HL Technology Group Limited
泓 淋 科 技 集 團 有 限 公 司 *

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1087)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2010

2010 FINANCIAL HIGHLIGHTS

- Strong sales momentum recorded in 2010 across all our key products resulting in consolidated revenue increasing from RMB872.4 million in 2009 to RMB1,414.0 million in 2010, representing a year-on-year increase of 62.1%
- Consolidated gross profit margin increased from 22.7% in 2009 to 23.0% in 2010
- Profit attributable to shareholders of the Company increased from RMB88.3 million in 2009 to RMB152.7 million in 2010, representing a year-on-year increase of 72.9%
- The basic earnings per share were RMB0.275 in 2010, representing an increase of 62.7% from RMB0.169 in 2009

The board (the "Board") of directors (the "Directors") of HL Technology Group Limited (the "Company") is pleased to announce the consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2010, together with comparative figures for the preceding financial year ended 31 December 2009. The consolidated results of the Group have been reviewed by the Company's audit committee.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	NOTES	**2010**	2009
		RMB'000	*RMB'000*
Revenue	*3*	**1,413,960**	872,396
Cost of sales		**(1,088,346)**	(674,422)
Gross profit		**325,614**	197,974
Other gains and losses	*4*	**(2,579)**	8,273
Distribution and selling expenses		**(27,233)**	(20,480)
Administrative and general expenses		**(72,525)**	(47,978)
Research and development expenses		**(30,932)**	(27,278)
Finance costs	*5*	**(19,090)**	(13,924)
Profit before taxation	*6*	**173,255**	96,587
Income tax expenses	*7*	**(18,234)**	(8,090)
Profit for the year		**155,021**	88,497
Other comprehensive income, net of income tax			
Exchange difference on translating foreign operations		**742**	—
Total comprehensive income for the year		**155,763**	88,497
Profit attributable to:			
— Owners of the Company		**152,670**	88,265
— Non-controlling interests		**2,351**	232
		155,021	88,497
Total comprehensive income attributable to:			
— Owners of the Company		**153,412**	88,265
— Non-controlling interests		**2,351**	232
		155,763	88,497
Earnings per share — Basic (RMB cents)	*9*	**27.5**	16.9

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

	NOTES	**2010**	2009
		RMB'000	*RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**448,875**	308,576
Prepaid lease payments		**30,108**	16,544
Intangible assets		**9,672**	5,821
Deferred tax assets		**2,716**	3,904
		491,371	334,845
CURRENT ASSETS			
Inventories		**178,541**	115,594
Trade and other receivables	*10*	**725,544**	423,521
Prepaid lease payments		**642**	360
Restricted bank balances		**424,714**	41,471
Bank balances and cash		**160,408**	73,744
		1,489,849	654,690
CURRENT LIABILITIES			
Trade and other payables	*11*	**384,569**	302,007
Other financial liabilities		**1,879**	—
Income tax liabilities		**8,195**	7,139
Bank borrowings		**663,106**	353,439
		1,057,749	662,585
NET CURRENT ASSETS (LIABILITIES)		**432,100**	(7,895)
TOTAL ASSETS LESS CURRENT LIABILITIES		**923,471**	326,950
CAPITAL AND RESERVES			
Share capital	*12*	**97,401**	60,943
Reserves		**812,487**	255,615
Equity attributable to owners of the Company		**909,888**	316,558
Non-controlling interests		**13,583**	10,392
TOTAL EQUITY		**923,471**	326,950

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL AND BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Company is a limited liability company incorporated in the Cayman Islands on 16 November 2007.

The address of the registered office of the Company is Scotia Centre, 4th Floor, P.O. Box 2804, George Town, Grand Cayman KY1-1112, Cayman Islands. The principal place of business of the Company is Suite 06–12, 33/F., Shui On Centre, Nos. 6–8 Harbour Road, Wanchai, Hong Kong.

The Group is principally engaged in the manufacture and sales of signal cable assembly, power cord assembly, wire and cable products and connectors.

Pursuant to the group reorganization (the "Group Reorganization") to rationalize the structure of the Group in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the Group on 30 January 2008 and details of which are set out in the prospectus dated 3 November 2010 issued by the Company (the "Prospectus").

The shares of the Company have been listed on the Main Board of the Stock Exchange since 16 November 2010 (the "Listing").

The consolidated financial statements of the Group are presented in Renminbi ("RMB"), the functional currency of the Company and its principal subsidiaries.

The consolidated financial statements have been prepared under the historical cost basis, except for certain financial instruments which are measured at fair value.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and the Hong Kong Companies Ordinance.

2. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied the following new and revised standards, amendments and interpretations issued by the IASB:

IFRSs (Amendments)	Amendments to IFRS 5 as part of Improvements to IFRSs issued in 2008
IFRSs (Amendments)	Improvements to IFRSs issued in 2009
IAS 27 (Revised)	Consolidated and Separate Financial Statements
IAS 39 (Amendment)	Eligible hedged Items
IFRS 1 (Amendment)	Additional Exemptions for First-time Adopters
IFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
IFRS 3 (Revised)	Business Combinations
IFRIC-INT 17	Distributions of Non-cash Assets to Owners

The application of the above new and revised Standards and Interpretations in the current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

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

IFRSs (Amendments)	Improvements to IFRSs 2010[1]
IFRS 1 (Amendments)	Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters[2]
IFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[3]
IFRS 7 (Amendments)	Disclosures — Transfers of Financial Assets[3]
IFRS 9	Financial Instruments[4]
IAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[5]
IAS 24 (Revised)	Related Party Disclosures[6]
IAS 32 (Amendments)	Classification of Rights Issues[7]
IFRIC 14 (Amendments)	Prepayments of a Minimum Funding Requirement[6]
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments[2]

1 Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate
2 Effective for annual periods beginning on or after 1 July 2010
3 Effective for annual periods beginning on or after 1 July 2011
4 Effective for annual periods beginning on or after 1 January 2013
5 Effective for annual periods beginning on or after 1 January 2012
6 Effective for annual periods beginning on or after 1 January 2011
7 Effective for annual periods beginning on or after 1 February 2010

IFRS 9 "Financial Instruments" introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The Standard requires all recognized financial assets that are within the scope of IAS 39 "Financial Instruments: Recognition and Measurement" to be measured at either amortized cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows; and (ii) have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding are generally measured at amortized cost. All other debt investments and equity investments are measured at fair value. The application of IFRS 9 might affect the classification and measurement of the Group's financial assets.

In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specially, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liabilities that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

The Directors anticipate that the application of other new or revised standards and interpretations will have no material impact on the results and the financial position of the Group.

3. REVENUE AND SEGMENT INFORMATION

(a) Revenue

Revenue represents the net amounts received and receivable for sales of goods sold to customers during the year.

(b) Segment information

The Group's chief operating decision maker has been identified as the chief executive officer of the Company who reviews the business as the following reportable segments by products:

— External signal cable assembly

— Internal signal cable assembly

— Power cord assembly

— Wire and cable

— Connectors

— Antennas

— Other products

The above segments have been identified on the basis of internal management reports prepared and regularly reviewed by the chief executive officer of the Company when making decisions about allocating resources and assessing performance of the Group.

i. ***Information about reportable segment revenues, results, assets and liabilities***

The following table sets forth a breakdown of the Group's revenue and results by reportable segment during the year:

	External signal cable assembly	**Internal signal cable assembly**	**Power cord assembly**	**Wire and cable**	**Connectors**	**Antennas**	**Other products**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2010								
Segment revenue	**353,376**	**307,049**	**246,777**	**348,306**	**46,443**	**11,798**	**100,211**	**1,413,960**
Segment results	**79,867**	**85,784**	**40,276**	**78,245**	**14,637**	**1,233**	**25,572**	**325,614**
Year ended 31 December 2009								
Segment revenue	322,490	126,630	170,156	172,069	36,145	—	44,906	872,396
Segment results	74,229	32,308	31,769	46,056	9,871	—	3,741	197,974

Revenue reported above represents revenue generated from external customers. There were no inter-segment sales during the two years ended 31 December 2010.

The segment results represent segment revenue less segment cost of sales determined on a standard cost basis, which represents the internally generated financial information regularly reviewed by the chief operating decision maker. However, the other gains and losses, distribution and selling expenses, administrative and general expenses, research and development expenses, finance costs and share of loss of an associate are not entirely allocated to each reportable segment. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

The reportable segment results are reconciled to profit after taxation of the Group as follows:

	2010	2009
	RMB'000	*RMB'000*
Reportable segment results	**325,614**	197,974
Unallocated income and expenses:		
— Other gains and losses	**(2,579)**	8,273
— Distribution and selling expenses	**(27,233)**	(20,480)
— Administrative and general expenses	**(72,525)**	(47,978)
— Research and development expenses	**(30,932)**	(27,278)
— Finance costs	**(19,090)**	(13,924)
Profit before taxation	**173,255**	96,587
Income tax expenses	**(18,234)**	(8,090)
Profit for the year	**155,021**	88,497

As no discrete information in respect of segment assets and liabilities and other information is for the assessment of performance and allocation of resources for different reportable segments and thus, other than reportable segment revenue and results as disclosed above, no analysis of segment assets and liabilities is presented.

ii. Geographical information

The Group's products are produced from the production facilities located in the PRC. All of the Group's non-current assets are located in the PRC and thus, no geographical information has been presented.

The following table provides an analysis of the Group's revenue by geographical location of customers, irrespective of the origin of the goods:

	2010	2009
	RMB'000	*RMB'000*
Analyzed by:		
China, excluding Hong Kong and Taiwan	**929,603**	643,096
Korea	**210,913**	115,827
Taiwan	**178,883**	4,704
Hong Kong	**25,664**	53,924
Other countries and areas	**68,897**	54,845
	1,413,960	872,396

4. OTHER GAINS AND LOSSES

	2010	2009
	RMB'000	*RMB'000*
Interest income	**436**	455
Government grants	**5,267**	1,360
Gains (losses) on disposals of property, plant and equipment	**355**	(614)
Net foreign exchange losses	**(2,832)**	(457)
Gain on disposal of technology know-how	**—**	4,500
Changes in fair value of derivative financial instruments	**(5,805)**	3,029
	(2,579)	8,273

5. FINANCE COSTS

	2010	2009
	RMB'000	*RMB'000*
Interest on borrowings wholly repayable within five years	**20,076**	14,019
Less: Amount capitalized in respect of cost of qualified assets	**(986)**	(95)
	19,090	13,924

During the year ended 31 December 2010, the capitalization rate on funds borrowed generally was from 5.10% to 6.84% (2009: 6.13%).

6. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging (crediting):

	2010	2009
	RMB'000	*RMB'000*
Staff cost (including directors' emoluments)		
— Salaries and other benefits	**148,040**	69,647
— Retirement benefit scheme contributions	**2,944**	4,754
— Share-based payments	**7,147**	7,147
	158,131	81,548
Depreciation and amortization:		
— Property, plant and equipment	**35,748**	28,192
— Intangible assets (included in administrative and general expenses)	**1,563**	674
	37,311	28,866
Release of prepaid lease payments	**537**	360
Cost of inventories recognized as an expense (note below)	**1,088,346**	674,422
Auditors' remuneration	**2,409**	3,726
(Reversal of) allowances for doubtful debts relating to:		
— trade receivables	**(193)**	347
— other receivables	**—**	(340)
	(193)	7

Note: Included in the cost of inventories recognized as an expense is an amount of approximately RMB3,893,000 for the year ended 31 December 2010 related to the reversal of write-down of closing inventories (2009: write-down of inventories of approximately RMB1,334,000).

7. INCOME TAX EXPENSES

	2010 *RMB'000*	2009 *RMB'000*
Current tax		
— PRC Enterprise Income Tax ("EIT")	**19,268**	7,559
— Overprovision of EIT in prior years	**(2,222)**	—
— Withholding tax paid	**—**	3,090
	17,046	10,649
Deferred tax		
— Current year	**1,014**	(2,559)
— Attributable to a change in tax rate	**174**	—
	1,188	(2,559)
	18,234	8,090

No provision for Hong Kong Profits Tax has been made as the Group did not have any assessable profit arising in Hong Kong during the year.

The statutory tax rate of 泓淋科技有限公司 (Honglin Technology Co., Ltd.*, "Honglin Technology"), a company established in Taiwan on 21 July 2010, was 17%. No provision for Taiwan income tax has been made as the company did not have any taxable income for the year.

The statutory tax rate of Hongxin International Limited ("Hongxin International"), a company established in Hong Kong on 22 February 2010, was 16.5%. No provision for Hong Kong Profits Tax as Hongxin International did not have any taxable income for the year.

PRC EIT in respect of the Company's PRC subsidiaries has been calculated at the applicable tax rates on the estimated assessable profit for the year, based on existing legislation interpretations and practice in respect thereof.

8. DIVIDENDS

No dividend has been paid or proposed by the Company during the two years ended 31 December 2010.

9. EARNINGS PER SHARE

The calculation of the basic earnings per share for the year ended 31 December 2010 is based on the profit attributable to owners of the Company for the year ended 31 December 2010 and on the weighted average of 555,438,576 shares (2009: 523,260,002 shares) in issue during the year.

The weighted average number of shares for the purpose of calculating the basic earnings per share for the year ended 31 December 2009 and 31 December 2010 has been determined as if the effect of the five-for-one Share Subdivision (as defined in note 12 (b)(i)) and the Capitalization Issue (as defined in note 12 (b) (ii)) have been adjusted retrospectively.

There were no potential dilutive shares in existence during the year ended 31 December 2009 and 31 December 2010 and therefore, no diluted earnings per share amounts have been presented.

10. TRADE AND OTHER RECEIVABLES

	Notes	2010 RMB'000	2009 RMB'000
Trade receivables	*a*		
— Related parties		**—**	6,756
— Non-related parties		**534,258**	287,178
		534,258	293,934
Less: Allowances		**(1,308)**	(3,124)
		532,950	290,810
Bills receivable	*b*	**137,069**	77,356
Advance to suppliers		**33,848**	21,943
Value added tax ("VAT") receivable		**7,445**	9,352
Consideration receivable in respect of disposal of 東莞泓淋電子有限公司 (Dongguan Honglin Electronic Co., Ltd.)		**—**	10,000
Deposits and prepayments			
— Related parties		**—**	1,600
— Non-related parties		**11,981**	3,452
		11,981	5,052
Advances to third parties		**10**	2,300
Advances to staff		**1,271**	—
Other receivables			
— Related parties		**—**	6,476
— Non-related parties		**970**	232
		970	6,708
		725,544	423,521

Notes:

(a) Trade receivables

The aged analysis of the Group's trade receivables (net of allowances for doubtful debts) presented based on the invoice date as at the end of the reporting period are as follows:

	2010 RMB'000	2009 RMB'000
Within 3 months	**477,577**	265,813
Over 3 months but within 6 months	**54,001**	24,418
Over 6 months but within 1 year	**1,372**	569
Over 1 year but within 2 years	**—**	10
	532,950	290,810

(b) ***Bills receivable***

The aged analysis of the Group's bills receivable presented based on the issue date as at the end of the reporting period are as follows:

	2010	2009
	RMB'000	*RMB'000*
Within 3 months	**48,277**	40,173
Over 3 months but within 6 months	**88,792**	37,183
	137,069	77,356

11. TRADE AND OTHER PAYABLES

	Notes	**2010**	2009
		RMB'000	*RMB'000*
Trade payables	*a*		
— Related parties		**—**	242
— Non-related parties		**204,386**	135,882
		204,386	136,124
Bills payable	*b*	**119,789**	88,757
Receipts in advance from customers		**2,299**	1,068
Other tax payables		**4,075**	3,935
Payables for acquisition of property, plant and equipment			
— Related parties		**—**	388
— Non-related parties		**30,589**	12,241
		30,589	12,629
Payrolls and staff cost payables		**12,054**	10,989
Accrued expenses		**6,787**	7,682
Other payables		**—**	
— Related parties		**—**	34,604
— Non-related parties		**4,590**	6,219
		4,590	40,823
		384,569	302,007

Notes:

(a) Trade payables

The aged analysis of the Group's trade payables presented based on the invoice date as at the end of the reporting period are as follows:

	2010	2009
	RMB'000	*RMB'000*
Within 3 months	**191,276**	127,173
Over 3 months but within 1 year	**12,437**	8,402
Over 1 year but within 2 years	**310**	549
Over 2 years	**363**	—
	204,386	136,124

(b) Bills payable

The aged analysis of the Group's bills payable presented based on the issue date as at the end of the reporting period are as follows:

	2010	*2009*
	RMB'000	*RMB'000*
Within 3 months	**57,389**	47,098
Over 3 months but within 6 months	**62,400**	41,659
	119,789	88,757

12. SHARE CAPTIAL

	Number of shares	**Share capital**
		US$'000
Ordinary shares		
Authorized		
As at 1 January 2009 and 31 December 2009 (USD0.10 each)	500,000,000	50,000
Subdivision of shares on 25 October 2010	2,000,000,000	—
As at 31 December 2010 (USD0.02 each)	2,500,000,000	50,000

	Number of shares	**Share capital**	
		US$'000	*RMB'000*
Issued and fully paid			
As at 1 January 2009 and 31 December 2009 (USD0.10 each)	89,317,490	8,931	60,943
Issue of shares on 8 June 2010	2,857,422	286	1,951
Subdivision of shares on 25 October 2010	368,699,648	—	—
Issue of shares on Capitalization Issue	79,125,440	1,583	10,588
Issue of shares on Listing	180,000,000	3,600	23,919
As at 31 December 2010 (USD0.02 each)	720,000,000	14,400	97,401

The movements in the Company's authorized and issued share capital from 1 January 2009 to 31 December 2010 are as follows:

(a) On 8 June 2010, the Company issued and allotted 2,857,422 ordinary shares of US$0.10 each, credited as fully paid, to Samford Management Limited for a consideration of US$5,000,000 (equivalent to approximately RMB34,140,000) to provide for additional working capital to the Company.

(b) Pursuant to the written resolutions of all shareholders entitled to vote at general meetings of the Company, which were passed on 25 October 2010, the following changes in the authorized and issued share capital of the Company took place:

i. Subdivision of shares (the "Share Subdivision")

On 25 October 2010, each ordinary share of US$0.10 in the authorized and issued share capital of the Company was subdivided into five ordinary shares of US$0.02 each such that its resultant authorized share capital was US$50,000,000 divided into 2,500,000,000 ordinary shares of US$0.02 each and its resultant issued share capital was approximately US$9,218,000 divided into 460,874,560 ordinary shares of US$0.02 each.

ii. Capitalization issue (the "Capitalization Issue")

Subsequent to the Share Subdivision, an amount of approximately US$1,583,000 standing to the credit of the share premium account of the Company was capitalized and applied to pay up in full at par a total of 79,125,440 new shares for allotment and issue to the shareholders of the Company whose names appeared on the register of members of the Company on 25 October 2010.

(c) On 16 November 2010, the Company issued 180,000,000 new shares of US0.02 each at issue price of HKD2.8 per share pursuant to the Listing of the Company's shares.

All of the shares issued by the Company during the period subsequent to the date of incorporation of the Company rank pari passu with the then existing shares in all respects.

13. SIGNIFICANT SUBSEQUENT EVENT

On 21 February 2011, the Directors of the Company announced that, Weihai Honglin Electronic Co., Ltd. ("Weihai Electronic"), a wholly-owned subsidiary of the Company, has entered into the capital increase agreement on 21 February 2011, pursuant to which Weihai Electronic has agreed to make capital contribution of approximately RMB58.60 million (equivalent to approximately HKD69.15 million) in aggregate to 天津日拓汽車電裝有限公司 (Tianjin Rituo Automotive Electronics Co., Ltd., "Tianjin Rituo"). Subsequently, Tianjin Rituo was owned as to 55.0% by Weihai Electronic, 31.5% by Mr Wang Xiang and 15.5% by Mr Wang Weiguo, respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Overview

We are one of the world's leading "one-stop" providers of signal transmission and connectivity solutions and related products. We design, manufacture and sell a broad and comprehensive range of external and internal signal cable assembly, power cord assembly, connectors, wireless antennas and related products for use mainly in the 3Cs (Computing, Communication and Consumer) industries such as (i) personal computers and notebooks, (ii) LCD and LED TV, (iii) mobile handsets and (iv) digital cameras. We have leading market share in the global high-end consumer electronics industry for several of our key products including external signal cable assembly, notebook internal signal cable assembly, power cord assembly and signal transmission wire & cable products.

Product Types

Our existing products are divided into six major types: external signal cable assembly, internal signal cable assembly, power cord assembly, wire & cable, connectors and antennas.

External Signal Cable Assembly

External signal cable assembly for the customer electronics market is used for transmitting signals to a display, TV and digital products and is widely used in mobile handsets, digital cameras, DVD players, personal computers, notebook and tablet computers, integrated amplifier, digital audio and television sets. The principal product types include RGB assembly, DVI assembly, HDMI assembly, USB assembly and DC assembly. With the recovery of global economy, according to Frost & Sullivan, it is estimated that the compound annual growth rate will be remained at 16.9% from 2009 to 2013. Our Group is the second largest manufacturer of external signal cable assembly products in the world in terms of revenue for the first half of 2010 with market share of 21.8%.

In recent years, the external signal cable assembly manufacturers have increasingly focused on technological innovation with almost every version of products been continuously upgraded to a higher standard. For example, the USB assembly has been developed from the initial USB1.0 to USB2.0 and more lately, USB3.0 products; HDMI assembly has also been developed from the initial HDMI1.1 to HDMI1.4. As one of the leading companies in the industry with dedicated research for high frequency signal transmission, we have succeeded in development and sale of the most advanced external signal transmission products such as USB3.0 and HDMI1.4 products.

Internal Signal Cable Assembly

Internal signal cable assembly products are signal connecting cables mainly used internally between the main board and LCD monitor in notebooks, mobile handsets and digital cameras and can transmit audio-frequency and video signals. The main product types include LVDS mini-coaxial cable assembly, slim-wire harness assembly and flexible flat cable (FFC) assembly. The global market of internal signal cable assembly is in a stage of rapid development, and it is expected to maintain a CAGR of 17.0% from 2009 to 2013. According to the statistics of Frost & Sullivan, our Group is the third largest manufacturer of notebook internal signal cable assembly products in the world in terms of revenue for the first half of 2010 with a market share of 19.0%.

Prior to our Group entry into notebook signal cable assembly market in 2008, Taiwan manufacturers have traditionally occupied a significant part of market shares of this market. Over the past few years, our Group has gradually become the industry leader through continuously strengthening our technological innovation and taking advantages of cost control. In 2010, the Company developed its own automatic Coaxial cable production line and automatic Teflon wire production line, and improved its technical know-how production efficiency and its capacity of quality control.

Power Cord Assembly

A power cord assembly is assembled with power supply connector and power cable and is used to supply electricity to consumer electronic equipment products. It is used widely and is required to be strictly in compliance with the safety rules of various countries. According to Frost & Sullivan, it is estimated that the compound annual growth rate will be remained at 18.2% from 2009 to 2013, our Group is the five largest manufacturer of power cord assembly in terms of revenue for the first half of 2010 with market share of 5.6%.

Our power cord assembly products have so far received safety certifications in 29 countries and territories including CCC (China), C-UL (US & Canada), BSI (UK), BSMI (Taiwan), KC (Korea), PSE (Japan), SAA (Australia), CE (EU), IRAM (Argentina) and SABS (South Africa). Our power cord assembly products are able to satisfy the requirements of customers from across all the major continents of the world. Leveraging on the strong capabilities of research and development, production and product quality assurance, the sales volume and market shares of such product have been continuously increased.

Wire & Cable

Wire & Cable are the intermediate products to be assembled with connector for the production of the cable assembly products. The main product types include communication cables, consumer electronic cables, automotive cable and power cord. According to the statistics of Frost & Sullivan, the CAGR of global signal transmission wire & cable is expected to reach 33.5% from 2009 to 2013, and the high frequency date communication cable will keep strong growth in the next few years. Based on the revenue for the first half of 2010, our Group is the third largest manufacturer of global signal transmission wire & cable in the world in terms of revenue for the first half of 2010 with a market share of 7.3%.

Our Group adopts a vertically integrated production process, comprising the production of plastic materials, drawing of copper, bunching of copper, cabling and braiding. Such vertically integrated business model allows us to highly coordinate research and development and production activities, lower our overheads and production costs, control the product quality and enhance the competitiveness of enterprises.

Our Group will also continue to strengthen the research and development of products and investment, and maintain a leading level in industry. The transmission rate of high frequency date communication cable can reach or even exceed 10 Gigabit Ethernet and it has a lower frequency for attenuation and skew delay. We have patented solution for surge at a high frequency. High speed cable with seven channels (MINI-DP) which was developed towards the end of 2010 could realize the transmission rate of 70Gbit per second, support the conversion and the transmission of 3D images, which is widely viewed in the industry as the future development trend of global high-end date transmission cable. To capture the business opportunities as a result of greater emphasis on environmental protection, our Group also successfully developed low smoke halogen-free insulating materials used for wire & cable insulating and jacketing in October 2010, enabling us to become one of the few manufacturers who are capable of producing such products in the world and successfully driving the sales and growth of other products of our Group.

Connectors

Connectors are adopted to connect two electronic ports to transmit power or signals, which mainly include board-side connectors and terminal connectors. All of our connectors for external sale are board-side connectors while we use terminal connectors for internal production of our own signal cable assembly with wire & cable. The main board-side connectors produced by the Company include D SUB connectors, DVI connectors, USB connectors and HDMI connectors. According to Frost & Sullivan, it is estimated that the compound annual growth rate will be remained at 21.9% from 2009 to 2013.

For production of our connectors, we are able to conduct a vertically integrated production process in-house starting from product development, mold design, mold manufacture, metal stamping, plastic injection, automation development and product assembly. This vertically integrated strategy enables us to, among others, conduct highly coordinated research and development and production activities reduce our operation expense and production cost, as well as has better control over the quality of our products, and thereby increasing our overall competitiveness.

Our Group has committed substantial research and development resources for connectors; we conduct our own design using various instruments such as 3D design software and analogy analysis software and contraction structure analogy. Our Group owns state-level experimental facilities and full installations that could satisfy each functional requirement of connector. We established a dedicated connector research and development centre in Taipei in July 2010, focusing on the research and development on the world's leading connecting technology. For production process, we improve efficiency through mold forming and automation process, and to reduce cost and enhance our production efficiency by introducing advanced technology such as mechanical arms.

Antennas

Our Group mainly produce small wireless antenna, principally used in notebook and tablet computer, router, GPS and mobile handsets. The rapid development of various wireless communication technologies boosts the vigorous growth of antenna market. According to Frost & Sullivan, the compound annual growth rate will be 6.8% from 2009 to 2013. Antenna is our Group's newly developed product in 2010, which has been adapted to many products, such as notebook internal antenna, wireless router antenna, GPS navigation antenna and mobile handsets antenna. The antenna products of our Group extend from high-end consumer electronic field into communication electronic field, and marked our ability to extend our "one-stop" solutions to wireless transmission and connection, in addition to our wired solutions.

The Group established antenna research and development and production facility in Taipei, Shenzhen and Suzhou. We established a dedicated research and development centre in Taipei focusing on antenna technology for use in mobile handsets, notebook, tablet computer, GPS and router. While our research and development centers in Shenzhen and Suzhou focus on antenna products development. Such research and development and production facility could enable our Group rapidly enter into market leading edge of the product.

Future Outlook

The global consumer electronics market have rebounded strongly in 2010 and is expected to record healthy and sustainable growth in the foreseeable future. That bodes well for the development of our Group and besides participating in the growth of the industry, we will also continue to strive to increase market share of our products in our target markets.

Our Group has in place a comprehensive "one-stop" speed transmission and connecting solutions and product portfolio. We will continue to increase our Group's leading position in current market by leveraging on strong R&D advantage, price competitive advantage as well as stable and high quality customer base.

Going forward, we will continue to strengthen our international marketing network to expand our Group's customer base particularly in Japan, Europe and United States; we will also through our wireless antenna products, extend our reach into the communications electronics, and establish a wireless communications research center in Shenzhen.

For new products and markets, (i) we have towards the end of 2010 started sale of our low smoke halogen free insulating materials which we believe will be widely adopted in the future for cable insulating and jacketing; (ii) we will continue to leverage on our internal R&D capabilities to develop photovoltaic connectors for use in solar energy products; (iii) we have also entered into the automobile wiring harness market for the PRC automobile industry by signing an agreement to invest in a domestic automobile wiring harness manufacturer in February 2011; and (iv) we are in the final stages of our research and development project of a range of specialty power cords which are tailored to be applied in many specialized fields, such as transportation, wind power and solar generation.

Financial Review

Revenue

Revenue represents the net amounts received and receivable for sales of our signal cable assembly, wire & cable and connector products to our customers. We mainly derive our revenue from the manufacture and sale of a broad line of cable and connector products that are used mainly by our customers in the consumer electronics industry. Our products consist primarily of six product groups, namely, external signal cable assembly, internal signal cable assembly, power cord assembly, wire & cable (primarily for signal transmission purpose), connectors and antennas. We plan to expand our product offerings to include automotive wiring harness, specialty power cables and solar connectors.

The following table sets forth a breakdown of our revenue by product type for the periods indicated:

	2010		2009		
	Revenue *RMB'000*	**% of Revenue**	Revenue *RMB'000*	% of Revenue	**Change in %**
External signal cable assembly	**353,376**	**25.0**	322,490	37.1	9.6
Internal signal cable assembly	**307,049**	**21.7**	126,630	14.5	142.5
Power cord assembly	**246,777**	**17.5**	170,156	19.5	45.0
Wire & cable	**348,306**	**24.6**	172,069	19.7	102.4
Connectors	**46,443**	**3.3**	36,145	4.1	28.5
Antennas	**11,798**	**0.8**	—	—	—
Others	**100,211**	**7.1**	44,906	5.1	123.2
Total	**1,413,960**	**100.0**	872,396	100.0	62.1

Revenue increased by approximately RMB541.6 million, or approximately 62.1%, from approximately RMB872.4 million for the year ended 31 December 2009 to approximately RMB1,414.0 million for the year ended 31 December 2010. The increase was primarily due to overall increase in customer demands, growing customer base and our expansion in production capacity as the general economy grew at a relatively faster pace during 2010 as compared to 2009, during which customer demands were lower as the economy just started to recover from the economic downturn and the growth of the consumer electronics industry was relatively slower. Specifically,

	2010		2009		
	Revenue *RMB'000*	**% of Revenue**	Revenue *RMB'000*	% of Revenue	**Change in %**
RGB assembly	**174,379**	**49.3**	156,223	48.4	11.6
DVI assembly	**90,445**	**25.6**	76,313	23.7	18.5
HDMI assembly	**974**	**0.3**	854	0.3	14.1
USB assembly	**75,065**	**21.2**	64,622	20.0	16.2
DC assembly	**12,513**	**3.6**	24,478	7.6	-48.9
	353,376	**100.0**	322,490	100.0	9.6

- sales of external signal cable assembly products increased by RMB30.9 million from RMB322.5 million for the year ended 31 December 2009 to RMB353.4 million for the year ended 31 December 2010, primarily due to an approximately 10.9% increase in sales volume of our external signal cable assembly products in 2010 as customer demands for our RGB, DVI and USB assembly products grew, which was partially offset by a decrease in average unit selling price mainly as a result of the reduction in the average length of assembly products that we sold in 2010 pursuant to product requirements as requested by our customers in general. Sales of RGB assembly increased by RMB18.2 million, or 11.6%, from RMB156.2 million for the year ended 31 December 2009 to RMB174.4 million for the year ended 31 December 2010, primarily due to an increase of 7.9% in sales volume mainly because the purchase orders from our existing customers increased and we continued to develop customer base for our RGB assembly with customers for such products increasing from 13 in 2009 to 16 in 2010. Sales of DVI assembly increased by RMB14.1 million, or 18.5%, from RMB76.3 million for the year ended 31 December 2009 to RMB90.4 million for the year ended 31 December 2010, primarily due to an increase of 15.2% in sales volume mainly because the purchase orders from our existing customers increased and we continued to develop customer base for our DVI assembly with customers for such products increasing from 13 in 2009 to 15 in 2010. And sales of USB assembly increased by RMB10.5 million, or 16.2%, from RMB64.6 million for the year ended 31 December 2009 to RMB75.1 million for the year ended 31 December 2010, primarily due to an increase of 33.6% in sales volume mainly because the purchase orders from our existing customers increased and we continued to develop customer base for our USB assembly with customers for such products increasing from 10 in 2009 to 18 in 2010, which was partially offset by a decrease in average unit selling price in line with general reduction in the average length of our USB assembly products and as we priced our USB assembly products more competitively to gain market share, whereas sales of DC assembly decreased by RMB12.0 million, or 48.9%, from RMB24.5 million for the year ended 31 December 2009 to RMB12.5 million for the year ended 31 December 2010, primarily because we transferred the production of DC assembly products, which is relatively labor intensive, from our production facilities in Weihai to those in Dezhou where we can have more stable supply of a large number of production personnel and consequently, we experienced reduced level of production during the initial phase of such transfer as we gradually ramped up the production of our DC assembly products in Dezhou;

	2010		2009		
	Revenue *RMB'000*	**% of Revenue**	Revenue *RMB'000*	% of Revenue	**Change in %**
LVDS	**261,871**	**85.3**	115,587	91.3	126.6
Harness	**973**	**0.3**	4,983	3.9	-80.5
Flexible Flat Cable (FFC)	**44,205**	**14.4**	6,060	4.8	629.5
	307,049	**100.0**	126,630	100.0	142.5

- sales of internal signal cable assembly products increased by RMB180.4 million, or 142.5%, from RMB126.6 million for the year ended 31 December 2009 to RMB307.0 million for the year ended 31 December 2010, primarily due to (i) an increase of approximately 70.2% sales volume of our internal signal cable products as the purchase orders for our LVDS products increased and we continued to develop customer base for our LVDS products with customers for such products increasing from 9 in 2009 to 13 in 2010; (ii) the revenue contribution of FFC products for a whole year in 2010 as compared to seven month in 2009 as we started the commercial production of FFC products late in 2009; and (iii) an overall increase in the average unit selling prices of our internal signal cable products as we continued to reduce the production and sales of Harness products with lower selling price and also the average copper price increased in 2010 as compared to 2009;

- sales of power cord assembly products increased by RMB76.6 million, or 45.0%, from RMB170.2 million for the year ended 31 December 2009 to RMB246.8 million for the year ended 31 December 2010, primarily due to an approximately 67.5% increase in sales volume as customer purchase orders increased and we continued to develop customer base for our power cord assembly products with customer for such products increasing from 16 in 2009 to 23 in 2010, which was partially offset by a decrease in average unit selling price mainly in line with the general reduction in the average length of our power cord assembly products sold pursuant to product requirements as requested by our customers;

	2010		2009		
	Revenue *RMB'000*	**% of Revenue**	Revenue *RMB'000*	% of Revenue	**Change in %**
Communication cable	**8,212**	**2.4**	2,952	1.7	178.2
Consumer electronic cable	**254,712**	**73.1**	119,776	69.6	112.7
Automotive cable	**18,196**	**5.2**	3,613	2.1	403.6
Power cable	**59,126**	**17.0**	35,472	20.6	66.7
Others	**8,060**	**2.3**	10,256	6.0	-21.4
	348,306	**100.0**	172,069	100.0	102.4

- sales of wire & cable products increased by RMB176.2 million, or 102.4%, from RMB172.1 million for the year ended 31 December 2009 to RMB348.3 million for the year ended 31 December 2010, primarily due to (i) an increase in sales volume of our wire & cable products as we increased production in response to the increased customer demands and expanded customer base for our wire & cable products with customers for such products increasing from 25 in 2009 to 46 in 2010, and (ii) increased average unit selling price of such products mainly as a result of the higher average copper price in 2010. As a major contributor to the sales of our wire & cable products, sales of consumer electronic cables increased by RMB134.9 million, or 112.7%, from RMB119.8 million for the year ended 31 December 2009 to RMB254.7 million for the year ended 31 December 2010, primarily due to (i) an increase of 87.2% in sales volume due to increased customer demands and our efforts in expanding customer base for such products with customers for such products increasing from 13 in 2009 to 23 in 2010, (ii) increased average unit selling price mainly as a result of the higher average copper price in 2010, and (iii) we began to sell a newly developed product, environmentally friendly low smoke halogen-free insolating products, from the fourth quarter of 2010. In addition, sales of power cable increased by RMB23.7 million, or 66.7%, from RMB35.4 million for the year ended 31 December 2009 to RMB59.1 million for the year ended 31 December 2010, primarily due to an increase of 48.1% in sales volume due to increased customer demand and increased average unit selling prices mainly as a result of the higher average copper price in 2010;

- sales of connectors increased by RMB10.3 million, or 28.5%, from RMB36.1 million for the year ended 31 December 2009 to RMB46.4 million for the year ended 31 December 2010, notwithstanding an approximately 37.2% decrease in sales volume during the period primarily because we were able to increase the average selling price of our connector products as we increased the production and sales of connectors with higher selling price and margin, such as D SUB connectors, in 2010 as compared to a higher proportion of DVI and USB connector products with lower selling price and margin in 2009;

- we started to manufacture and sell antenna products from 2010 and have 7 customers as of 31 December 2011. Sales of antenna products are RMB11.8 million for the year ended 31 December 2010; and

- others consist of sales of various products, including customized wiring products for a home appliance producer customer, keyboard assembly, components for integrated personal computers and other materials. Sales of our other products increased significantly in 2010 primarily due to the revenue contribution by a number of miscellaneous products, including aluminum and iron plates for computer keyboard which we started to manufacture and sell from the second half of 2009, but the amount of revenue contribution of such was limited in 2009.

Most of our customers are international leading brand name and non-brand name equipment manufacturers in the global consumer electronics industry, including Samsung, LG, Eastman Kodak, Amphenol, Haier, Hisense, Quanta, Compal, Qisda, TPV Technology, Wistron, Innolux, ZTE and Inventec. Most of our customers have their procurement units and/or manufacturing facilities based in China and depending on our customers' preferences and requirements, we would enter into sales contract with their Chinese subsidiaries and deliver our products to their manufacturing facilities based in China. The following table sets forth, for the periods indicated, an analysis of our revenue by geographical location of the entities to which we issued invoices, irrespective of the headquarter of our end customers or the final destination of the goods:

	2010		2009		
	Revenue *RMB'000*	**% of Revenue**	Revenue *RMB'000*	% of Revenue	**Change in %**
China, not including Hong Kong and Taiwan	**929,603**	**65.7**	643,096	73.7	44.6
Korea	**210,913**	**14.9**	115,827	13.3	82.1
Taiwan	**178,883**	**12.7**	4,704	0.5	3,702.8
Hong Kong	**25,664**	**1.8**	53,924	6.2	-52.4
Other countries and areas	**68,897**	**4.9**	54,845	6.3	25.6
	1,413,960	**100.0**	872,396	100.0	62.1

Cost of sales

Cost of sales includes primarily raw material costs, labor costs, depreciation, utilities, outsourcing costs and others.

The following table sets forth a breakdown of our cost of sales by product group for the periods indicated:

	2010		2009		
	Cost of sales *RMB'000*	**% of total Cost of sales**	Cost of sales *RMB'000*	% of total Cost of sales	**Change in %**
External signal cable assembly	**273,509**	**25.1**	248,261	36.8	10.2
Internal signal cable assembly	**221,265**	**20.3**	94,322	14.0	134.6
Power cord assembly	**206,501**	**19.0**	138,387	20.5	49.2
Wire & cable	**270,061**	**24.8**	126,013	18.7	114.3
Connectors	**31,806**	**2.9**	26,274	3.9	21.1
Antennas	**10,565**	**1.0**	—	—	100.0
Others	**74,639**	**6.9**	41,165	6.1	81.3
Total	**1,088,346**	**100.0**	674,422	100.0	61.4

The following table sets forth a breakdown of our cost of sales for the periods indicated:

	2010		2009		
		% of total Cost of sales		% of total Cost of sales	**Change in %**
	RMB'000		*RMB'000*		
Raw material costs	**850,696**	**78.2**	529,909	78.6	60.5
Utilities	**16,451**	**1.5**	11,228	1.7	46.5
Depreciation	**24,899**	**2.3**	20,574	3.1	21.0
Labor costs	**113,725**	**10.4**	68,833	10.2	65.2
Outsoucing costs	**62,209**	**5.7**	33,227	4.9	87.2
Others	**20,366**	**1.9**	10,651	1.5	91.2
	1,088,346	**100.0**	674,422	100.0	61.4

The following table sets forth a breakdown of our labor costs for the periods indicated:

	2010		2009		
		% of total		% of total	**Change**
	RMB'000	**labor costs**	*RMB'000*	labor costs	**in %**
Emplyees	**46,461**	**40.9**	47,005	68.3	-1.2
Contract workers	**67,264**	**59.1**	21,828	31.7	208.2
	113,725	**100.0**	68,833	100.0	65.2

The following table sets forth a breakdown of our raw material costs for the periods indicated:

	2010		2009		
		% of raw material costs		% of raw material costs	**Change in %**
	RMB'000		*RMB'000*		
Copper materials	**490,851**	**57.7**	306,287	57.8	60.3
Plastic materials	**147,170**	**17.3**	86,375	16.3	70.4
Iron materials	**48,490**	**5.7**	28,085	5.3	72.7
Others	**164,185**	**19.3**	109,162	20.6	50.4
	850,696	**100.0**	529,909	100.0	60.5

Cost of sales increased by approximately RMB413.9 million, or approximately 61.4%, from approximately RMB674.4 million for the year ended 31 December 2009 to approximately RMB1,088.3 million for the year ended 31 December 2010. The increase was primarily due to (i) an increase in raw material costs from RMB529.9 million in 2009 to RMB850.7 million in 2010, mainly as a result of an overall increase in sales volume and the higher average copper prices in 2010 as compared to 2009 (with our average purchase prices for copper materials amounting to approximately RMB55,160 per tonne in 2010, representing an increase of 102.8% from approximately RMB27,200 per tonne in 2009); (ii) an increase in labor costs from RMB68.8 million in 2009 to RMB113.7 million in 2010, mainly as a result of an increase in manufacturing staff and an increase in employee salaries in line with our increased sales and production in 2010; (iii) an increase in outsourcing costs from RMB33.2 million in 2009 to RMB62.2 million in 2010 mainly as a result of increased outsourcing of non-essential production work to third party contract manufacturers as we continued to increasingly focus on developing our research and development capabilities and expanding our sales and marketing efforts while strengthening our ability to conduct essential production processes; (iv) an increase in utility costs from RMB11.2 million in 2009 to RMB16.5 million in 2010, mainly as a result of increased production in line with the overall increase in sales volume of our products; and (v) an increase in depreciation from RMB20.6 million in 2009 to RMB24.9 million in 2010 mainly as a result of the expansion in production facilities and increased procurement of equipment in line with the expanded business operations. Cost of sales, as a percentage of total revenue, reduced from 77.3% for 2009 to 77.0% for 2010.

Of total labor cost, RMB46.5 million (or 40.9%) and RMB67.3 million (or 59.1%) were attributable to our employees and contract workers in 2010, respectively, while RMB47.0 million (or 68.3%) and RMB21.8 million (or 31.7%) were attributable to our employees and contract workers in 2009, respectively. The proportion of labor cost attributable to contract workers increased from 31.7% in 2009 to 59.1% in 2010 mainly due to the increase in the number of contract workers in 2010 (3,870 as of 31 December 2010) as compared to 2009 (1,965 as of 31 December 2009) as (i) we significantly expanded our production capacities, including adding a number of production lines for our internal signal cable assembly, RGB assembly, DVI assembly and other products in 2010; and (ii) we took on additional contract workers in 2010 in order to provide them training in advance as for the planned expansion of production capacity in 2011.

Gross profit

As a result of the foregoing, our gross profit increased by approximately RMB127.6 million, or approximately 64.4%, from approximately RMB198.0 million for the year ended 31 December 2009 to approximately RMB325.6 million for the year ended 31 December 2010. Our gross profit margin increased slightly from 22.7% in 2009 to 23.0% in 2010. Specifically,

	2010		2009		
	Gross profit *RMB'000*	**Gross profit margin**	Gross profit *RMB'000*	Gross profit margin	**Change in %**
External signal cable assembly	**79,867**	**22.6**	74,229	23.0	7.6
Internal signal cable assembly	**85,784**	**27.9**	32,308	25.5	165.5
Power cord assembly	**40,276**	**16.3**	31,769	18.7	26.8
Wire & cable	**78,245**	**22.5**	46,056	26.8	69.9
Connectors	**14,637**	**31.5**	9,871	27.3	48.3
Antennas	**1,233**	**10.5**	—	—	100.0
Others	**25,572**	**25.5**	3,741	8.3	583.6
Total	**325,614**	**23.0**	197,974	22.7	64.5

Gross profit margin of our external signal cable assembly products decreased from 23.0% in 2009 to 22.6% in 2010, primarily due to the decrease in profit margins of our DVI, HDMI, USB and DC assembly as we priced our external signal cable assembly products more competitively as part of our pricing and marketing strategies in order to gain more market share as the global economy, in particular, the consumer electronics industry, continued to recover while the profit margin of our RGB assembly increased slightly due to the efficiency achieved from increased production scale and enhancements in manufacturing processing techniques.

Gross profit margin of our internal signal cable assembly products increased from 25.5% in 2009 to 27.9% in 2010, primarily due to the efficiency achieved from increased production scale and enhancements in manufacturing processing techniques as well as the increased proportion of LVDS and FFC, gross profit margin of which are relatively high.

Gross profit margin of power cord assembly products decreased from 18.7% in 2009 to 16.3% in 2010 as we priced our power cord assembly products more competitively with a view to capture greater market share and increased safety certifications and spending in making additional molding machines for our power cord assembly products for the purposes of becoming a leader in our target power cord assembly market, which resulted in higher fixed costs.

Gross profit margin of wire & cable products decreased from 26.8% in 2009 to 22.5% in 2010 as we focused on increasing market share and expanding customer base by pricing our wire & cable products more competitively in 2010.

Gross profit margin of connector products increased from 27.3% in 2009 to 31.5% in 2010 primarily because we increased the production and sales of connectors with higher selling price and margin, such as D SUB connectors, in 2010.

Gross profit of antenna products for the year ended 31 December 2010 is 10.5% as we have only started to manufacture and sell antennas since 2010 and the economy of scale of such production scale has not been reached. Gross profit of antennas should increase in line with the expansion of scales of production and sales.

Other gains and losses

Other gains and losses consisted primarily of government grants, investment loss or gain in respect of derivative financial instruments, interest income, gain on disposal of a patent, gains on disposals of subsidiaries, foreign exchange losses or gains, and loss on disposal of property, plant and equipment.

The following table sets forth the breakdown of our other gains and losses for the periods indicated:

	2010 *RMB'000*	2009 *RMB'000*	**Change in %**
Interest income	**436**	455	-4.2
Government grants	**5,267**	1,360	287.3
Losses on disposals of property, plant and equipment	**355**	(614)	-157.8
Net foreign exchange gains (losses)	**(2,832)**	(457)	519.7
Gain on disposal of technical know-how	**—**	4,500	-100.0
Changes in fair value of derivative financial instruments	**(5,805)**	3,029	-291.6
Total	**(2,579)**	8,273	-131.2

We incurred other losses of RMB2.6 million for the year ended 31 December 2010 while we had other gains of RMB8.3 million for the year ended 31 December 2009. The losses for the year ended 31 December 2010 were primarily attributable to (i) investment loss in respect of derivative financial instrument of approximately RMB4.1 million in relation to our copper hedging transactions while we had a corresponding gain or reduced cost with respect to the costs of our copper materials subject to such hedging transactions, and loss resulted from change on fair value of foreign currency exchange forward contracts, and (ii) net foreign exchange losses of RMB2.8 million as we held more US dollar and other foreign currency-denominated assets than liabilities and thus incurred a loss in RMB terms on such assets and liabilities mainly due to the depreciation of US dollar against RMB, partially offset by government grants of RMB5.3 million. The gains for the year ended 31 December 2009 were primarily attributable to investment gain in respect of derivative financial instrument of approximately RMB1.1 million in relation to our copper hedging transactions, gain on disposal of technical know-how of RMB4.5 million and government grants of RMB1.4 million, partially offset by losses on disposal of property, plant and equipment of RMB0.6 million.

Selling and distribution expenses

Our distribution and selling expenses consist primarily of salary expenses paid to our sales and marketing employees, customs registration expenses and business development, business entertainment, transportation expenses, travel and other expenses. Transportation expenses were primarily related to the expenses incurred for transporting our products to a destination pursuant to our customers' delivery requirements. Customs registration expenses were primarily related to the expenses we incurred for customs registration and clearance for products to be exported to an overseas destinations.

Distribution and selling expenses increased by approximately RMB6.8 million, or approximately 33.0%, from approximately RMB20.5 million for the year ended 31 December 2009 to approximately RMB27.2 million for the year ended 31 December 2010. This increase was due primarily to (i) an increase in transportation expenses from RMB8.3 million in 2009 to RMB12.4 million in 2010 in line with increased revenue; (ii) an increase in salary expenses from RMB3.1 million in 2009 to RMB4.0 million in 2010, primarily due to an increase in sales and marketing personnel and increased salaries and other compensation for sales and marketing personnel in line with the increase in our revenue; and (iii) an increase in entertainment expenses from RMB3.9 million in 2009 to RMB5.0 million in 2010, primarily due to an increase in sales and marketing activities in line with the increase in our revenue.

Administrative expenses

Our general and administrative expenses consist primarily of salary expenses paid to our management and administrative personnel, amortization of employee share grants, maintenance of our administrative office, travel, depreciation of fixed assets and amortization of intangible assets, social welfare obligations, provision for doubtful debts, provision for impairment of inventories, audit and professional fees. Amortization of employee share grants was related to the shares granted to our employees pursuant our employee share scheme. Provision for doubtful debts was primarily related to the provision made for impairment of trade and other receivables. Provision for impairment of inventories was primarily related to the provision made for impairment of inventories.

Administrative and general expenses increased by approximately RMB24.5 million, or approximately 51.2%, from approximately RMB48.0 million for the year ended 31 December 2009 to approximately RMB72.5 million for the year ended 31 December 2010. This increase was due primarily to (i) an increase in salary expenses from RMB14.9 million in 2009 to RMB23.0 million in 2010, primarily due to an increase in general and administrative personnel and increased employee salaries and compensation; (ii) an increase in office expenses from RMB3.6 million in 2009 to RMB6.8 million in 2010, primarily due to increased business operations; (iii) an increase in transportation expenses from RMB3.1 million in 2009 to RMB5.4 million in 2010 in line with increased business operations; and (iv) an increase in bank charges from RMB2.1 million in 2009 to RMB4.4 million in 2010 primarily due to increased bill purchases in relation to the exports of our products and uses of letters of credit primarily in relation to payment for purchases of equipment and materials.

Research and development expenses

Our research and development costs consist primarily of salary for our research and development personnel, expenses for raw materials and depreciation of research, development, testing equipment and testing fee.

Research and development expenses increased by approximately RMB3.7 million, or approximately 13.4%, from approximately RMB27.3 million for the year ended 31 December 2009 to approximately RMB30.9 million for the year ended 31 December 2010. This increase was due primarily to an increase in salary expenses for research and development personnel from RMB6.4 million in 2009 to RMB10.3 million in 2010, primarily due to an increase in research and development personnel as the number of research and development projects (including those related to electricity conductor materials, Mini-Display Port, HDMI type of computer specialty data cable and SATA 3.0 type of computer high speed data cable) increased in 2010.

Finance costs

Finance costs increased by approximately RMB5.2 million, or approximately 37.1%, from approximately RMB13.9 million for the year ended 31 December 2009 to approximately RMB19.1 million for the year ended 31 December 2010, primarily due to an increase in bank interest expenses mainly as a result of increased bank borrowings in 2010.

Income tax expenses

Income tax expenses represent the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the relevant period. Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in our consolidated financial statements and the corresponding tax bases used in the computation of taxable profit.

The following table sets forth the breakdown of our income tax expenses for the periods indicated:

	2010	2009	**Change**
	RMB'000	*RMB'000*	**in %**
Current tax			
— PRC Enterprise Income Tax ("EIT")	**19,268**	7,559	154.9
— Overprovision of EIT in prior years	**(2,222)**	—	-100.0
— Withholding tax paid	**—**	3,090	-100.0
	17,046	10,649	60.1
Deferred tax			
— Current year	**1,014**	(2,559)	-139.6
— Attributable to a change in tax rate	**174**	—	100.0
	1,188	(2,559)	-146.4
	18,234	8,090	125.4

Our income tax expenses increased by approximately RMB10.1 million, or approximately 125.4%, from approximately RMB8.1 million for the year ended 31 December 2009 to approximately RMB18.2 million for the year ended 31 December 2010, in line with the increased profits before taxation. Our effective tax rates calculated from the tax charged to the consolidated statements of comprehensive income over the profit before tax were approximately 8.4% and 10.5% for the year ended 31 December 2009 and 2010, respectively. The increase in effective tax rate for the year ended 31 December 2010 was primarily due to the increased statutory tax rates in 2010 as compared to 2009 for certain of our subsidiaries, including primarily Weihai Cable, Changshu Electronic and Changshu Connecting-Technology.

Profit and total comprehensive income for the year

As a result of the foregoing, profit and total comprehensive income for the period increased by approximately RMB66.5 million, or approximately 76.0%, from approximately RMB88.5 million for the year ended 31 December 2009 to approximately RMB155.8 million for the year ended 31 December 2010. Our net profit margin was approximately 11.0% for the year ended 31 December 2010 as compared to approximately 10.1% for the year ended 31 December 2009. The increase in net profit margin was primarily attributable to a decrease in operating expenses as a percentage of total revenue as we focused on cost control and achieved cost savings on our administrative and general expenses and distribution, resulting in a decrease of such expenses as a percentage of total revenue in 2010 as compared to 2009.

DIVIDEND

The Company was successfully listed on the Stock Exchange on 16 November 2010. The Directors considered that the declaration, payment and amount of the dividend shall be subject to the status of the Group's future development. The Directors do not recommend the payment of any dividend for the financial year ended 31 December 2010 (2009:Nil) and will consider to formulate a dividend policy at an appropriate time in the future.

CLOSURE OF TRANSFER BOOKS AND REGISTER OF MEMBERS

The transfer books and register of members of the Company will be closed from 21 April 2011 to 28 April 2011 (both dates inclusive) during which period no transfer of Shares will be registered. In order to qualify for attending and voting at the annual general meeting of the Company, all transfers of Shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 20 April 2011.

CORPORATE GOVERNANCE PRACTICES

The Directors recognize the importance of incorporating the elements of good corporate governance into the management structures and internal control procedures of the Group so as to achieve effective accountability to the shareholders of the Company as a whole. The Board strived to uphold good corporate governance and adopt sound corporate governance practices continuously in the interest of shareholders of the Company to enhance the overall performance of the Company. The principles and the code provisions of the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 to the Listing Rules have been adopted by the Group. The Company has also complied with the CG Code since the listing of the shares of the Company on the Main Board of the Stock Exchange on 16 November 2010 except for the following deviation.

According to the code provision A.2.1 of the CG Code, the roles of the chairman and the chief executive officer should be separated and should not be performed by the same individual. The Group does not at present separate the roles of the chairman and chief executive officer. For the year ended 31 December 2010, Mr. Chi Shaolin is both the chairman of the Board and the chief executive officer of the Group. The Board considers that vesting the roles of chairman and chief executive officer in the same individual is beneficial to the business prospects and management of the Group. The Board will review the need of appointing suitable candidate to assume the role of the chief executive officer when necessary.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors (the "Model Code") as set out in Appendix 10 of the Listing Rules as its code of conduct regarding securities transactions by the Directors. On specific enquiries made, all Directors confirmed that they have complied with the required standards set out in the Model Code and its code of conduct regarding Directors' securities transactions from the Listing to 31 December 2010.

AUDIT COMMITTEE

The Company established an audit committee (the "Audit Committee") pursuant to a resolution of Directors passed on 25 October 2010 in compliance with Rule 3.21 of the Listing Rules. The primary responsibilities of the Audit Committee are to make recommendation to the Board on the appointment and removal of external auditors, review the financial statements and material advice in respect of financial reporting, and oversee the internal control procedures of the Company. The Audit Committee consists of three members, namely, Mr. Shu Wa Tung, Laurence, Mr. Song Lizhong and Ms. Zheng Lin, all of whom are independent non-executive Directors. Mr. Shu Wa Tung, Laurence currently serves as the chairman of the Audit Committee. The Audit Committee has adopted the terms of reference which are in line with the CG Code.

The Audit Committee has reviewed the Group's consolidated financial statements for the year ended 31 December 2010.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

The Company has not redeemed any of its listed shares during the year ended 31 December 2010. Neither the Company nor any of its subsidiaries has purchased, sold or repurchased any of the Company's listed securities during the year ended 31 December 2010.

USE OF PROCEEDS FROM THE GLOBAL OFFERING

The net proceeds from the Global Offering, after deducting the relevant costs of the Global Offering, were of approximately HKD470.3 million (equivalent to approximately RMB400.7 million. As at 31 December 2010, the Company untilized the proceeds of approximately RMB56.0 million to the Group's new development projects, research and development and working capital. The Directors do not anticipate any change to its plan on the use of proceeds as stated in the Prospectus dated 3 November 2010.

AUDIT FINANCIAL STATEMENTS

The Group's consolidated financial statements have been audited by the Group's external auditors, Deloitte Touche Tohmatsu and they have issued an unqualified opinion.

EVENT AFTER THE REPORTING PERIOD

Investment in 天津日拓汽車電裝有限公司 (Tianjin Rituo Automotive Electronics Co., Ltd.#, "Tianjin Rituo")

On 21 February 2011, the Directors announced that, Weihai Electronic, a wholly-owned subsidiary of the Company, has entered into the capital increase agreement on 21 February 2011, pursuant to which Weihai Electronic has agreed to make capital contribution of approximately RMB58.60 million (equivalent to approximately HKD69.15 million) in aggregate to Tianjin Rituo. Subsequently, Tianjin Rituo was owned as to 55.0% by Weihai Electronic, 31.5% by Mr. Wang Xiang and 15.5% by Mr. Wang Weiguo, respectively.

Such capital contribution by Weihai Electronic represents the Group's entry into the provision of automotive wiring harness used for signal transmission in the PRC automobile industry.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held on Thursday, 28 April 2011 and the notice of annual general meeting will be published and despatched to shareholders of the Company in due course.

ANNUAL REPORT

The annual report of the Company for the financial year ended 31 December 2010 containing all the applicable information required by the Listing Rules will be published on the website of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and the Company's website (www.hong-lin.com.cn) in due course. Printed copies will be despatched to shareholders of the Company in due course.

APPRECIATE YOUR SUPPORT AND COMMITTED TO ACHIEVING THE TARGET

Finally, on behalf of the Board, I would like to take this opportunity to express my gratitude to our employees for their continuous support and dedication to the Company. We also thank our shareholders, customers and business partners for their continuous support and we shall continue to work hard to deliver consistent and sustainable growth. We shall always remind ourselves to focus on what we do best and strive to do better every year.

By the order of the Board
HL Technology Group Limited
Chi Shaolin
Chairman

Hong Kong, 11 March 2011

As at the date of this announcement, the executive Directors are Mr. Chi Shaolin, Mr. Jiang Taike, Mr. Li Jianming, Mr. Tseng Chih-ming, Mr. Sui Shikai, Mr. Mao Wanjun and Mr. Kang Jin Won*, the non-executive Directors are Ms. Xu Yiming, Mr. Du Li and Mr. Wu Kezhong, and the independent non-executive Directors are Mr. Shu Wa Tung, Laurence, Mr. Song Lizhong and Ms. Zheng Lin.*

* *for identification purposes only.*