010.

**q) Income taxes**

Income taxes are accounted for using an asset and liability approach which requires the recognition of income taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in the Company's financial statements or tax returns. Deferred income taxes are determined based on the differences between the financial reporting and tax basis of assets and liabilities and are measured using the currently enacted tax rates and laws. Deferred tax assets are reduced by a valuation allowance, if based on available evidence, it is considered that it is more likely than not that some portion of or all of the deferred tax assets will not be realized. In making such determination, the Company considers factors including (i) future reversals of existing taxable temporary differences, (ii) future profitability, and (iii) tax planning strategies.

**r) Warranty**

The Company accounts for product warranties in accordance with ASC 450, *Accounting for Contingencies*. It provides for the estimated costs of hardware and software warranties at the time the related revenue is recognized. For hardware warranty, the Company estimates the costs based on historical and projected product failure rates, historical and projected repair costs, and knowledge of specific product failures (if any). The hardware manufacture generally provides a warranty for the first year of the life of the component. For software warranty, the Company estimates the costs to provide bug fixes, such as security patches, over the life of the warranty. The Company regularly reevaluates its estimates to assess the adequacy of the recorded warranty liabilities and adjust the amounts as necessary. In its experience the cost of providing warranties has been immaterial.

**s) Functional currency and foreign currency translation**

The functional currency of the operating subsidiaries in PRC is the Chinese Yuan Renminbi ("RMB"). However, the reporting currency is the United States dollar ("USD"). Assets and liabilities of these companies have been translated into dollars using the exchange rate at the balance sheet date. Equity amounts are translated at historical exchange rates, income and expense items are translated at average rate for the year. Translation adjustments are reported separately and accumulated in a separate component of equity (accumulated other comprehensive income).

**t) Foreign operations**

Almost all of the Company's operations and assets are located in China. The Company may be adversely affected by possible political or economic events in this country. The effect of these factors cannot be accurately predicted.

The per dollar exchange rates adopted are as follows:

	<b>2011</b>	<b>2010</b>
Year end RMB exchange rate	6.35	6.61
Average yearly RMB exchange rate	6.45	6.78

No representation is made that the RMB amounts could have been, or could be, converted into U.S. dollars at the rates used in translation.

There has been no significant fluctuation in exchange rate for the conversion of RMB to U.S. dollars after the balance sheet date.

**u) Share-based compensations**

The Company adopted ASC 718 *Stock Compensation*, effective on January 1, 2006. The Company recognizes the cost resulting from all share-based payment transactions in its consolidated financial statements using a fair-value-based method. The Company measures compensation cost for all outstanding unvested stock-based awards made to its employees and directors based on estimated fair values and recognize compensation over the service period for awards expected to vest. The estimated fair value of stock options and stock purchase rights granted pursuant to our employee stock purchase plan is determined using the Black-Scholes valuation model. The Black-Scholes valuation model requires the management to make certain assumptions about the future. Estimation of these equity instruments' fair value is affected by the stock price, as well as assumptions regarding subjective and complex variables such as employee exercise behavior and the Company's expected stock price volatility over the term of the award. Generally, the Company's assumptions are based on historical information and judgment is required to determine if historical trends may be indicators of future outcomes. Where such historical information is not available, the Company applied the "Simplified Method" in accordance with ASC 718-10-S99-1 in valuation of all its options, which are granted at-the-money, nontransferable and nonhedgeable, and vest based upon a service condition alone. For stock options and common stock warrants issued to non-employees, they are measured as of the date required by ASC 505-50 *Equity-Based Payments to Non-Employees*.

**v) Basic and diluted earnings per share**

In accordance with ASC 260 *Earnings per Share*, basic earnings per common share is computed by using net income divided by the weighted average number of shares of common stock outstanding for the periods presented. Diluted earnings per share reflect the potential dilution of securities that could share in the earnings of the Company. Potential common stock shares consist of shares that may arise from outstanding dilutive common stock options and warrants (the number of which is computed using the "treasury stock method"). The calculation of diluted earnings per common share assumes that outstanding common shares were increased by shares issuable upon exercise of those stock warrants for which the market price exceeds the exercise price, less shares that could have been purchased by the Company with related proceeds.

**w) Recently enacted accounting standards**

In May 2011, the Financial Accounting Standards Board ("FASB") issued ASU No. 2011-04, "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs", which is not expected to have a material impact on the consolidated financial statements upon adoption.



In June 2011, the FASB issued ASU No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income. This guidance improves the comparability, consistency and transparency of financial reporting and increases the prominence of items reported in other comprehensive income. The guidance provided by this update becomes effective for annual periods beginning on or after December 15, 2011. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial position and results of operations.

In September 2011, the FASB issued ASU No. 2011-08, Intangibles—Goodwill and Other (Topic 350)— Testing Goodwill for Impairment, to simplify how entities test goodwill for impairment. ASU 2011-08 allows entities 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. If greater than 50 percent likelihood exists that the fair value is less than the carrying amount then a two-step goodwill impairment test as described in Topic 350 must be performed. The guidance provided by this update becomes effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial position and results of operations.

In December 2011, The FASB issued ASU No. 2011-12, Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in ASU 2011-05. ASU 2011-12 defers the requirement that company's present reclassification adjustments for each component of accumulated other comprehensive income ("AOCI") in both net income and other comprehensive income ("OCI") on the face of the financial statements. All other requirements in ASU No. 2011-05 are not affected by ASU No. 2011-12, including the requirement to report comprehensive income either in a single continuous financial statement or in two separate but consecutive financial statements. Public entities should apply these requirements for fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial position and results of operations.

Except for the ASUs above, in the year ended December 31, 2011, The FASB has issued ASU No. 2011-01 through ASU 2011-12, which is not expected to have a material impact on the consolidated financial statements upon adoption.

**NOTE 3. DISCONTINUED OPERATIONS**

On September 23, 2011, the Company, New Yulong Information Technology Co. Ltd. ("New Yulong IT"), a VIE of the Company, and Mr. Du, entered into a Stock Purchase Agreement (the "Purchase Agreement"), pursuant to which New Yulong IT agreed to sell and Mr. Du agreed to acquire all of the outstanding shares of Beijing New Media Advertising Co. Ltd. ("Beijing New Media"). Under the terms of the Purchase Agreement, Mr. Du agreed to pay New Yulong IT a purchase price of \$858,149, (RMB 5,546,216) which is equal to the net book value of Beijing New Media, although the Company and New Yulong IT waived such payment and consummated the sale of Beijing New Media, giving rise to an amount due from Mr. Du equal to such consideration. The company subsequently received a payment from Mr. Du of \$635,000 in March 2012.

**Results of Discontinued Operations**

Summary results of operations for our discontinued operations for the period ended September 29, 2011 and for the year ended December 31, 2010 were as follows:

	Nine months ended September 30,2011 (unaudited)	2010 (unaudited)
Revenue	\$ -	\$ -
Loss before income tax	\$ (4)	\$ (401)
Income tax benefit	-	-
Loss from discontinued operations, net of tax	<u>\$ (4)</u>	<u>\$ (401)</u>

## Assets and Liabilities of Discontinued Operations

Assets and liabilities of discontinued operations on our consolidated balance sheets as of September 29, 2011 and December 31, 2010 include the following:

	As of	
	September 29, 2011	December 31, 2010
<b>Assets:</b>		
Current assets:		
Cash and cash equivalents	\$ 9	\$ 7
Other Receivables	29	4
Amount due from related companies	<u>819</u>	<u>818</u>
Total current assets	857	830
Non-current assets:		
Property and equipment, net	<u>15</u>	<u>17</u>
Total assets of discontinued operations	<u>\$ 872</u>	<u>\$ 847</u>
<b>Liabilities:</b>		
Current Liabilities:		
Accounts payable	\$ 4	\$ 4
Total current liabilities	<u>4</u>	<u>4</u>
Total liabilities of discontinued operations	<u>\$ 4</u>	<u>\$ 4</u>

As the fair value of the assets and liabilities disposed in total were estimated to be equal to Beijing New Media's net book value as of the closing date, the Company did not recognize any gain or loss on disposal of Beijing New Media.

### NOTE 4. ACCOUNTS RECEIVABLE, NET

At December 31, 2011 and 2010, accounts receivable include the following:

	December 31,	
	2011	2010
Accounts receivable	\$ 40,010	\$ 36,598
Less: allowance for doubtful debts	<u>6,403</u>	<u>2,040</u>
	<u>\$ 33,607</u>	<u>\$ 34,558</u>

The Company experienced bad debts of \$4,737 and \$1,117, respectively, during the year ended December 31, 2011 and 2010.

The Company wrote off accounts receivables \$493 and \$372 in total in 2011 and 2010, when the balances were deemed uncollectible, respectively.

**NOTE 5. INVENTORIES**

At December 31, 2011 and 2010, inventories consist of the following:

	December 31,	
	2011	2010
Project costs	\$ 7,949	\$ 5,780
Finished goods	1,331	
	<u>\$ 9,280</u>	<u>\$ 5,780</u>

**NOTE 6. OTHER RECEIVABLES, PREPAYMENT AND DEPOSITS**

The following table summarizes the components of other receivables, prepayments and deposits as of December 31, 2011 and 2010:

	December 31,	
	2011	2010
Prepaid services fees	\$ 1,332	\$ 933
Advance to vendors	1,972	1,972
Deposit	264	122
Prepaid to agents	2,354	294
Other receivables	1,795	423
	7,717	3,744
Less: allowance for doubtful debts	1,132	134
	<u>\$ 6,585</u>	<u>\$ 3,610</u>

The balance as of December 31, 2011 mainly includes various prepayments to business partners for project development costs, and advances to suppliers to order goods and equipments.

The balance of prepaid to agent is mainly to pay to the unrelated third party which was business cooperation with the company and will help the company to obtain more market opportunity.

The balance of other receivables as of December 31, 2011, mainly includes the amount \$1,417 from Shanghai Jiuhong, (Please see Note 9, long-term investment).

The allowance for doubtful debts increased to \$1,132 in 2011 from \$134 in 2010, which mainly includes the amount \$976 of bad debt from other receivables of Shanghai Jiuhong in 2011.

**NOTE 7. PROPERTY AND EQUIPMENT**

At December 31, 2011 and 2010, property and equipment, at cost, consist of:

	December 31,	
	2011	2010
Motor vehicles	\$ 1,025	\$ 985
Office equipments and computers	4,328	3,576
	5,353	4,561
Less: Accumulated depreciation and amortization	3,690	2,707
Property and equipment, net	<u>\$ 1,663</u>	<u>\$ 1,854</u>

Depreciation expenses for the years ended December 31, 2011 and 2010 were \$893 and \$454, respectively.

**NOTE 8. INTANGIBLE ASSETS, NET**

The breakdown of the intangible asset balance as of December 31, 2011 and 2010 as well as related amortization period for each asset class is as follows:

Cost	December 31,		Amortization Period
	2011	2010	
Databases	\$ 15,350	\$ 14,864	8 years
Strategic alliance	7,608	7,278	5.5 years
Non-compete agreement	341	327	2 years
Software	680	397	8 years
Customer relationship	814	782	5.2 years
Competed technology	530	509	4.2 years
Partnership agreement	1,494	1,435	4.2 years
	26,817	25,592	
Less: accumulated amortization	12,738	8,144	
Net	<u>\$ 14,079</u>	<u>\$ 17,448</u>	

Amortization expense for the years ended December 31, 2011 and 2010 was \$4,065 and \$3,547 respectively.

The future amortization expenses for the net carrying amount of intangible assets with definite lives as of December 31, 2011 are expected to be as follows:

2012	\$ 4,045
2013	4,036
2014	3,989
2015	1,702
2016	307
	<u>\$ 14,079</u>

The Company recognized no impairment loss on intangible assets with definite lives in years ended December 31, 2011 and 2010.

**NOTE 9. LONG TERM INVESTMENT**

In December 2008, New Yulong IT invested in Shanghai JiuHong Investment Group Limited (“JiuHong”) for a 19.8% equity interest, as an initial attempt to expand its data mining service into commercial real estate leasing market with JiuHong. The investment is accounted for under the cost method, as the Company does not have a significant influence over the business and operations of JiuHong.

The Company did not receive any dividends in 2011 and 2010, and has not received any dividends in excess of the proportionate share of accumulated earnings since the date of acquisition, as a reduction of the cost of the investment.

In the third quarter, the Company performed an impairment test and estimated that the expected cash flows from the investment would be significantly lower than our estimate before. Moreover, the Company believed such a decline in the value of a long term investment would be other than temporary. Therefore, an impairment charge of \$1,059 has been recorded and the carrying amount of the investment was reduced to \$784 to recognize the decline.

In the fourth quarter, by reviewing the Shanghai JiuHong’s financial statements and communicating with their management team, JiuHong reduced its registered capital in 2011 and therefore, the investment of Newyulong to JiuHong was reduced from \$1,870 to \$453 and we hold 19.2% shares of JiuHong accordingly. The reduction of Newyulong’s long-term investment was transferred to other receivables, and we offset the impairment charge of \$1,059 in the fourth quarter. At the same time, after discussing with the JiuHong’s Board of directors and considering their solvency, the company made a bad debt provision of \$976 for the other receivables.

**NOTE 10. GOODWILL**

As of December 31, 2011 and 2010, the balances of goodwill include the following:

	December 31,	
	2011	2010
Goodwill	\$ 3,340	\$ 3,209
Less: accumulated impairment loss	-	-
	<u>\$ 3,340</u>	<u>\$ 3,209</u>

The balance of goodwill was recognized in acquisition of Haicom. The Company performs its annual goodwill impairment tests on December 31, 2011. Based on the impairment tests performed, no impairment charges were recognized in 2011 and 2010.

**NOTE 11. SUBSIDY INCOME**

The following table provides detailed information about our subsidy income for the year ended December 31, 2010.

	Year ended	
	2011	2010
VAT refund	\$ 932	\$ 272
Subsidies for R&D	623	248
	<u>\$ 1,555</u>	<u>\$ 520</u>

**NOTE 12. INCOME TAX EXPENSE**

The Company uses the asset-liability method of accounting for income taxes prescribed by ASC 740 Income Taxes. The Company, its subsidiaries and the VIEs each files their taxes individually.

*United States*

Jingwei International Limited is subject to the United States of America Tax law at tax rate of 34%. No provision for the US federal income taxes has been made as the Company had no US taxable income for the periods presented, and its earnings are permanently invested in PRC.

*BVI*

Jingwei BVI was incorporated in the BVI and, under the current laws of the BVI, it is not subject to income tax.

*Hong Kong*

Jingwei HK was incorporated in Hong Kong and is subject to Hong Kong profits tax. Jingwei HK is subject to Hong Kong taxation on its activities conducted in Hong Kong and income arising in or derived from Hong Kong. The applicable statutory tax rate is 16.5%.

*PRC*

The applicable income tax rates in 2011 for the Company's PRC operating companies, New Yulong IT, New Yulong Software, Jingwei Hengtong, Jingwei Communication, Xinguochuang and Jiangsu Liandong, Haicom, are described as follows: New Yulong IT and Haicom are qualified as high-tech software enterprises and entitled to a preferential income tax rate of 15%, which is subject to government review and approval every three years. New Yulong Software, Jingwei Hengtong, Jingwei Communication are all entitled to a preferential income tax rate of 24% in 2011. Jiangsu Liandong is subject to 25% income tax rate in 2011. In April 2010, State Tax Bureau approved Xinguochuang for its application for preferential enterprise income tax treatment, which exempted the entity from income tax for two years beginning with 2010, its first year of profitable operations, and entitled it to a 50% tax reduction to 12.5% for the subsequent three years and 25% thereafter.

The applicable income tax rates in 2010 for the Company's PRC operating companies, New Yulong IT, New Yulong Software, Jingwei Hengtong, Jingwei Communication, Beijing New Media, Xinguochuang and Jiangsu Liandong, Haicom, are described as follows: New Yulong IT and Haicom are qualified as high-tech software enterprises and entitled to a preferential income tax rate of 15%, which is subject to government review and approval every three years. New Yulong Software, Jingwei Hengtong, Jingwei Communication are all entitled to a preferential income tax rate of 22% in 2010. Jiangsu Liandong is subject to 25% income tax rate in 2010. Beijing New Media as a small business taxpayer and taxed on a deemed basis, i.e. 2.5% of its reported total revenue, due to its small business status.

The provisions for income tax expense (benefit) from continuing operations consisted of the following:

	<b>December 31,</b>	
	<b>2011</b>	<b>2010</b>
Current income tax expense	\$ 462	\$ 327
Deferred income tax benefit	(539)	(198)
Total provisions for income taxes	<u>(77)</u>	<u>129</u>

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The components of deferred income tax assets and liabilities were as follows:

	<b>December 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>Deferred tax assets:</b>		
Allowances and reserves	\$ 1,434	\$ 413
Unrealizable profit	68	
Net operating loss - China	230	272
<b>Total gross deferred tax assets</b>	<b>1,732</b>	<b>685</b>
Valuation allowance	(1,061)	(272)
<b>Total net deferred tax assets</b>	<b>671</b>	<b>413</b>
<b>Deferred tax liabilities:</b>		
Amortization of acquired intangibles at fair value	1,008	1,224
<b>Total net deferred tax liabilities</b>	<b>\$ 337</b>	<b>\$ 811</b>
	<b>December 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>Current deferred tax assets</b>	<b>\$ 671</b>	<b>\$ 413</b>
<b>Current deferred tax liabilities</b>	<b>269</b>	<b>259</b>
<b>Non-current deferred tax liabilities</b>	<b>739</b>	<b>965</b>
<b>Total net deferred tax liabilities</b>	<b>\$ 337</b>	<b>\$ 811</b>

In assessing the likelihood of realizing the deferred tax assets, management considers whether it is more likely than not that some portion of or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which the net operating losses and temporary differences become deductible. Considering the Company's profitable operating results in the past three years, and its projected future taxable income and tax planning strategies, management believes that the Company is able to generate sufficient future taxable income to reap the full tax benefits of deductible temporary differences.

The company adopted ASC 740-10 effective January 1, 2007 to account for uncertain tax position. ASC 740-10 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The evaluation of a tax position in accordance with ASC 740-10 is a two-step process. The first step is recognition – we determine whether it is “more-likely-than-not” that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. In evaluating whether a tax position has met the “more-likely-than-not” recognition threshold, we presume that the position will be examined by the appropriate taxing authority that would have full knowledge of all relevant information. The second step is measurement - a tax position that meets the “more-likely-than-not” recognition threshold is measured to determine the amount of benefit to recognize in the financial statements. The tax position is measured at the largest amount of benefit that is greater than 50 percent likely to be realized upon ultimate settlement.

The Company’s policy is to record interest and penalties associated with unrecognized tax benefits as additional income taxes in the statement of operations. The Company did not recognize any interest or penalties for the years ended December 31, 2011 and 2010 related to unrecognized tax benefits.

Out of the total retained earnings of \$29,901 as of December 31, 2011, undistributed foreign earnings from Chinese subsidiaries totaled \$30,428 . Those earnings are considered to be indefinitely reinvested and, accordingly, no provision for US federal income tax or PRC foreign withholding taxes, if any, has been made. Upon distribution of those earnings, the Company would be subject to up to \$3,043 of PRC foreign withholding tax. Furthermore, any dividends or any deemed dividends received by Jingwei, if any, less any expenses and loss carryovers, would be subject to a 34% U.S. federal income tax.

The following table reconciles the Company’s effective tax for the periods presented:

	Year ended December 31,	
	2011	2010
Provision for income taxes at applicable income tax rate	\$ 276	\$ 2,634
Non-deductible expenses	4	1
Extradeduction from R&D deduction	(106)	(43)
Tax exemption of PRC subsidiary	(1,125)	2,499
Change in valuation allowance	975	36
Effect of previously unrecognized tax loss utilized	(101)	-
Effective enterprise income tax	<u>\$ (77)</u>	<u>\$ 129</u>

For the year ended December 31, 2011, the Company recognized an income tax benefit of \$77 on income before income taxes of \$1,085, representing an effective income tax rate of (7.1%), as compared to an income tax expense of \$129 on income before income taxes of \$10,414, representing an effective income tax rate of 1.3% in 2010. The significantly lower effective tax rate than the statutory income tax rate in the current period is attributed to the following factor: 1. To make the best use of Xinguochuang’s preferential tax status starting from 2010, the Company has shifted a significant portion of business operations from New Yulong Software and other affiliates to Xinguochuang, resulting in a significant tax saving in 2011 and in 2010; 2. The company obtained large tax exemption from its PRC subsidiaries.

#### NOTE 13. OTHER PAYABLES

As of December 31, 2011 and December 31, 2010, accruals and other payables include the following (in thousands):

	December 31,	
	2011	2010
Accruals	\$ 917	\$ 1,134
Other payable for Haicom’s shareholder	1,259	756
	<u>\$ 2,176</u>	<u>\$ 1,890</u>



The balances of other payables as of December 31, 2011 and December 31, 2010 refer to the outstanding payment obligations in relation to the acquisition of Haicom. Considering the smooth transition after the completion of acquisition, the Company entered into supplementary agreements separately on August 31, 2011 and September 5, 2011 with former shareholders of Haicom: 1. to remove the performance conditions; 2. to replace the contingent share payment arrangement with a cash installment plan, which includes the first payment of \$1,252 to be made before September 30, 2011 and the second payment of \$1,259 to be made before January 31, 2012; 3. to reduce the total payment obligation by \$616 in return .

**NOTE 14. RELATED PARTY TRANSACTIONS**

In relation to the business disposal of Beijing New Media, the Company recorded \$873(RMB 5,546,216) as amount due from the shareholder, Mr. George Du. After the disposal, Jingwei recorded \$824 as amount due to related parties, which refer to Beijing New Media, because Beijing New Media has changed from a subsidiary of the Company to a related entity completely owned by Mr. George Du.

The company paid \$824 to Beijing New Media before December 31, 2011, and the company received the funds of \$635 from Mr Du in March, 2012. The balance will be paid by Mr Du before June 30, 2012.

**NOTE 15. SHARE-BASED COMPENSATION**

On May 21, 2008, The Company adopted Jingwei International Limited 2008 Omnibus Securities and Incentive Plan (the "Plan"), which authorized the Company to grant options for the purchase shares of common stock to employees, directors and consultants at prices not less than the fair market value on the date of grant for incentive stock options and nonqualified options. Shares as to which an option is granted under the Plan but remains unexercised at the expiration, forfeiture or other termination of such option may be the subject of the grant of further options.

On April 16, 2008 the Company granted a total of 63 key employees of the Company, options to purchase a total of 301,100 shares of the Company's common stock at a strike price equal to US\$4.95 and vested equally in four years. The contractual term is 10 years and it is non-transferable. The options were valued at \$2.278 on the grant date. The Company recognized \$51 share-based compensation expense in 2011. As of December 31, 2011, 13 employees are in service.

On September 29, 2009 the Company granted to Rick Luk, the CEO of the Company, options to purchase a total of 200,000 shares of the Company's common stock at a strike price equal to US\$1.64. The contractual term is 10 years. The options were valued at \$0.883 per unit on the grant date. On June 29, 2010 the Company entered into an amended stock option agreement with Rick Luk to shorten the vesting period from three years in the original agreement to two years. The Company recognized \$18 share-based compensation expense in 2011. Rick forfeited his remaining option after his resignation on May 1, 2011.

On February 23, 2010 the Company granted to Yong Xu, the CFO of the Company, options to purchase a total of 150,000 shares of the Company's common stock at a strike price equal to \$2.05 to be vested over two years. The contractual term is 10 years. The options were valued at \$1.21 per unit on the grant date. The Company recognized \$60 share-based compensation expense in 2011. Yong forfeited his remaining option after his resignation on January 13, 2012.

On September 7, 2010, the Company granted a total of 43 key employees of the Company, under the Company's 2008 Omnibus Securities and Incentive Plan, options to purchase a total of 500,000 shares of the Company's common stock at a strike price equal to US\$4.10 and vested equally in four years. The contractual term is 5 years and it is non-transferable. The options were valued at \$2.02 per unit on the grant date. The Company recognized \$87 share-based compensation expense in 2011. As of December 31, 2011, 24 employees are in service.

The vesting periods of the options under the Plans are determined based on individual stock option agreements. Options granted to the officers generally were vested and became exercisable over two years. Options granted to the employees in 2008 and 2010 became vested and exercisable over four years at an equal annual rate of 25% from the date of grant. In total, there were 355,453 shares outstanding, including those vested and those expected to vest, as of December 31, 2011.

On June 12, 2008 the Company granted to Strategic Growth International, Inc (“SGI”) options to purchase a total of 150,000 shares of the Company’s common stock at a premium strike price of US\$7.00 per share as part of the compensation for investor relations service (the “Service”). The contractual term is 5 years. These options vest in 4 quarterly installments in equal amount of 25,000 beginning with the date of the grant and the balance of 50,000 vesting on June 5, 2009. Due to service termination by the Company, there were only 33,000 shares outstanding, all vested and exercisable, as of December 31, 2011. The options were valued at \$2.67 per unit on the grant date. The Company recognized \$0 share-based compensation expense in 2011.

On November 5, 2009, the Company granted ToneTat Investment Limited (“ToneTat”) options to purchase a total of 500,000 shares of the Company’s common stock at a strike price of \$2.10 per share as compensation for investor relations and financial advisory services. The contractual term is 3 years and it is non-transferable. On May 7, 2010, the Company executed an amendment with ToneTat to extend the service term to March 31, 2011, and to modify the vesting conditions of the last 300,000 options to require satisfactory completion of duties until then. The options to purchase 100,000 shares of the Company’s common stock were valued at \$0.76 per unit on November 5, 2009, the options to purchase 100,000 shares of the Company’s common stock were valued at \$2.72 per unit on May 5, 2010, and the options to purchase 300,000 shares of the Company’s common stock were valued at \$0.06 per unit on May 5, 2010. The Company recognized \$18 share-based compensation expense in 2011.

In total 255,997 stock options have been exercised. The Company bought back 23,042 shares of public stock related to stock option as treasury stock in 2011, and accounted for it as an equity transaction under cost method.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model, which was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. The Company’s employee stock options have characteristics significantly different from those of traded options. In addition, option valuation models require the input of highly subjective assumptions, including the option’s expected life and the price volatility of the underlying stock, and changes in the subjective input assumptions can materially affect the fair value estimate of employee stock options.

The following table summarizes all Company stock option and warrant transactions for the years ended December 31, 2011 and December 31, 2010:

	Number of options and warrants	Weighted- average exercise price	Weighted-average remaining contractual life (Years)
Outstanding, January 1, 2010	2,053,250	\$ 5.27	3.21
Granted	750,000	3.42	
Forfeited	311,450	4.56	
Exercised	14,000	1.90	
Outstanding, December 31, 2010	2,477,800	\$ 4.82	2.58
Granted	300,000	\$ 2.10	
Forfeited	1,633,350	\$ 5.76	
Exercised	255,997	1.79	
Outstanding, December 31, 2011	888,453	\$ 3.05	2.51

Exercisable options and warrants as of December 31, 2011:

Range of exercise prices	Number outstanding currently exercisable as of December 31, 2011	Weighted-average remaining contractual life (years)	Weighted-average exercise price of options currently exercisable
\$ 2.05-\$7.00	653,466	1.66	\$ 2.80

The total exercisable options and warrants as of December 31, 2011 include: a) 533,000 shares of options issued to consultants in 2008, 2009 and 2011; b) 120,466 shares issued to employees under the 2008 and 2010 Incentive Plan.

The Company has accounted for employee share-based compensation expense based on the grant date fair values of the awards. Estimates of fair value are not intended to predict actual future events or the value that ultimately will be realized by employees who receive equity awards, and subsequent events are not indicative of the reasonableness of the original estimates of fair value made by the Company for accounting purposes.

In accordance with ASC 718 Stock Compensation, the Company has recorded stock-based compensation expense during year ended December 31, 2011 and 2010 of \$234 and \$556 in connection with the issuance of these options .

On June 2, 2011, the Company's Board of Directors has authorized to repurchase up to an aggregate of \$2 million of its outstanding common shares in the next twelve months (the "Share Repurchase Program"), subject to market and other conditions. Under the Share Repurchase Program, the Company can repurchase shares from time to time for cash in open market purchases, block transactions, and privately negotiated transactions in accordance with applicable US federal securities laws. During the year ended December 31, 2011, the Company has repurchased 18,354 shares at \$2.19 per share on average. The Company has 44,396 treasury shares as of December 31, 2011.

**NOTE 16. BASIC AND DILUTED EARNINGS PER SHARE**

Basic net income per share is computed using the weighted average number of common shares outstanding during the period. Diluted net income per share is computed using the weighted average number of common shares and, if dilutive, potential common shares outstanding during the period. Potential common shares comprise shares issuable upon the exercise of share based awards, using the treasury stock method. The reconciliation of the numerators and denominators of the basic and diluted earnings per share computations for income from continuing operations is shown as follows (in thousands, except share and per share data):

	December 31,	
	2011	2010
Numerator for basic and diluted earnings per share:		
Net income	\$ 1,158	\$ 9,884
Denominator for basic earnings per share—weighted average shares outstanding	20,413,826	18,707,424
Dilutive effect of stock-based compensation plan	26,206	226,235
Dilutive effect of contingently issuable shares	-	-
Denominator for diluted earnings per share	20,448,659	18,933,659
<b>Net income from continuing operations attributable to common stockholders:</b>		
<b>Earnings Per Share</b>		
Basic earnings per share	\$ 0.06	\$ 0.55
Diluted earnings per share	\$ 0.06	\$ 0.54
<b>Net income from discontinued operations attributable to common stockholders:</b>		
Basic earnings per share	\$ (0.00)	\$ (0.02)
Diluted earnings per share	\$ (0.00)	\$ (0.02)
<b>Net income attributable to common stockholders:</b>		
Basic earnings per share	\$ 0.06	\$ 0.53
Diluted earnings per share	\$ 0.06	\$ 0.52

The Company had 862,247 and 2,251,565 common stock options and warrants outstanding in 2011 and 2010, respectively, which were antidilutive to the per share in those periods, as their exercise prices were above the average market values in such periods.

#### NOTE 17. SEGMENT INFORMATION

The Company has two reportable segments based on the type of services provided, i.e. data mining services, and software and system services. Information for the segments for years ended December 31, 2011 and 2010 in accordance with ASC 280 *Segment Reporting* is shown separately as follows:

	December 31					
	2011			2010		
	Data Mining Services	Software Services	Total	Data Mining Services	Software Services	Total
Net Revenue	\$ 14,974	\$ 20,986	\$ 35,960	\$ 17,904	19,737	\$ 37,641
Gross profit	7,750	8,219	15,969	7,343	10,821	18,164
Net Income	562	596	1,158	3,996	5,888	9,884
Segment Assets	41,646	38,197	79,843	40,879	35,309	76,188
Depreciation & Amortization	4,566	392	4,958	3,724	246	3,970
Expenditure for segment assets	\$ 635	69	704	\$ 636	190	\$ 826

There is no inter-segment revenue. Segment assets include property and equipment and intangible assets.

**NOTE 18. VIE**

To satisfy PRC laws and regulations, the Company conducts certain business in the PRC through the VIEs.

Resulting from the Contractual Agreements signed between Jingwei Hengtong and Jingwei Communication, the Company includes the assets, liabilities, revenues and expenses of Jingwei Communication and its subsidiaries in China (the "VIEs") in its consolidated financial statements. The owners of Jingwei Hengtong and Jingwei Communication are different. Jingwei Hengtong is a wholly owned subsidiary of Jingwei International Investment (HK) Ltd, which is a wholly owned subsidiary of the Company. As of March 8, 2012, Mr. George Du, Chairman and CEO of the Company, owns 41.1% of the outstanding shares of the Company. Jingwei Communication has three shareholders, who are Mr. George Du owning 90%, Ms. Guilin Yin owning 2% ,and Ms. Ailing Yin owning 8%, of the outstanding shares of Jingwei Communication, respectively.

On February 8, 2007, Jingwei Hengtong and Jingwei Communications entered into a series of VIE agreements for a term of ten years. Upon the execution of these agreements, Jingwei HengTong became the primary beneficiary of Jingwei Communications, which allowed the Company to consolidate the financial results of Jingwei Communications and its subsidiaries. The agreements with Jingwei Communications are described as followings:

**Exclusive Technology Consulting Services Agreement.** Pursuant to the exclusive technology consulting services agreement between Jingwei HengTong and Jingwei Communications, Jingwei HengTong has the exclusive right to provide to Jingwei Communications technology consulting services related to the design, development and implementation of computer software and the maintenance of networks, and provide access to Jingwei HengTong's team of personnel who have extensive experience in information technology services. Under the terms of this agreement, Jingwei HengTong has agreed to pay all of the operating costs incurred by Jingwei Communications and Jingwei Communications shall pay bi-monthly service fees to Jingwei HengTong consisting of all income from the business operations. This agreement is for a ten year term expiring on February 8, 2017, with an automatic one (1) year renewal. During the term of this Agreement, Jingwei Communications shall not terminate this Agreement unless Jingwei HengTong engages in any gross negligence, fraud, other illegal acts or is confronted with the bankruptcy. Notwithstanding the aforesaid provisions, Jingwei HengTong may terminate this Agreement at any time with a written notice to Jingwei Communications within thirty (30) days in advance.

**Operating Agreement .** Pursuant to the operating agreement among Jingwei HengTong, Jingwei Communications and the shareholders of Jingwei Communications, Jingwei HengTong agrees to guaranty Jingwei Communications's performance of its obligations under contracts, agreements and transactions between Jingwei Communications and third party customers. In return for the guaranty, Jingwei Communications has pledged its accounts receivables and all of its assets to Jingwei HengTong. The shareholders of Jingwei Communications have also agreed to appoint persons recommended by Jingwei HengTong to serve on Jingwei Communications's Board of Directors and to appoint Jingwei HengTong's managers as managers of Jingwei Communications. In addition, Jingwei Communications and its shareholders agree that without the prior consent of Jingwei HengTong, Jingwei Communications will not engage in any transactions that could materially affect the assets, liabilities, obligations, rights or operations of Jingwei Communications, including, without limitation, incurrence or assumption of any indebtedness, sale or purchase of any assets or rights, including intellectual property rights, incurrence of any encumbrance on any of its assets or intellectual property rights in favor of a third party or transfer of any agreements relating to its business operations to any third party. This agreement is for a ten year term expiring on February 8, 2017, may be extended only upon Jingwei HengTong's written confirmation prior to the expiration of this Agreement and the extended term shall be determined by both parties hereto through mutual consultation. During the valid term of this Agreement, Jingwei Communications shall not terminate this Agreement. Notwithstanding the above stipulation, Jingwei HengTong shall have the right to terminate this Agreement at any time by issuing a thirty (30) days prior written notice to Jingwei Communications.

*Intellectual Property Assignment Agreement.* Under the intellectual property assignment agreement, Jingwei Communications assigned to Jingwei HengTong all of its interest and rights in certain intellectual property, including without limitation, certain trademarks, the ownership of Jingwei Communications's consumer database, and a software copyright and license. Jingwei HengTong paid RMB1,000 for the intellectual property transferred under this agreement. Jingwei Communications agreed to take all actions and pay all expenses in connection with registering the intellectual property in Jingwei HengTong's name.

*Intellectual Property Agreement.* Under the intellectual property agreement, Jingwei HengTong granted Jingwei Communications a non-exclusive, nonassignable and non-transferable license to use certain intellectual property, including without limitation, certain trademarks, consumer data bases, and a software copyright and license for use exclusively in the PRC. Jingwei HengTong will retain the sole and exclusive rights in the intellectual property, including any improvement, upgrades and derived products, no matter whether such products are created by Jingwei HengTong and Jingwei Communications. The annual license fee for all intellectual property is RMB1,000,000. Jingwei HengTong has the right to waive payment, or adjust the amount of any license fees at any time, during the course of the agreement. This agreement is for a five year term expiring on February 8, 2012, subject to early termination in accordance with the terms therein. On February 3, 2012, this agreement was renewed until February 7, 2013 by both parties. In the case of non-renewal of the agreement, Jingwei Communication shall not have any rights granted pursuant to this agreement and will refrain from further direct or indirect use of the intellectual properties identified in the Appendix of such agreement, upon and after the expiration or termination of such agreement. If that situation arises, which we deem as highly unlikely, Jingwei Communication's ability to conduct its business may be materially and adversely affected, and the Company may even have to deconsolidate the VIEs.

Jingwei Communications pledged all of their equity interests in Jingwei Communications to Jingwei HengTong to guarantee their obligations under the amended and restated loan agreement and Jingwei Communications's performance of its obligations under the technology consulting agreement. If Jingwei Communications or any of its shareholders breaches its respective contractual obligations under the amended and restated loan agreement or the technology consulting agreement, or upon the occurrence of one of the events regarded as an event of default under this agreement, Jingwei HengTong, as pledgee, will be entitled to certain rights, including the right to sell the pledged equity interests. The shareholders of Jingwei Communications agreed not to dispose of the pledged equity interests or take any actions that would prejudice Jingwei HengTong's interest, and to notify Jingwei HengTong of any events or upon receipt of any notices which may affect the shareholders' interest. The equity pledge agreement will expire two years after Jingwei Communications and its shareholders fully perform their respective obligations under the technology consulting agreement and the loan agreement.

*Exclusive Option Agreement.* Under the option agreement among Jingwei HengTong, Jingwei Communications and the shareholders of Jingwei Communications, the shareholders of Jingwei Communications irrevocably granted Jingwei HengTong or its designated person an exclusive option to purchase, to the extent permitted by PRC law, a portion or all of the equity interests in Jingwei Communications for the cost of the original purchase price paid for the equity interests; provided, however, if under applicable PRC laws and regulations an appraisal is required, then the purchase price shall be the minimum amount of consideration permitted by applicable PRC law. In addition, Jingwei Communications and its shareholders agree that without the prior consent of Jingwei HengTong, Jingwei Communications will not take certain actions that may have a material adverse effect on the equity interests or the liabilities, rights or operations of Jingwei Communications. Jingwei HengTong or its designated person has the sole discretion to decide when to exercise the option, whether in part or in full. This agreement is for a ten year term expiring on February 8, 2017, subject to early termination in accordance with the terms therein.

*Amended and Restated Loan Agreement.* Under the loan agreement between Jingwei HengTong and the shareholders of Jingwei Communications, the shareholders confirmed that Jingwei HengTong had made an RMB2,000,000 interest-free loan to the shareholders of Jingwei Communications solely for the shareholders to fund the capitalization of Jingwei Communications. The loan can only be repaid upon the transfer of the equity interests from the shareholders to Jingwei HengTong and the use of the proceeds from such transfer to repay the loan. This agreement is for a ten year term expiring on February 8, 2017, subject to acceleration and extension in accordance with the terms therein.

As a result of the Operating Agreement, the Company was granted with unconstrained decision making rights and power over key operational functions within the VIEs. As a result of Exclusive Technology Consulting Services Agreement the Company will bear all of the VIEs operating costs in exchange for 100% of the net income the VIEs. There is not any income or loss of the VIE attributed to other parties. The Company does not have any equity interest in our VIEs, but instead has the right to enjoy economic benefits similar to equity ownership through our contractual arrangements with VIEs and their shareholders.

These contractual arrangements may not be as effective in providing the Company with control over the VIEs as direct ownership. Due to its VIE structure, the Company has to rely on contractual rights to effect control and management of the VIEs, which exposes it to the risk of potential breach of contract by the shareholders of Jingwei Communications for a number of reasons. For example, their interests as shareholders of Jingwei Communications and the interests of the Company may conflict and the Company may fail to resolve such conflicts; the shareholders may believe that breaching the contracts will lead to greater economic benefit for them; or the shareholders may otherwise act in bad faith. If any of the foregoing were to happen, the Company may have to rely on legal or arbitral proceedings to enforce its contractual rights, including specific performance or injunctive relief, and claiming damages. Such arbitral and legal proceedings may cost substantial financial and other resources, and result in disruption of its business, and the Company cannot assure that the outcome will be in its favor. Apart from the above risks, there is no significant judgments or assumptions regarding enforceability of the contracts. Mr. George Du, Chairman of the Company, also is the controlling stockholder of Jingwei Communications, who holds 90% of its common shares.

In addition, as all of these contractual arrangements are governed by PRC law and provide for the resolution of disputes through either arbitration or litigation in the PRC, they 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 further limit the Company's ability to enforce these contractual arrangements. Furthermore, these contracts may not be enforceable in China if PRC government authorities or courts take a view that such contracts contravene PRC laws and regulations or are otherwise not enforceable for public policy reasons. In the event the Company is unable to enforce these contractual arrangements, it may not be able to exert effective control over the VIEs, and its ability to conduct its business may be materially and adversely affected, and the Company may even have to deconsolidate the VIE's. As of December 2011, the equity interest pledge agreement has been registered with the PRC regulator.

None of the assets of the VIEs can be used only to settle obligations of the consolidated VIEs. Conversely, liabilities recognized as a result of consolidating these VIEs do not represent additional claims on the Company's general assets. As of December 31, 2011 and December 31, 2010, respectively, there was \$8,297 and \$15,059 of liabilities of the Company's consolidated VIEs for which creditors did not have recourse to the general credit of the Company or its subsidiaries.

The following financial statement amounts and balances of the VIEs were included in the accompanying consolidated financial statements as of and for the years ended December 31:

	<u>Years Ended December 31,</u>	
	<u>2011</u>	<u>2010</u>
Total assets	\$ 53,147	\$ 53,122
Total liabilities	\$ 8,296	\$ 15,059
	<u>Years Ended December 31,</u>	
	<u>2011</u>	<u>2010</u>
Revenues	\$ 28,915	\$ 28,047
Net Income	\$ (218)	\$ 10,004

To fund the operations of VIEs in China, Jingwei HengTong has provided the VIEs with zero interest intercompany loans in 2007 and later periods in the total of \$11,456, with no specific repayment terms.

Most of our operations are conducted through our affiliated companies which the Company controls through contractual agreements in the form of variable interest entities. Current regulations in China permit our PRC subsidiaries to pay dividends to us only out of its accumulated distributable profits, if any, determined in accordance with their articles of association and PRC accounting standards and regulations. The ability of these Chinese affiliates to make dividends and other payments to us may be restricted by factors that include changes in applicable foreign exchange and other laws and regulations.



Under PRC law, our subsidiary may only pay dividends after 10% of its after-tax profits have been set aside as reserve funds, unless such reserves have reached at least 50% of its registered capital. Such cash reserve may not be distributed as cash dividends.

The PRC Income Tax Law also imposes a 10% withholding income tax on dividends generated on or after January 1, 2008 and distributed by a resident enterprise to its foreign investors, if such foreign investors are considered as non-resident enterprise without any establishment or place within China or if the received dividends have no connection with such foreign investors' establishment or place within China, unless such foreign investors' jurisdiction of incorporation has a tax treaty with China that provides for a different withholding arrangement.

As of December 31, 2011, there were \$29.9 million retained earnings in aggregate available for distribution, aside from \$3.8 million statutory reserve fund. The retained earnings from PRC subsidiaries and VIEs are subject to 10% PRC dividend withholding taxes upon distribution. There were no significant differences between retained earnings as determined in accordance with PRC accounting standards as compared to retained earnings as presented in our financial statements.

Most of our net revenues are currently generated in Renminbi. Any future restrictions on currency exchanges may limit our ability to use net revenues generated in Renminbi to make dividends or other payments in U.S. dollars or fund possible business activities outside China.

Foreign currency exchange regulation in China is primarily governed by the following rules:

Foreign Exchange Administration Rules (1996), as amended in August 2008, or the Exchange Rules;

Administration Rules of the Settlement, Sale and Payment of Foreign Exchange (1996), or the Administration Rules.

Under the Administration Rules, RMB is freely convertible for current account items, including the distribution of dividends, interest payments, trade and service related foreign exchange transactions, but not for capital account items, such as direct investments, loans, repatriation of investments and investments in securities outside of China, unless the prior approval of the SAFE is obtained and prior registration with the SAFE is made. Foreign invested enterprises like ours that need foreign exchange for the distribution of profits to their shareholders may affect payment from their foreign exchange accounts or purchase and pay foreign exchange rates at the designated foreign exchange banks to their foreign shareholders by producing board resolutions for such profit distribution. Based on their needs, foreign-invested enterprises are permitted to open foreign exchange settlement accounts for current account receipts and payments of foreign exchange along with specialized accounts for capital account receipts and payments of foreign exchange at certain designated foreign exchange banks.

#### **NOTE 19. MAJOR CUSTOMERS**

The Company had sales to three customers that accounted for approximately 29% and 25% of net sales during the year ended December 31, 2011 and 2010, respectively. These customers accounted for approximately 4% and 13% of accounts receivable balance as of December 31, 2011 and 2010, respectively.

#### **NOTE 20. MAJOR SUPPLIERS**

The Company had purchases from three vendors that accounted for approximately 40% and 33% of purchases during the year ended December 31, 2011 and 2010, respectively. These vendors accounted for approximately 42% and 17% of account payable balance as of December 31, 2011 and 2010, respectively.

#### **NOTE 21. COMMITMENTS AND CONTINGENCIES**

Lease Commitment

Future minimum lease payments under non-cancellable operating leases as of December 31, 2011 are as follows (in thousands):

Within 1 year	\$	271
Within 1-2 years		48
Thereafter		-
	\$	<u>319</u>

**NOTE 22. SUBSEQUENT EVENTS**

On January 6, 2012, Jingwei announced the receipt of a letter from the Chairman of the Board of Directors and Interim Chief Executive Officer regarding a proposed transaction by which the Company would voluntarily de-list from the NASDAQ Global Market (“Going Private”).

On January 12, 2012, Mr. Yong Xu resigned from his position as Chief Financial Officer of the Company, and he agreed to serve as an advisor to the Company before the new successor is appointed.

On February 29, 2012, the company paid the balance of the other payables related to the acquisition of Haicom, totaling \$1,259.

On March 30, 2012, the Company announced that its previously disclosed “going private” transaction designed to eliminate Jingwei’s status as a public company in the U.S. has been consummated.

On March 30, 2012, following suspension of trading in Jingwei’s common stock on the NASDAQ, the Company effected a 1 for 20,000 reverse stock split, with the result that all shareholders owning less than 20,000 shares as of 7:00am (EDT) on the same day, will receive a cash payment of \$2.20 per shares from a fund established by Jingwei with the exchange agent for the transaction. Immediately following the reverse stock split, Jingwei effected a 20,000 for 1 forward stock split, with the result that all shareholders owning more than 20,000 shares as of 7:01am (EDT) on the same day will continue to hold the same number of shares as they did prior to both stock splits.

In March 2012, two putative class actions were filed in District Court for Clark County, Nevada, against the Company and a number of the Company’s directors and current and former executive officers on behalf of all owners of our common shares (other than the defendants), seeking injunctive and other relief with regard to the Going Private proposal made by Mr. Du. The cases are in preliminary stages according the Company is unable to predict the outcome of these actions or whether the Company will incur any liability associated with the actions or estimates the effect such outcome would have on the Consolidate Financial Statements. The Company denies liability and intends to vigorously defend itself.

Except for the above events, the Company has evaluated subsequent events through the issuance of the consolidated financial statements and no subsequent event is identified.

**Exhibit 21.1**

**List of Subsidiaries**

<u>Name of Subsidiary</u>	<u>Jurisdiction of Organization</u>
Jingwei International Investments Limited	British Virgin Islands
Jingwei International Investment (HK) Ltd.	Hong Kong
Jingwei Hengtong Technology (Shenzhen) Co. Ltd.	People's Republic of China

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**EXHIBIT 31.1**  
**CERTIFICATION**

I, George (Jianguo) Du, certify that:

1. I have reviewed this Annual Report on Form 10-K of Jingwei International Limited and its subsidiaries;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: April 16, 2012

By: /s/ George (Jianguo) Du  
Name: George (Jianguo) Du  
Title: Chairman and Chief Executive Officer

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**EXHIBIT 31.2**

**CERTIFICATION**

I, Suwen Li certify that:

1. I have reviewed this Annual Report on Form 10-K of Jingwei International Limited and its subsidiaries;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: April 16, 2012

By: /s/ Suwen Li  
Name: Suwen Li  
Title: Interim Chief Financial Officer and Finance  
Controller

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**EXHIBIT 32.1**

**WRITTEN STATEMENT  
PURSUANT TO  
18 U.S.C. SECTION 1350**

In connection with Annual Report of Jingwei International Limited and its subsidiaries (the "Company") on Form 10-K for the year ended December 31, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, George (Jianguo) Du, Chairman and Chief Executive Officer of the Company certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13a-14(b) or 15d-14(b) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: April 16, 2012

By: /s/ George (Jianguo) Du  
Name: George (Jianguo) Du  
Title: Chairman and Chief Executive Officer

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**EXHIBIT 32.2**

**WRITTEN STATEMENT  
PURSUANT TO  
18 U.S.C. SECTION 1350**

In connection with Annual Report of Jingwei International Limited and its subsidiaries (the "Company") on Form 10-K for the period ended December 31, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Suwen Li, Interim Chief Financial Officer and Finance Controller of the Company certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13a-14(b) or 15d-14(b) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: April 16, 2012

By: /s/ Suwen Li  
Name: Suwen Li  
Title: Interim Chief Financial Officer  
and Finance Controller

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