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If you have sold or transferred all your shares in HL Technology Group Limited, you should at once hand this circular to the purchaser or transferee or to the bank, exchange participant or other agent through whom the sale was effected for transmission to the purchaser or transferee.

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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)

**CONNECTED TRANSACTION
AND
DISCLOSEABLE TRANSACTION
IN RELATION TO
THE DISPOSAL OF EQUITY INTEREST OF A NON-WHOLLY OWNED
SUBSIDIARY AND ACQUISITION OF RITUO TECHNOLOGY**

**Independent Financial Adviser to the Independent Board Committee
and the Independent Shareholders**



A letter from the Independent Board Committee (as defined in this circular) containing its advice to the Independent Shareholders (as defined in this circular) is set out on pages 16 to 17 of this circular. A letter from China Galaxy International (as defined in this circular) setting out its advice and recommendation to the Independent Board Committee and the Independent Shareholders is set out on pages 18 to 39 of this circular.

A notice convening the extraordinary general meeting (the “EGM”) of the Company to be held at Pudong Road, The First Industrial Park, Economic and Technological Development Zone, Weihai City, Shandong Province, PRC on Saturday, 12 January 2013 at 10:30 a.m. is set out on pages 45 to 46 of this circular.

A form of proxy for use at the EGM is also enclosed with this circular. Whether or not you intend to attend and vote at the EGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the Company’s branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, located at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong as soon as possible but in any event by not later than 48 hours before the time appointed for holding of the EGM or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the EGM or any adjourned meeting should you so wish.

* for identification purpose only

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DEFINITIONS

In this circular, the following expressions have the meanings set out below unless the context requires otherwise.

“2011 Rituo Automotive Acquisition”	the acquisition of 55% equity interest in Rituo Automotive by way of capital injection by Weihai Electronic pursuant to the capital increase agreement dated 21 February 2011 entered into between Weihai Electronic, Wang Xiang, Wang Weiguo and Rituo Automotive, the details of which is set out in the announcement of the Company dated 21 February 2011
“3Cs”	computer, consumer electronic, communication
“Acquisition”	the proposed acquisition of 100% equity interest in Rituo Technology
“Acquisition Agreement”	equity transfer agreement entered into by Weihai Electronic, Rituo Automotive and Rituo Technology on 20 November 2012 in relation to the acquisition of 100% equity interest in Rituo Technology by Weihai Electronic
“Announcements”	the announcements of the Company dated 20 November 2012 and 19 December 2012
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of directors of the Company
“China Galaxy International”	China Galaxy International Securities (Hong Kong) Company Limited, a licensed corporation under the SFO to carry out type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities as defined under the SFO and the independent financial adviser appointed to advise the Independent Board Committee and Independent Shareholders on the Disposal and the Acquisition according to the Listing Rules
“Company”	HL Technology Group Limited (泓淋科技集團有限公司*), a company incorporated with limited liability on 16 November 2007 under the laws of the Cayman Islands and the shares of which are listed on the Stock Exchange (stock code: 1087)
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Director(s)”	the director(s) of the Company

DEFINITIONS

“Disposal”	the proposed disposal of 55% equity interest in Rituo Automotive
“Disposal Agreement”	equity transfer agreement entered into by Weihai Electronic, Wang Xiang and Rituo Automotive on 20 November 2012 in relation to the transfer of 55% equity interest in Rituo Automotive
“EGM”	an extraordinary general meeting of the Company to be convened for, among other things, considering, and if thought fit, approving and ratifying the Disposal and the Acquisition
“Group”	the Company and its subsidiaries
“HK\$”	the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the committee of independent non-executive Directors, comprising Mr. Shu Wa Tung, Laurence, Mr. Song Lizhong and Ms. Zheng Lin, established to advise the Independent Shareholders in respect of the Disposal and the Acquisition
“Independent Shareholders”	the Shareholders that are not required to abstain from voting under the Listing Rules if a general meeting is convened to approve the Disposal and the Acquisition
“Independent Third Party/ies”	a person(s) or company(ies) which is/are independent of and not connected with any members of the Group, the directors, the chief executives and the substantial shareholders of the Company and its subsidiaries and their respective associates
“Latest Practicable Date”	20 December 2012, being the latest practicable date for the purpose of ascertaining certain information contained in this circular before publication
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	The People’s Republic of China

DEFINITIONS

“Rituo Automotive”	Tianjin Rituo Automotive Electronics Co., Ltd.* (天津日拓汽車電裝有限公司) incorporated in the PRC with limited liability, was a non-wholly owned subsidiary of the Company, which was owned as to 55% by Weihai Electronic, 31.5% by Wang Xiang and 13.5% by Wang Weiguo before the Disposal, and mainly engaged in research and development, manufacture and sales of automotive wiring harness for automobile assembly markets
“Rituo Technology”	Tianjin Rituo High Technology Co., Ltd* (天津市日拓高科技有限公司) incorporated in the PRC with limited liability and wholly-owned by Rituo Automotive before the Acquisition, and mainly engaged in design, research and development, manufacture and sale of automotive wiring harness products and automotive electronics
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholders”	shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Substantial Shareholder”	has the meaning ascribed to it under the Listing Rules
“Supplemental Acquisition Agreement”	supplemental agreement entered into by Weihai Electronic and Rituo Automotive on 19 December 2012 in relation to the Acquisition Agreement, pursuant to which the payment date of the Acquisition Consideration by Weihai Electronic is extended from 31 December 2012 to 31 March 2013
“Supplemental Disposal Agreement”	supplemental agreement entered into by Weihai Electronic and Wang Xiang on 19 December 2012 in relation to the Disposal Agreement, pursuant to which (i) the payment date of the Disposal Consideration by Wang Xiang is extended from 31 December 2012 to 31 March 2013; and (ii) if Wang Xiang fails to pay the Disposal Consideration in full by 31 March 2013, he will also pay interest equivalent to 10% above the benchmark interest rate on loans over the same period as announced by the People’s Bank of China which has been accrued on the balance of the Disposal Consideration
“Wang Xiang”	an existing shareholder of Rituo Automotive, who holds as to 31.5% of the Rituo Automotive before the Disposal

DEFINITIONS

“Weihai Electronic” Weihai Honglin Electronic Co., Ltd. (威海市泓淋電子有限公司), a wholly foreign owned company incorporated in the PRC on 27 November 1997 with limited liability, which is a wholly-owned subsidiary of the Company

“%” per cent

* *for identification purpose only*

In this circular, for the purpose of illustration only, amounts quoted in RMB have been converted into HK\$ at the rate of RMB1.00 to HK\$1.20. Such exchange rate has been used, where applicable, for the purpose of illustration only and does not constitute a representation that any amounts were or may have been exchanged at this or any other rates or at all.



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)

Executive Directors:

Mr. Chi Shaolin

(Chairman and Chief Executive (“CE”))

Mr. Jiang Taike *(Vice CE)*

Mr. Li Jianming *(Vice CE)*

Non-executive Director:

Ms. Xu Yiming *(Adviser)*

Independent Non-executive Directors:

Mr. Shu Wa Tung, Laurence

Mr. Song Lizhong

Ms. Zheng Lin

Registered office:

Offshore Incorporations

(Cayman) Limited Corporation

Scotia Centre, 4th Floor

P.O. Box 2804, George Town

Grand Cayman KY1-1112

Cayman Islands

Principal place of business

in Hong Kong:

33rd Floor, Shui On Centre

6–8 Harbour Road

Wanchai, Hong Kong

24 December 2012

To the Shareholders,

Dear Sir/Madam,

**CONNECTED TRANSACTION
AND
DISCLOSEABLE TRANSACTION
IN RELATION TO
THE DISPOSAL OF EQUITY INTEREST OF A NON-WHOLLY OWNED
SUBSIDIARY AND ACQUISITION OF RITUO TECHNOLOGY**

INTRODUCTION

Reference is made to the Announcements.

On 20 November 2012 (after trading hours), Weihai Electronic, a wholly-owned subsidiary of the Company, entered into the Disposal Agreement with Wang Xiang, pursuant to which Weihai Electronic has agreed to sell, and Wang Xiang has agreed to purchase 55% equity interest in Rituo Automotive at the consideration of RMB58.60 million (equivalent to approximately HK\$70.32 million), representing the amount of capital contribution injected by Weihai Electronic into Rituo Automotive in February 2011. Rituo Automotive will cease to be

* for identification purpose only

LETTER FROM THE BOARD

a subsidiary of the Company effective from the completion of the Disposal, which shall be subject to all necessary resolutions of the Shareholders, including but not limited to the resolution of Independent Shareholders at the EGM. In addition, upon completion of the Disposal and the Acquisition, the Board considers that it is in the commercial interest of the Company to continue to rely on Rituo Automotive for the procurement of imported raw materials that the Company, Rituo Technology and Rituo Automotive are contemplating a purchase agreement, pursuant to which Rituo Technology will purchase, and Rituo Automotive will sell, imported raw materials such as sheathing and terminals* (護套和端子) used for wire harness assembly. Such transactions will constitute continuing connected transactions of the Company upon completion of the Disposal and the Acquisition and the Company will make further announcement as and when appropriate.

On 20 November 2012 (after trading hours), Weihai Electronic also entered into an Acquisition Agreement with Rituo Automotive, pursuant to which Rituo Automotive has agreed to sell and Weihai Electronic has agreed to purchase 100% equity interest in Rituo Technology at the consideration of RMB15.00 million (equivalent to approximately HK\$18.00 million). The consideration was determined by reference to, among other things, the total amount Rituo Automotive invested into Rituo Technology and the net asset value of Rituo Technology as at 31 October 2012.

On 19 December 2012 (after trading hours), Weihai Electronic and Wang Xiang entered into the Supplemental Disposal Agreement, pursuant to which (i) Weihai Electronic and Wang Xiang agreed to extend the date of payment by Wang Xiang of the Disposal Consideration from 31 December 2012 to 31 March 2013; and (ii) if Wang Xiang fails to pay the Disposal Consideration in full by 31 March 2013, he will also pay interest equivalent to 10% above the benchmark interest rate on loans over the same period as announced by the People's Bank of China which has been accrued on the balance of the Disposal Consideration. On the same day (after trading hours), Weihai Electronic and Rituo Automotive entered into the Supplemental Acquisition Agreement, pursuant to which Weihai Electronic and Rituo Automotive agreed to extend the date of payment by Weihai Electronic of the Acquisition Consideration from 31 December 2012 to 31 March 2013.

The Acquisition is subject to the completion of the Disposal.

PRINCIPAL TERMS OF THE DISPOSAL AGREEMENT

Date: 20 November 2012 (after trading hours)

Parties:

- (1) Weihai Electronic, the vendor;
- (2) Wang Xiang, the purchaser, a director of Rituo Automotive and an existing shareholder of Rituo Automotive holding 31.5% equity interest in Rituo Automotive before the Disposal; and
- (3) Rituo Automotive.

LETTER FROM THE BOARD

Asset to be disposed:

Pursuant to the Disposal Agreement, Weihai Electronic has agreed to sell, and Wang Xiang has agreed to purchase 55% equity interest in Rituo Automotive. Upon completion of the Disposal, Rituo Automotive will no longer be a subsidiary of the Company and the Company will not have any interest in Rituo Automotive.

Consideration:

The consideration of RMB58.60 million (equivalent to approximately HK\$70.32 million) (the “**Disposal Consideration**”) was arrived at based on arm’s length negotiations between the vendor and the purchaser and on normal commercial terms. The Disposal consideration was determined primarily with reference to the following factors: (i) the operating situation at Rituo Automotive; (ii) the non-exercise of the Profit Guarantee; (iii) the amount of Disposal Consideration representing a 30.8% premium to the 55% proportionate net asset value of Rituo Automotive as at 31 October 2012; and (iv) the amount of the capital contribution injected by Weihai Electronic into Rituo Automotive on February 2011 in 2011 Rituo Automotive Acquisition (“**Original Capital Injection**”), which was made reference to factors including but not limited to the Profit Guarantee.

Payment:

The Disposal Consideration shall be paid in full by Wang Xiang on or before 31 December 2012. If Wang Xiang fails to pay the Disposal Consideration in full by 1 January 2013, he will also have to pay interest equivalent to 10% above the benchmark interest rate on loans over the same period as announced by the People’s Bank of China which has been accrued on the balance of the Disposal Consideration. Wang Xiang and Rituo Automotive will enter into a separate irrevocable letter of undertaking with joint and unlimited liabilities in respect of the balance of the Disposal Consideration and the interest accrued thereunder. Pursuant to the Supplemental Disposal Agreement, the payment date of the Disposal Consideration is extended from 31 December 2012 to 31 March 2013 and if Wang Xiang fails to pay the Disposal Consideration in full by 31 March 2013, he will also pay interest equivalent to 10% above the benchmark interest rate on loans over the same period as announced by the People’s Bank of China which has been accrued on the balance of the Disposal Consideration.

PRINCIPAL TERMS OF THE ACQUISITION AGREEMENT

Date: 20 November 2012 (after trading hours)

Parties:

- (1) Rituo Automotive, the vendor;
- (2) Weihai Electronic, the purchaser; and
- (3) Rituo Technology.

LETTER FROM THE BOARD

Asset to be acquired:

Pursuant to the Acquisition Agreement, Weihai Electronic has agreed to acquire, and Rituo Automotive has agreed to sell 100% equity interest in Rituo Technology.

Consideration:

The consideration of RMB15.00 million (equivalent to approximately HK\$18.00 million) (the “**Acquisition Consideration**”) was arrived at based on arm’s length negotiations between the vendor and the purchaser on normal commercial terms and by reference to, among other things, the total amount invested into Rituo Technology by Rituo Automotive and the net asset value of Rituo Technology as at 31 October 2012.

The original capital amount Rituo Automotive invested into Rituo Technology is RMB7.50 million (equivalent to approximately HK\$9.00 million).

Payment:

The Acquisition Consideration shall be paid by Weihai Electronic on or before 31 December 2012. Pursuant to the Supplemental Acquisition Agreement, the payment date of the Acquisition Consideration is extended from 31 December 2012 to 31 March 2013.

PROFIT GUARANTEE IN RELATION TO THE 2011 RITUO AUTOMOTIVE ACQUISITION

References are made to the announcement of the Company dated 21 February 2011, the annual report of the Company for the year ended 31 December 2011 and the interim report of the Company for the period ended 30 June 2012. Pursuant the capital increase agreement dated 21 February 2011 entered into between Weihai Electronic, Wang Xiang, Wang Weiguo and Rituo Automotive, if the aggregated amount of the audited net profit after tax of Rituo Automotive for 2011 and 2012 is less than RMB40 million (equivalent to approximately HK\$48 million) (the “**Profit Guarantee**”), Wang Xiang and Wang Weiguo shall pay Weihai Electronic 34.4% of the difference between the actual audited net profit after tax and RMB40 million (equivalent to approximately HK\$48 million), and Weihai Electronic will have to contribute such sum back into Rituo Automotive through increasing the registered capital of Rituo Automotive, while Wang Xiang and Wang Weiguo will proportionally contribute capital to Rituo Automotive according to the sum that Weihai Electronic contributed.

The Directors are of the view that, as the profit after taxation and extraordinary items for the year ended 31 December 2011 was approximately RMB2.6 million and the loss after taxation and extraordinary item for the ten months ended 31 October 2012 was approximately RMB17.2 million, it is unlikely the Profit Guarantee can be met.

The Directors are of the view that, given (i) the rights to exercise under the Profit Guarantee is a factor that both Weihai Electronic and Wang Xiang take into account in the arm’s length negotiation of the Disposal Consideration, (ii) the exercise of rights under the Profit Guarantee would only result in a one-time non-operating gain in the income statement of the Company but not providing cash flow to the Group; and (iii) the Disposal can resolve the ongoing management deadlock regarding the management of Rituo Automotive Group and

LETTER FROM THE BOARD

allow the Group's management to utilise more time and resources on other core operations of the Group that they can better control and manage, it is in the commercial interest of the Group after arm's length negotiation to dispose of the equity interest in Rituo Automotive at the Disposal Consideration without exercise of the rights under the Profit Guarantee, which in turn would bring the Group a positive cash flow, with which the Group could utilize for other business with potential growth prospects within the Group. The non-exercise of the Profit Guarantee will result in a decrease in the net asset value of the Group as the fair value of the contingent consideration arising from the Profit Guarantee was recognized as a financial asset on the balance sheet of the Group dated 31 December 2011 as disclosed in the annual report 2011 of the Company. The Directors confirm that the fair value of the contingent consideration arising from the Profit Guarantee and thus the actual amount to be derecognized could only be ascertained and finalized upon completion of the Disposal. The Directors further confirm that, the net proceeds to be received from the Disposal and the Acquisition would have a negating effect on the derecognition of the above financial asset. Save as disclosed above, the Directors confirm that the non-exercise of the Profit Guarantee will not have any other material negative financial effects to the Company. In light of the above, despite the Disposal Agreement does not specifically provide for the Profit Guarantee to be cancelled, the Directors consider that the non-exercise of rights under the Profit Guarantee and the Disposal are on normal commercial terms and are fair and reasonable and in the interest of the Company and the Shareholders as a whole. Weihai Electronic therefore will not exercise such rights after the completion of the Disposal.

REASONS FOR AND BENEFITS OF THE DISPOSAL AGREEMENT, THE SUPPLEMENTAL DISPOSAL AGREEMENT AND THE ACQUISITION AGREEMENT AND THE SUPPLEMENTAL ACQUISITION AGREEMENT

The main reasons and benefits of the Disposal and the Acquisition are as follows:

The Company is principally engaged in the research and development, manufacture and sales of external and internal signal cable assembly, power cord assembly, signal transmission wire and cable, connectors, antennas, automotive wiring harness and other products for the world 3Cs' industry. One of the Company's long term plan includes developing its own automotive wiring harness business.

As Rituo Automotive has not been as profitable as expected despite the Company's attempted efforts to restructure the strategic direction and overall operations with the original management team of Rituo Automotive including focusing on design, production and sale of its own automotive wiring harness instead of processing on behalf of other third party automotive wiring harness suppliers, shifting of labour intensive production process to Dezhou, Shandong Province, PRC where the Board believes they can enjoy lower labour cost benefits and improving the internal operation system for more effective cost control, the Board wishes to dispose of the automotive wiring harness business engaged by Rituo Automotive but acquire Rituo Technology as a wholly-owned subsidiary of the Group, so that the Group can continue to develop its own automotive wiring harness business where it can have greater management autonomy and control. The Directors are of the view that, given (i) the rights to exercise under the Profit Guarantee is a factor that both Weihai Electronic and Wang Xiang take into account in the arm's length negotiation of the Disposal Consideration, (ii) the exercise of rights under the Profit Guarantee would only result in a one-time non-operating gain in the income

LETTER FROM THE BOARD

statement of the Company but not providing cash flow to the Group, and (iii) the Disposal can resolve the ongoing management deadlock regarding the management of Rituo Automotive Group and allow the Group's management to utilise more time and resources on other core operations of the Group that they can better control and manage, it is in the commercial interest of the Group after arm's length negotiation to dispose of the equity interest in Rituo Automotive at the Disposal Consideration without exercise of the rights under the profit Guarantee, which in turn would bring the Group a positive cash flow, with which the Group could utilize for other business with potential growth prospects within the Group.

Despite the loss incurred by Rituo Technology as disclosed in the section below headed "Information about the Parties — (iv) Rituo Technology", the Group considers it desirable to acquire Rituo Technology on the basis that: (i) the losses incurred by Rituo Technology were mainly attributable to the issues relating to the operations and management of the original management team of Rituo Technology and the increase in investment in the research, quality control and development of customer base; (ii) it has the necessary assets and experience in production of its own automotive wiring harness products and can therefore assist the Group in making a swift entry into the automotive industry; and (iii) through the Acquisition, the Group can also utilize its customer base, together with the Group's existing expertise in signal transmission and connectivity and create synergies by leveraging on its manufacturing know-how techniques and capabilities of the Group in order to further expand and strengthen the size and profitability of the Group's new business in automotive signal transmission wires. Following completion of the Acquisition, the Group will consider undertaking steps to improve the operations profitability of Rituo Technology including but not limited to, putting in place the necessary management team from the Group to be fully involved in the daily operations, moving its production facility to Dezhou, Shandong Province, PRC, improving the manufacturing efficiency and putting in place more effective cost control. The Directors are of the view that the plans above, if undertaken, would achieve a better manufacturing efficiency, economies of scale and effective cost control.

Therefore, the Directors consider that the Disposal and the Acquisition and the terms of the Disposal Agreement, the Supplemental Disposal Agreement, the Acquisition Agreement and the Supplemental Acquisition Agreement are on normal commercial terms and are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

INFORMATION ABOUT THE PARTIES

(i) The Company

The Company is principally engaged in the provision of one-stop signal transmission and connectivity solutions and related products. The Group is engaged in the design, develop, manufacture and sale of a comprehensive range of products including external and internal signal cable assembly, power cord assembly, signal transmission wire & cable, connectors, antennas, automotive wiring harness and other products.

LETTER FROM THE BOARD

(ii) Weihai Electronic

Weihai Electronic is a wholly-owned subsidiary of the Company incorporated in the PRC, which is principally engaged in the business of manufacturing power cord assembly and cable assembly products.

(iii) Rituo Automotive

Rituo Automotive is a limited liability company established in the PRC on 6 January 2005 and is owned as to 55% by Weihai Electronic, 31.5% by Wang Xiang and 13.5% by Wang Weiguo before completion of the Disposal. Its approved scope of business includes design, research and development, manufacture and sale of automotive wiring harness products. Rituo Automotive primarily engages in offering processing services to an automotive wiring harness supplier based in Tianjin, which in turn supplies its products to PRC automobile manufacturers including FAW Haima Automobile Co. Ltd. For the ten months ended 31 October 2012, 73.9% of the total revenue of Rituo Automotive still came from undertaking sub-contracting work as compared to that of 54.7% for the year ended 31 December 2011 — that is, processing of automotive harness products with materials supplied by client(s). Set out below are the financial results of Rituo Automotive for the year ended 31 December 2010 and 31 December 2011 and the ten months ended 31 October 2012, which were prepared in accordance with the PRC generally accepted accounting principles:

	For the year ended 31 December		For the ten months ended 31 October
	2010	2011	2012
	Audited	Audited	Unaudited
	(RMB'000)	(RMB'000)	(RMB'000)
Revenue	206,361	156,725	131,053
Gross Profit	23,338	30,468	17,912
Profit before taxation and extraordinary items	1,360	2,497	-19,568
Profit after taxation and extraordinary items	575	2,602	-17,211
		As at 31 December 2011	As at 31 October 2012
		Audited	Unaudited
		(RMB'000)	(RMB'000)
Net asset value		96,325	81,356

LETTER FROM THE BOARD

The Company expects to realize from the Disposal a net gain before tax of approximately RMB3.05 million (equivalent to approximately HK\$3.66 million), representing the difference between the consideration for the Disposal and the book carrying value of Rituo Automotive attributable to the Group at completion of the Disposal. The net gain before tax of approximately RMB3.05 million is calculated, assuming completion of Disposal took place on 31 October 2012, from the income statement perspective of Rituo Automotive and at the level of Weihai Electronic and takes into account, according to the PRC generally accepted accounting principles, the reversal of loss incurred by Rituo Automotive attributable to Weihai Electronic as a result of the Disposal for the ten months ended 31 October 2012, the amount of Disposal Consideration and the cost incurred in relation to the 2011 Rituo Acquisition only. The Directors confirm that the above calculation did not take into account the derecognition of the fair value of the contingent consideration arising from the Profit Guarantee as such fair value could not be finalized until completion of the Disposal. The Company intends to use the proceeds from the Disposal as general working capital of the Company.

Wang Xiang and Wang Weiguo are existing shareholders of Rituo Automotive.

(iv) Rituo Technology

Rituo Technology is a limited liability company established in the PRC on 18 August 2000 and is 100% wholly-owned by Rituo Automotive before completion of the Acquisition. Its approved scope of business includes design, research and development, manufacture and sale of automotive wiring harness products and automotive electronics. It is primarily engaged in the design, research and development, manufacture and direct sale of automotive wiring harness products to end PRC automobile customers including Beiqi Foton Motor Co., Ltd. and Chery Automobile Co. Ltd. Set out below are the financial results of Rituo Technology for the year ended 31 December 2010 and 31 December 2011 and the ten months ended 31 October 2012, which were prepared in accordance with the PRC generally accepted accounting principles:

	For the year ended 31 December		For the ten months ended
	2010	2011	31 October
	Audited	Audited	Unaudited
	(RMB'000)	(RMB'000)	(RMB'000)
Revenue	108,648	89,213	58,757
Gross Profit	12,376	16,498	5,997
Profit before taxation and extraordinary items	1,040	-361	-13,881
Profit after taxation and extraordinary items	780	-386	-11,752

LETTER FROM THE BOARD

	As at 31 December 2011 Audited (RMB'000)	As at 31 October 2012 Unaudited (RMB'000)
Net asset value	18,071	15,147

There were inter-company transactions between Rituo Automotive and Rituo Technology and the main transaction was for the procurement of imported raw materials, such as, sheathing and terminals* (護套和端子) used for wire harness assembly that Rituo Automotive has centrally procured as a holding company on behalf of Rituo Technology before the Disposal, such inter-company transaction amounted to approximately RMB22.65 million (equivalent to approximately HK\$27.18 million), RMB16.49 million (equivalent to approximately HK\$19.79 million) and RMB13.38 million (equivalent to approximately HK\$16.06 million) for the year ended 31 December 2010 and 2011 and the ten months ended 31 October 2012 respectively. The Directors confirmed that given the long standing relationship Rituo Automotive has with the overseas suppliers of such raw materials, Rituo Technology will continue to rely on Rituo Automotive for the procurement of such imported raw materials in the foreseeable future but will gradually try to source such domestic raw materials instead on its own following the completion of the Disposal and the Acquisition.

IMPLICATION UNDER THE LISTING RULES

Wang Xiang holds more than 30% of the registered capital of Rituo Automotive and is a director of Rituo Automotive immediately before and after the Disposal. Wang Xiang is therefore considered as a director of the listed issuer (as defined in Rule 14A.10 (7) of the Listing Rule) within the preceding 12 months. Accordingly, both Wang Xiang and Rituo Automotive are connected persons of the Company and each of the Disposal and Acquisition constitutes a connected transaction of the Company. The Disposal and the Acquisition, when aggregated, is a connected transaction which is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, both Wang Xiang and Rituo Automotive do not hold any shares in the Company.

As none of the Directors had a material interest in the Disposal and Acquisition, no Director was required to abstain from voting on the Board resolutions approving the Disposal and Acquisition.

Each of the Disposal and the Acquisition constitutes a transaction pursuant to Rule 14.04(1)(A) of the Listing Rules and the applicable percentage ratios (as defined in the Listing Rules) in respect of the Disposal and the Acquisition, when aggregated, are more than 5% but less than 25%. Accordingly, the Disposal and the Acquisition, when aggregated, constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules.

LETTER FROM THE BOARD

THE EGM

The EGM will be convened at Pudong Road, The First Industrial Park, Economic and Technological Development Zone, Weihai City, Shandong Province, PRC on Saturday, 12 January 2013 at 10:30 a.m., a notice of which is set out on pages 45 to 46 of this circular, in which ordinary resolutions will be proposed for the Independent Shareholders to consider and, if thought fit, approve the Disposal and the Acquisition and the transactions thereunder. Voting at the EGM will be conducted by way of poll pursuant to the Listing Rules. Any connected persons and/or Shareholders with a material interest in the Acquisition and their respective associates will abstain from voting on the resolutions approving and ratifying the Disposal Agreement, the Supplemental Disposal Agreement, the Acquisition Agreement, the Supplemental Acquisition Agreement and the transaction contemplated thereunder at the EGM. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no Shareholders will be required to abstain from voting in relation to the resolutions to approve the Disposal Agreement, the Supplemental Disposal Agreement, the Acquisition Agreement and the Supplemental Acquisition Agreement.

RECOMMENDATION

The Independent Board Committee composed of Mr. Shu Wa Tung, Laurence, Mr. Song Lizhong and Ms. Zheng Lin has been formed to advise the Independent Shareholders. China Galaxy International has been appointed as the independent financial adviser to advise both the Independent Board Committee and the Independent Shareholders in respect of the Disposal and the Acquisition.

Your attention is drawn to the letter from the Independent Board Committee as set out on pages 16 to 17 of this circular which contains its recommendation to the Independent Shareholders as to voting at the EGM.

Your attention is also drawn to the letter from China Galaxy International as set out on pages 18 to 39 of this circular, which contains its advice to the Independent Board Committee and the Independent Shareholders in relation to the Disposal and the Acquisition.

The Independent Board Committee, having taken into account the advice and recommendation of China Galaxy International, is of the view that the Disposal and the Acquisition are in the interests of the Company and the Shareholders as a whole and the terms of the Disposal Agreement, the Supplemental Disposal Agreement, the Acquisition Agreement and the Supplemental Acquisition Agreement are fair and reasonable so far as the interests of the Independent Shareholders are concerned. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Disposal Agreement, the Supplemental Disposal Agreement, the Acquisition Agreement, the Supplemental Acquisition Agreement and the transaction thereunder.

LETTER FROM THE BOARD

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

By order of the Board
HL TECHNOLOGY GROUP LIMITED
Chi Shaolin
Chairman & CE



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)

24 December 2012

To the Independent Shareholders

Dear Sir/Madam,

**CONNECTED TRANSACTION
AND
DISCLOSEABLE TRANSACTION
IN RELATION TO
THE DISPOSAL OF EQUITY INTEREST OF A NON-WHOLLY OWNED
SUBSIDIARY AND ACQUISITION OF RITUO TECHNOLOGY**

INTRODUCTION

We refer to the circular dated 24 December 2012 (the “**Circular**”) of the Company of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein unless the context requires otherwise.

We, being the independent non-executive Directors constituting the Independent Board Committee, are writing to advise you as a Shareholder whether in the views of the Independent Board Committee the terms of the Disposal Agreement, the Supplemental Disposal Agreement the Acquisition Agreement and the Supplemental Acquisition Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole and to advise Shareholders on how to vote.

We wish to draw your attention to the letter from the Board as set out on pages 5 to 15 of the Circular and the letter from China Galaxy International as set out on pages 18 to 39 of the Circular which contains, inter alia, its advice and recommendation to us regarding the terms of the Disposal Agreement, the Supplemental Disposal Agreement, the Acquisition Agreement and the Supplemental Acquisition Agreement, with the principal factors and reasons for its advice and recommendation.

* for identification purpose only

LETTER FROM THE INDEPENDENT BOARD COMMITTEE
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RECOMMENDATION

Having taken into account the advice and recommendation of China Galaxy International, we are of the view that the Disposal and the Acquisition is in the interests of the Company and the Shareholders as a whole and the terms of the Disposal Agreement, the Supplemental Disposal Agreement, the Acquisition Agreement and the Supplemental Acquisition Agreement are fair and reasonable so far as the interests of the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Disposal and the Acquisition and the transaction thereunder.

Yours faithfully,
For and on behalf of
the Independent Board Committee of
HL Technology Group Limited
Mr. Shu Wa Tung, Laurence, Mr. Song Lizhong and Ms. Zheng Lin
Independent Non-executive Directors

LETTER FROM THE CHINA GALAXY INTERNATIONAL

The following is the text from China Galaxy International Securities (Hong Kong) Co., Limited to the Independent Board Committee and the Independent Shareholders, prepared for the purpose of inclusion in this circular.

Room 3501–3507, 35/F
Cosco Tower
183 Queen's Road Central
Hong Kong

24 December 2012

*To: The Independent Board Committee and
the Independent Shareholders of HL Technology Group Limited*

Dear Sirs,

CONNECTED AND DISCLOSEABLE TRANSACTION IN RELATION TO THE DISPOSAL OF EQUITY INTEREST OF A NON-WHOLLY OWNED SUBSIDIARY AND ACQUISITION OF RITUO TECHNOLOGY

INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to, among other things, the terms of the Disposal Agreement and the Acquisition Agreement, details of which are contained in the circular of the Company (the “**Circular**”) to the Shareholders dated 24 December 2012, of which this letter forms part. Capitalized terms used in this letter shall have the same meanings as those defined in the Circular unless otherwise defined or the context requires otherwise.

The Disposal and the Acquisition

On 20 November 2012, Weihai Electronic, a wholly-owned subsidiary of the Company, entered into the Disposal Agreement with Wang Xiang, pursuant to which Weihai Electronic has agreed to sell, and Wang Xiang has agreed to purchase 55% equity interest in Rituo Automotive (which in turn holds 100% of Rituo Technology before the completion of the Disposal and the Acquisition, and collectively defined, for the purpose of this letter only, as the “**Rituo Automotive Group**”) at the consideration of RMB58.6 million (equivalent to approximately HK\$70.3 million).

On the same day, Weihai Electronic entered into an Acquisition Agreement with Rituo Automotive, pursuant to which Rituo Automotive has agreed to sell, and Weihai Electronic has agreed to purchase 100% equity interest in Rituo Technology at the consideration of RMB15.0 million (equivalent to approximately HK\$18.0 million). The Acquisition is subject to the completion of the Disposal.

LETTER FROM THE CHINA GALAXY INTERNATIONAL

On 19 December 2012 (after trading hours), Weihai Electronic and Wang Xiang entered into the Supplemental Disposal Agreement, pursuant to which (i) Weihai Electronic and Wang Xiang agreed to extend the date of payment by Wang Xiang of the Disposal Consideration from 31 December 2012 to 31 March 2013; and (ii) if Wang Xiang fails to pay the Disposal Consideration in full by 31 March 2013, he will also pay interest equivalent to 10% above the benchmark interest rate on loans over the same period as announced by the People's Bank of China which has been accrued on the balance of the Disposal Consideration. On the same day (after trading hours), Weihai Electronic and Rituo Automotive entered into the Supplemental Acquisition Agreement pursuant to which Weihai Electronic and Rituo Automotive agreed to extend the date of payment by Weihai Electronic of the Acquisition Consideration from 31 December 2012 to 31 March 2013.

Listing Rules Implication

Wang Xiang holds more than 30% of the registered capital of Rituo Automotive and is a director of Rituo Automotive immediately before and after the Disposal. Wang Xiang is therefore considered as a director of the listed issuer (as defined in Rule 14A.10 (7) of the Listing Rule) within the preceding 12 months. Accordingly, both Wang Xiang and Rituo Automotive are connected persons of the Company and each of the Disposal and the Acquisition constitutes a connected transaction of the Company. The Disposal and the Acquisition, when aggregated, is a connected transaction which is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Each of the Disposal and the Acquisition constitutes a transaction pursuant to Rule 14.04(1)(A) of the Listing Rules and the applicable percentage ratios (as defined in the Listing Rules) in respect of the Disposal and the Acquisition, when aggregated, are more than 5% but less than 25%. Accordingly, the Disposal and the Acquisition, when aggregated, constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, both Wang Xiang and Rituo Automotive do not hold any shares in the Company. As none of the Directors had a material interest in the Disposal and Acquisition, no Director was required to abstain from voting on the Board resolutions approving the Disposal and Acquisition.

The Independent Board Committee, comprising all of the three independent non-executive Directors, namely Mr. Shu Wa Tung, Laurence, Mr. Song Lizhong and Ms. Zheng Lin, has been established to consider and give an opinion to the Independent Shareholders on whether (1) the terms of the Disposal Agreement, the Supplemental Disposal Agreement, the Acquisition Agreement and the Supplemental Acquisition Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (2) the Disposal and the Acquisition are in the interests of the Company and the Shareholders as a whole. We, China Galaxy International Securities (Hong Kong) Co., Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

BASIS OF OUR OPINION AND RECOMMENDATION

In arriving at our recommendation, we have relied on the statements, information and representations contained in the Circular and the information and representations provided to us by the Directors and the management of the Company. We have assumed that all information and representations contained or referred to in the Circular and all information and representations which have been provided by the Directors and the management of the Company are true and accurate at the time they were made and will continue to be true and accurate as at the date of despatch of the Circular. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and the management of the Company.

The Directors collectively and individually accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive and there are no other matters the omission of which would make any statement contained in the Circular misleading.

We consider that we have been provided with sufficient information on which to form a reasonable basis for our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any facts or circumstances which would render the information provided and representations made to us untrue, inaccurate or misleading. We consider that we have performed all the necessary steps to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinion. We have not, however, carried out any independent verification of the information provided by the Directors and the management of the Company, nor have we conducted an independent investigation into the business and affairs or the prospects of the Company, the Group or any of their respective associates.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources which are the latest information publicly available to the best of our knowledge, the sole responsibility of China Galaxy International Securities (Hong Kong) Co., Limited is to ensure that such information has been correctly extracted from the relevant sources.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion, we have taken into consideration of the following principal factors and reasons:

I. BACKGROUND TO AND REASONS FOR THE DISPOSAL AND ACQUISITION

Business overview of the Group

The Group is principally engaged in the provision of signal transmission and connectivity solutions and related products for the global 3Cs (computing, communication and consumer electronics) markets. The Group entered the PRC

LETTER FROM THE CHINA GALAXY INTERNATIONAL

automotive wiring harness market in 2011 through the acquisition of Rituo Automotive Group by way of capital injection into Rituo Automotive (the “**2011 Rituo Acquisition**”). Reference is made to the announcement of the Group dated 21 February 2011 in relation to the acquisition of Rituo Automotive Group (“**the 2011 Rituo Acquisition Announcement**”).

Set out below is the financial information of the Group for the six months ended 30 June 2011 and 30 June 2012 and each of the two years ended 31 December 2011 as extracted from the Group’s interim report for the six months ended 30 June 2012 (the “**2012 Interim Report**”) and its annual report for the year ended 31 December 2011 (the “**2011 Annual Report**”) respectively:

Consolidated Income Statement	For the year ended		For the six months ended		Growth rate	
	31 December		30 June		YoY	6 months
	2010	2011	2011	2012	2010-2011	2011-2012
	(Audited) (RMB'000)	(Audited) (RMB'000)	(Unaudited) (RMB'000)	(Unaudited) (RMB'000)		
Revenues	1,413,960	1,865,376	881,691	1,030,846	31.93%	16.92%
Gross Profit	325,614	378,405	187,932	162,927	16.21%	-13.31%
Gross Profit Margin (%)	23.0%	20.3%	21.3%	15.8%		
Profit for the year/period	155,021	119,360	86,773	22,041	-23.00%	-74.60%
Net Profit Margin (%)	11.0%	6.4%	9.8%	2.1%		
Profit attributable to equity holders	152,670	116,071	84,201	27,876	-23.97%	-66.89%

Consolidated Balance Sheet

	As at 31 December		As at 30 June	
	2010	2011	2011	2012
	(Audited)	(Audited)	(Unaudited)	(Unaudited)
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Total assets	1,981,220	2,294,139	2,378,040	2,357,477
Net assets	923,471	1,092,527	1,131,359	1,122,044

As disclosed in the 2011 Annual Report and the 2012 Interim Report, since the second half of 2011, global economies including the global 3Cs markets have generally been challenging and difficult, affecting market demand and pricing capability. Due to the slowdown in market demand, the Group adopted a more aggressive pricing strategy to capture more market share in a relatively depressed market. As a result, notwithstanding the aggressive pricing strategy, the Group managed to achieve an increase of approximately 31.93% in revenue for the year ended 31 December 2011 compared to that of 2010, and an increase of approximately 16.92% for the six months ended 30 June 2012 as compared to the corresponding period in 2011. However, on the back of the overall increase in raw materials and labor costs and the continued depreciation of US dollar against RMB in recent time, the Group’s adoption of a more aggressive pricing strategy has resulted in a continuous decline of gross profit margin, from approximately 23.0%

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for the year ended 31 December 2010 to approximately 20.3% for the year ended 31 December 2011, and continued with a steeper decline to approximately 15.8% for the six months ended 30 June 2012.

In addition to the abovementioned factors that affected the gross profit margin, the decrease in net profit and net profit margin since 2010 was primarily due to factors including but not limited to, (i) the significant increase in operating expenses, including selling and distribution expenses, administrative and general expenses and research and development expenses, as the Group continued to invest in new products and markets that did not yet have revenue contribution; (ii) rising financial cost due to relatively higher interest rate and increase in the level of bank borrowings, and; (iii) the acquisitions made by the Group in 2011 (including Rituo Automotive Group), where the profitability of those newly acquired entities was relatively lower than that of the Group's other existing business as a whole.

Information on Rituo Automotive and Rituo Technology

(i) Overall description of business

Rituo Automotive is a limited liability company established in the PRC on 6 January 2005 and is owned as to 55% by Weihai Electronic, 31.5% by Wang Xiang and 13.5% by Wang Weiguo before completion of the Disposal. Its approved scope of business includes design, research and development, manufacture and sale of automotive wiring harness products, and it is primarily engaged in offering processing services to an automotive wiring harness supplier based in Tianjin, which in turn mainly supply its products to PRC automobile manufacturers, including FAW Haima Automobile Co. Ltd.

Rituo Technology is a limited liability company established in the PRC on 18 August 2000 and is 100% wholly-owned by Rituo Automotive before completion of the Acquisition. Its approved scope of business includes design, research and development, manufacture and sale of automotive wiring harness products and automotive electronics and it is primarily engaged in design, development, manufacture and direct sale of automotive wiring harness products to end PRC automobile customers, such as Beiqi Foton Motor Co., Ltd and Chery Automobile Co. Ltd.

The business of both Rituo Automotive and Rituo Technology involve, and are closely related to, automotive wiring harness. Automotive wiring harness is the conduit for the transmission of signals and electrical power in automobiles, where wire harnesses are compactly bundled wires and data circuits that function as the central nervous system of a vehicle. They are used to ensure, among other things, safety and basic functions (going, turning and stopping), and for the operation of battery-operated electronics in automobiles.

The Directors confirmed that despite the business of both Rituo Automotive and Rituo Technology involve, and are closely related to, automotive wiring harness, Rituo Automotive is focused on processing for third party automotive wiring harness

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supplier(s) as a sub-contractor, while Rituo Technology is focused on design and manufacturing of its own automotive wiring harness products which it sells directly to end customer(s). According to information provided by the Company, the main inter-company transactions between Rituo Automotive and Rituo Technology is the procurement of imported raw materials such as sheathing and terminals that Rituo Automotive has centrally procured as a holding company on behalf of Rituo Technology. Such inter-company transactions amounted to approximately RMB22.7 million, RMB16.5 million and RMB13.4 million for the year ended 31 December 2010 and 2011 and ten months ended 31 October 2012 respectively. The Directors confirmed that because of the long standing relationship Rituo Automotive has with the overseas suppliers of such raw materials, Rituo Technology will continue to rely on Rituo Automotive for the procurement of such imported raw materials in the foreseeable future but will also gradually try to source such raw materials domestically on its own following the completion of the Disposal and Acquisition.

(ii) Key financial information

Set out below are the financial results of Rituo Automotive Group (consolidated level) for the two years ended 31 December 2011 and ten months ended 31 October 2012, which were prepared in accordance with the PRC generally accepted accounting principles:

	For the year ended		For the
	31 December		ten months
	2010	2011	ended
	Audited	Audited	31 October
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	2012
			Unaudited
			<i>(RMB'000)</i>
Revenue	206,361	156,725	131,053
Gross profit	23,338	30,468	17,912
Profit/(loss) before taxation and extraordinary items	1,360	2,497	(19,568)
Profit/(loss) after taxation and extraordinary items	575	2,602	(17,211)
		As at	As at
		31 December	31 October
		2011	2012
		Audited	Unaudited
		<i>(RMB'000)</i>	<i>(RMB'000)</i>
Net asset value		96,325	81,356

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According to the Directors, the decrease in revenue of Rituo Automotive Group in 2011 as compared to 2010 was mainly due to (i) decreased market demand due to overall weakness in the PRC automobile market; and (ii) the loss of some customers as Rituo Automotive Group attempted to streamline its customer base by focusing on customers which can generate higher profitability. Gross profit increased from RMB23.3 million in 2010 to RMB30.5 million in 2011 mainly due to the relatively higher level of profitability generated by a smaller group of customers as Rituo Automotive Group streamlined its customer base. As a result, gross profit margin also increased to 19.4% in 2011 as compared to 11.3% in 2010. The increase in profit before and after taxation and extraordinary items in 2011 as compared to 2010 was mainly due to the increase in the profit of Rituo Automotive.

As advised by the Directors, the PRC automotive market environment remained challenging for the ten months ended 31 October 2012 and market demand therefore remained weak. On the back of such unfavourable market condition, the revenue and profitability of Rituo Automotive Group was also negatively affected in 2012 as a result of Rituo Automotive losing some of its production capacity as it moved its production facility in Tianjin during the period from end of 2011 till first quarter of 2012 as well as incurring additional relocation charges, and Rituo Automotive Group reported a reduced gross profit margin of 13.7%. For the ten months ended 31 October 2012, Rituo Automotive Group made a loss after taxation and extraordinary items of about RMB17.2 million, of which RMB11.8 million was attributable to Rituo Technology as set out below.

Set out below are the financial results of Rituo Technology for the two years ended 31 December 2011 and ten months ended 31 October 2012, which were prepared in accordance with the PRC generally accepted accounting principles:

	For the year ended 31 December		For the ten months ended 31 October
	2010	2011	2012
	Audited	Audited	Unaudited
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Revenue	108,648	89,213	58,757
Gross profit	12,376	16,498	5,997
Profit/(loss) before taxation and extraordinary items	1,040	(361)	(13,881)
Profit/(loss) after taxation and extraordinary items	780	(386)	(11,752)
		As at 31 December 2011	As at 31 October 2012
		Audited	Unaudited
		<i>(RMB'000)</i>	<i>(RMB'000)</i>
Net asset value		18,071	15,147

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According to the Directors, in line with the reasons for the performance of Rituo Automotive Group in 2011 as stated above, the revenue of Rituo Technology decreased by about 17.9% in 2011 as compared to 2010. Gross profit increased from RMB12.4 million in 2010 to RMB16.5 million in 2011 as Rituo Technology was able to move part of its product assembly production process to the Group's Dezhou production base, thereby reducing labour cost. Moreover, with the attempt to streamline the customer base by focusing on customers with higher profitability potential while foregoing some of the less profitable customers, the relatively higher level of profitability generated by a smaller group of customers contributed to the improved gross profit margin. As a result, gross profit margin increase to 18.5% in 2011 as compared to 11.4% in 2010. The decrease in profit before and after taxation and extraordinary items in 2011 as compared to 2010 was mainly due to higher cost of operating expenses, primarily in selling and distribution expenses and research and development expenses as additional resources are spent for new customer development such as Chery Automobile Co. Ltd, which was a new customer added in the second half of 2011; and increased amount was spent on research and development and quality control as Rituo Technology sought to increase the quality and varieties of its product portfolio in order to better serve its customers. The continuing investment in developing new customers and improving research and development and quality control continued to impact on the net profit margin of Rituo Technology for the ten months ended 31 October 2012.

Reasons for and benefits of the Disposal and Acquisition

By virtue of the Disposal Agreement and the Acquisition Agreement together with the Supplemental Disposal Agreement and the Supplemental Acquisition Agreement, upon completion of the Disposal and the Acquisition, the Group will own 100% equity interest of Rituo Technology and will cease to have any equity interest in Rituo Automotive. The Company confirmed that the Acquisition is subject to the completion of the Disposal.

(i) The 2011 Rituo Acquisition

It is noted from the 2011 Rituo Acquisition Announcement that the Group acquired 55% of Rituo Automotive Group by way of a capital injection of RMB58.6 million into Rituo Automotive (the “**Capital Increase**”) in February 2011. The acquisition of Rituo Automotive Group marked the Group's entry into the PRC automotive wiring harness market as the Group continued to execute its growth strategy through development of new products and/or entering into new industries whilst focusing on its core competency of providing signal transmission and connectivity solutions after the listing of its shares on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) in 2010.

It is further noted that pursuant to the Capital Increase, the then existing shareholders of Rituo Automotive, namely Wang Xiang and Wang Weiguo, guaranteed to Weihai Electronic that the aggregate amount of the audited net profit after tax of Rituo Automotive Group for 2011 and 2012 will not be less than RMB40

million (equivalent to approximately HK\$48 million) (the “**Profit Guarantee**”). As part of the Profit Guarantee, if the aggregate amount of the audited net profit after tax of Rituo Automotive Group for 2011 and 2012 is less than RMB40 million, Wang Xiang and Wang Weiguo shall pay Weihai Electronic 34.4% of the difference between the actual audited net profit after tax and RMB40 million, and Weihai Electronic will have to contribute such sum back into Rituo Automotive through increase in registered capital, while Wang Xiang and Wang Weiguo will proportionally contribute capital to Rituo Automotive according to the sum that Weihai Electronic contributed.

As stated in the 2011 Rituo Acquisition Announcement, given the profitability level of Rituo Automotive Group at the time of the Capital Increase, following completion of the Capital Increase, the Group will consider undertaking steps to improve the profitability of Rituo Automotive Group (which reported net profit after tax of merely RMB575,000 for the year ended 31 December 2010), including without limitation, moving part of its production facility to areas where labour wages are relatively lower, and improving the manufacturing efficiency and putting in place more effective cost control.

(ii) Post 2011 Rituo Acquisition Developments

As advised by the Directors, subsequent to the 2011 Rituo Acquisition, the Company has primarily relied on the original management team of Rituo Automotive Group, headed by Wang Xiang and Wang Weiguo, for its operation and management. The Company, as a 55% controlling shareholder of Rituo Automotive, had attempted to implement some of the following strategic directions and measures with the original management team of Rituo Automotive Group in a bid to improve the profitability of Rituo Automotive Group, with limited success:

- shifting the focus of Rituo Automotive from an automotive wire harness product processing/sub-contractor company to one with increased level of design and development capability and the ability to sell its own automotive wire harness products directly to end customers, as the Company believed that building an automotive wiring harness business that focus on developing and selling its own products directly to end customers is a more sustainable business model in the long run. However, according to information provided by the Company, for the ten months ended 31 October 2012, 73.9% of the total revenue of Rituo Automotive still came from undertaking sub-contracting work as compared to 54.7% for the year ended 31 December 2011 — that is, processing of automotive harness products with materials supplied by client(s).
- shifting a majority of the labour intensive production process such as product assembly required for fulfilling customers’ orders to Dezhou, Shandong province where the Company has one of its existing cable manufacturing bases, in order to enjoy the relatively lower labour cost and more stable labour force in Dezhou, and reduce manufacturing costs and

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improve production efficiency of Rituo Automotive Group. However, as at the Latest Practicable Date, Rituo Automotive Group only managed to allocate limited production orders for assembly in the Dezhou plant.

- establishing a more systematic internal operating environment that is more conducive for effective cost control, such as establishment of a raw materials procurement system to ensure stable supply of materials and reduce incidents of overstocked inventories, instead of primarily relying on the discretionary human decisions. However, as at the Latest Practicable Date, the Company was not satisfied with the resources committed by the management team of Rituo Automotive Group in improving the internal control and operations of Rituo Automotive Group.

Despite the Company's considerable efforts in an attempt to improve the management efficiency and cost control effectiveness of Rituo Automotive Group, the Directors consider that they have so far not been successful at reaching a consensus with the senior management of Rituo Automotive Group on its future development direction under the existing ownership and management setup.

(iii) The Disposal and the Acquisition

As set out in the Letter from the Board in this Circular, the decision to dispose of Rituo Automotive and acquire back 100% of Rituo Technology as a wholly-owned subsidiary of the Group through the Disposal and the Acquisition was primarily due to:

- (i) It is still one of the Company's long term plan to stay in the PRC automotive wiring harness market by developing its own production and sales capability as it continue to seek development of new product and/or entering into of new markets in order to generate new growth drivers and to reduce its overall reliance on the global 3Cs markets;
- (ii) Rituo Automotive Group has not been as profitable as expected and the Company does not expect to turnaround its operations and profitability in the foreseeable future with the existing ownership and management setup of Rituo Automotive Group;
- (iii) Already engaged in design, development and manufacturing with direct sales to end PRC automobile customers, Rituo Technology already has existing production setup/knowhow and customer base that the Company can utilize and leverage as it continue to develop and grow its own automotive wiring harness business;
- (iv) The Company believes that with Rituo Technology becoming its 100% wholly-owned subsidiary, it will have better control and flexibility in implementing its own management style and business development strategy for the automotive wiring harness business; and

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- (v) Given that the Company has existing capabilities in the production of wire and cable including automotive cable used for the production of automotive wiring harness products, the Company believes that there is potential synergies between the business of Rituo Technology with that of the Group through integrating the production of automotive wiring harness with the existing production manufacturing setup of the Group to better achieve economies of scale and cost control.

As further advised by the Company, with Rituo Technology on a stand alone basis and 100% controlled and managed by the Company, the Company plans to implement the following plans with reference to its automotive wiring harness business, including the business of Rituo Technology upon completion of the Acquisition to improve the operations and profitability of Rituo Technology, including but not limited to:

- (a) the relevant management team of the Company will be totally involved in the daily operation and management of Rituo Technology upon completion of the Acquisition;
- (b) the Company will gradually move the production process of Rituo Technology in Tianjin to Dezhou, Shandong province where the Company has one of its existing cable manufacturing bases, and where wages and therefore production cost is relatively lower and that the labour pool is relatively more stable given that majority of the workforce is made up of local workers;
- (c) at the Dezhou base, the Group would integrate the production of automotive wiring process of Rituo Technology with that of the Group's existing wire and cable production in order to improve manufacturing efficiency and create synergy in the production process;
- (d) by leveraging on its expanded production capacity in Dezhou to build and expand the customer base of Rituo Technology; and
- (e) to put in place more effective cost control as such establishing financial and operating budget and benchmark, improving the raw materials procurement system and streamlining the management structure.

Given the aforesaid, and in particular:

- (i) The Company and the existing senior management team of Rituo Automotive have yet to reach a consensus on the future strategic and development direction of Rituo Automotive Group and the existing ownership and management setup of Rituo Automotive Group has provided the Company with limited room to further restructure and improve the operations of Rituo Automotive Group;
- (ii) While the net asset value of Rituo Automotive Group has decreased to RMB81.4 million as at 31 October 2012 as compared to RMB96.3 million as at 31 December 2011, the Disposal represents an opportunity for the

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Company to recoup its full investment amount of RMB58.6 million made in Rituo Automotive Group in early 2011 and utilize the relevant proceeds in other business areas within the Group;

- (iii) The acquisition of 100% of Rituo Technology would give the Company full control in terms of ownership of Rituo Technology, which would give the Group much greater control and management autonomy in setting the strategic direction and improve internal operations of Rituo Technology;
- (iv) The existing assets and customer base of Rituo Technology, in particular its capability in research and development of its own automotive wiring harness products and direct sales to PRC automotive customers, would allow the Group to continue to build its own presence in the PRC automotive wire harness business, which is part of the long term development plan of the Group; and
- (v) It is the intention of the Group to gradually move the production process of Rituo Technology to one of the Group's existing production bases in Dezhou, Shandong Province, which the Directors consider will enable the Group to realize more synergies in terms of procurement of raw materials and manufacturing process;

we concur with the Company that the Disposal and the Acquisition are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

II. PRINCIPAL TERMS OF THE DISPOSAL

The Disposal Agreement and the Supplemental Disposal Agreement

On 20 November 2012 (after trading hours), Weihai Electronic, a wholly-owned subsidiary of the Company, entered into the Disposal Agreement, pursuant to which Weihai Electronic has agreed to sell, and Wang Xiang has agreed to purchase 55% equity interest in Rituo Automotive. Upon completion of the Disposal, the Company would no longer hold any equity interest in Rituo Automotive and Rituo Automotive will cease to be a subsidiary of the Company. Pursuant to the Supplemental Disposal Agreement, the payment date of the Disposal Consideration is extended from 31 December 2012 to 31 March 2013.

The Disposal Consideration

The consideration for the disposal of 55% equity interest in Rituo Automotive Group is RMB58.6 million (equivalent to approximately HK\$70.3 million) (the “**Disposal Consideration**”) and shall be satisfied by cash and in full by Wang Xiang on or before 31 March 2013. If Wang Xiang fails to pay the Disposal Consideration in full by 31 March 2013, he will also have to pay interest equivalent to 10% above the benchmark interest rate on loans over the same period as announced by the People's Bank of China which has been accrued on the balance of the Disposal

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Consideration. Wang Xiang and Rituo Automotive will enter into a separate irrevocable letter of undertaking with joint and unlimited liabilities in respect of the balance of the Disposal Consideration and the interest accrued thereunder.

Basis of the Disposal Consideration

The Company confirmed that the Disposal Consideration of RMB58.6 million was arrived at after arm's length commercial negotiations (including the consideration of the operating situation of Rituo Automotive Group, the Profit Guarantee and the amount of Disposal Consideration, which represents a 30.8% premium to the proportionate net asset value of Rituo Automotive Group as at 31 October 2012) and primarily with reference to the amount of the capital contribution injected by Weihai Electronic into Rituo Automotive in February 2011 when the Company first acquired the same 55% equity interest of Rituo Automotive of which the consideration at the time of the 2011 Rituo Acquisition was made reference to factors including the Profit Guarantee.

Evaluation of the Disposal Consideration

In order to give Shareholders an additional reference and validation benchmark of the fairness and reasonableness of the consideration for the Disposal Consideration, we have also considered the following:

(i) Net asset value

We note that the net asset value of Rituo Automotive Group was about RMB96.3 million and RMB81.4 million as at 31 December 2011 and 31 October 2012 respectively. On a proportionate basis, the net asset value of 55% equity interest of Rituo Automotive Group would be about RMB53.0 million and RMB44.8 million as at 31 December 2011 and 31 October 2012 respectively. The Disposal Consideration of RMB58.6 million therefore represents a 10.6% and 30.8% premium to the proportionate net asset value of Rituo Automotive Group as at 31 December 2011 and 31 October 2012 respectively.

(ii) Comparable Companies Analysis

Rituo Automotive Group is principally engaged in production and sale of automotive wiring harness products. We have attempted to search for, but have not successfully identified any company listed on the Stock Exchange which engages strictly in the same business as that of Rituo Automotive. Since automotive wiring harness is part of the wire & cable industry, we searched for and found 2 companies listed on the Stock Exchange which operate in the wire & cable industry, whose principal business activities include the manufacturing and sale of wiring, cable assembly and/or connectors products and majority of the income and assets of the Comparables are derived from/related to the principal business of each Comparables as set out in Table 1. Given the limited number of companies listed on the Stock Exchange which operate in the wire &

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cable industry, we expanded our search of companies (for details, please refer to the table set out below) using the same selection criteria as above to cover those listed on stock exchanges in the Greater China region (covering China, Hong Kong and Taiwan) (the “**Comparables**”). Based on our independent research, to the best of our knowledge and as far as we are aware of, we identified all companies which are listed on the relevant stock exchanges that are principally operating in the wire & cable industry, whose principal business activities include the manufacturing and sale of wiring, cable assembly and/or connectors products. It should be noted that the operations and prospects of Rituo Automotive Group is not exactly the same as the Comparables even though the Comparables are generally engaged in manufacturing and sale of wiring, cable assembly and/or connector products, and we have not conducted any in-depth investigation into the businesses and operations of the Comparables.

In considering the commonly adopted trading multiple analysis for appraising wire & cable companies, we note that price to earnings (“**PER**”) ratio and/or price to book (“**PBR**”) ratio are the most commonly adopted trading multiples after independently reviewing company specific research reports issued by research analysts of licensed securities firms. However, given the low historical profitability level of Rituo Automotive Group, we consider PER not to be a suitable trading multiple comparable, which in our view would result in a grossly inflated PER, making it unsuitable for making meaningful comparison. For information purpose only, the implied PER of the Disposal Consideration based on 2011 net income would be approximately 40.9 times. As a result, we have primarily relied on the PBR as a valuation reference point.

Table 1:

Company Name	Principal business activity	Country of listing	Stock code	Market Cap as at 20-Nov-12 (HK\$ million)	Net book value as at 30-Jun-12 (HK\$ million)	Price to book ratio
HL Technology Group Limited	Provision of signal transmission and connectivity solutions and related products for the computing, communication, and consumer electronics markets	Hong Kong	SEHK:1087	662.40	1,369.24	0.5x
Glory Mark Hi-Tech Holdings Ltd.	Engages in the manufacture and trade of connectivity products primarily for computers and peripheral products.	Hong Kong	SEHK:8159	69.12	168.53	0.4x
Hotron Precision Electronic Industry Co., Ltd.	Manufactures and sells various wires and cables for signal transmission, telecommunication, information technology, power, auto, electronic, and medical appliances industries	Taiwan	GTSM:3092	158.88	299.46	0.5x
Simula Technology Inc.	Manufacture of connectors	Taiwan	GTSM:3511	185.97	207.22	0.9x
Advanced Connectek Inc	Manufactures, sells, and exports I/O connectors and 3C peripheral electronic components	Taiwan	GTSM:5491	320.41	835.29	0.4x

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Company Name	Principal business activity	Country of listing	Stock code	Market Cap as at 20-Nov-12 (HK\$ million)	Net book value as at 30-Jun-12 (HK\$ million)	Price to book ratio
Wanshih Electronic Co. Ltd.	Operates as an original equipment manufacturer/original design manufacturer of mini coaxial cable assembly for notebook computer and mobile phone companies	Taiwan	GTSM:6134	171.73	381.38	0.5x
Wonderful Hi-tech Co. Ltd.	Engages in the design and manufacture of cable for communication networks	Taiwan	GTSM:6190	172.56	463.88	0.4x
Longwell Co	Engages in the production and sale of electronic components and cable products	Taiwan	GTSM:6290	881.36	787.90	1.1x
Space Shuttle Hi-Tech Co., Ltd.	Engages in the manufacture and sale of telecommunication wires and cables	Taiwan	TSEC:2440	217.18	352.76	0.6x
Taiwan Line Tek Electronic Co., Ltd.	Engages in the design, production, and supply of electrical power cords and cable assemblies	Taiwan	TSEC:2462	669.69	405.59	1.7x
Well Shin Technology Company Ltd.	Engages in the manufacture of cable and wire, and electronic components	Taiwan	TSEC:3501	1,171.43	1,124.84	1.0x
Aces Electronic Co., Ltd.	Engages in the manufacture and sale of electrical connectors	Taiwan	TSEC:3605	1,214.13	894.22	1.4x
Golden Bridge Electech	Manufactures and sells various cable products	Taiwan	TSEC:6133	207.80	339.69	0.6x
Jyetai Precision Industrial	Manufactures consumer electronics parts and components such as D connectors, optical emission connectors, RF connectors, optical transmitting and receiving connectors etc	Taiwan	TSEC:6165	96.02	202.22	0.5x
I-Sheng Electric Wire & Cable Co., Ltd.	Engages in the manufacture and sale of electric products such as AC power cords, PVC and rubber power supply cords, power strips extension cords, LAN cables, fiber optic cords, and electronic signal cables	Taiwan	TSEC:6115	1,690.53	1,091.94	1.5x
Shenzhen Luxshare Precision Industry Co., Ltd.	Engages in the research, manufacture, and marketing of connectors for use in computer, communication, consumer electronics, and automobile sectors	China	SZSE:002475	12,398.04	2,756.21	4.5x
Shenzhen Deren Electronic Co., Ltd.	Engages in the development, manufacture, and sale of electronic connectors and wiring harnesses	China	SZSE:002055	2,837.75	1,356.76	2.1x
		Minimum Maximum Average	Minimum Maximum Average			0.4x 4.5x 1.1x
				Consideration (RMB million)	Net book value as at 31-Oct-12 (RMB million)	
Rituo Automotive Group (using consideration of RMB58.6 million as basis)				58.60	44.77	1.3x
Rituo Technology (using consideration of RMB15.0 million as basis)				15.00	15.10	1.0x

Source: S&P Capital IQ (a subsidiary of Standard & Poor's), as at 20 November 2012

We consider that comparison of trading multiple with listed peers including PBR is generally more meaningful and representative with a larger sample size. In this respect, we have identified a total of 17 Comparables, including 2 listed on the Stock Exchange, 13 listed on the stock exchange in Taiwan, and 2 listed on the stock exchange in Shenzhen, China. We believe a more expanded pool of Comparables would allow us to have a more representative sample size and therefore a more meaningful industry average PBR for comparison purpose.

As illustrated above, the Comparables have average PBR of approximately 1.1 times while the implied PBR of Rituo Automotive Group is approximately 1.3 times based on the Disposal Consideration of approximately RMB58.6 million and the net asset value of Rituo Automotive Group of approximately RMB44.8 million as at 31 October 2012 on a proportionate basis.

Taking into account that (i) the Company will recoup its full investment amount of RMB58.6 million in Rituo Automotive Group despite the decrease in 55% proportionate net asset value of Rituo Automotive Group from RMB53.0 million as at 31 December 2011 to RMB44.8 million as at 31 October 2012; (ii) the Disposal Consideration represents a 30.8% premium to the net asset value of Rituo Automotive Group as at 31 October 2012 on a proportionate basis; and (iii) the implied PBR of the Disposal Consideration is within the PBR range and above the average PBR of the Comparables, we are of the opinion that the Disposal Consideration is fair and reasonable so far as the Independent Shareholders are concerned.

(iii) Others

We also noted that under the Profit Guarantee arrangement (from the 2011 Rituo Acquisition Announcement), where the aggregate amount of the audited net profit after tax of Rituo Automotive Group for 2011 and 2012 is less than RMB40 million, Wang Xiang and Wang Weiguo shall pay Weihai Electronic 34.4% of the difference between the actual audited net profit after tax and RMB40 million, and Weihai Electronic will have to contribute such sum back into Rituo Automotive Group through increasing the registered capital of Rituo Automotive, while Wang Xiang and Wang Weiguo will proportionally contribute capital to Rituo Automotive according to the sum that Weihai Electronic contributed.

Given that Rituo Automotive Group reported an aggregate net loss after tax of RMB14.6 million for the year ended 31 December 2011 and the ten months ended 31 October 2012, we consider it unlikely that Rituo Automotive Group would meet the Profit Guarantee. According to the Directors, the Disposal of Rituo Automotive Group would result in the cancellation of the Profit Guarantee. As advised by the Company, if the Disposal does not take place and that a compensation under the Profit Guarantee occurs, the Company would be able to book a one-time non operating gain in its income statement for

the year ending 31 December 2012. The Directors confirm that the non-exercise of rights under the Profit Guarantee is not expected to have any other material negative financial effect to the Company except for the decrease in net asset value of the Group as a direct result of derecognizing the fair value of the contingent consideration recognised as a financial asset on the balance sheet of the Group due to the 2011 Rituo Acquisition. Shareholders should however also note that the net proceeds to be received from the Disposal and Acquisition would also have a negating effect on the derecognition of the above financial asset (Please refer section “IV. Financial Effects of the Disposal and the Acquisition on the Group” for further analysis). While we are aware of the financial effect of the compensation if the Profit Guarantee were being effected, we consider that such one-off accounting gain in the income statement of the Company would not provide the cash flow as the Disposal would for the Company, which otherwise can be utilized by other businesses with potential growth prospects within the Group, rather than injecting back into Rituo Automotive. The Directors are also of the view that, the exercise of rights under the Profit Guarantee may be a factor that the vendor will take into account in the arm’s length negotiation of the Disposal Consideration, it is therefore in the commercial interest of the Group after arm’s length negotiation to dispose of the equity interest in Rituo Automotive Group at the Disposal Consideration without exercise of the rights under the Profit Guarantee.

Under the terms of the Profit Guarantee, any compensation amount would have to be injected back into Rituo Automotive in the form of capital injection and Wang Xiang and Wang Weiguo will also proportionately contribute capital to Rituo Automotive according to the sum that Weihai Electronic have to contribute. Any compensation under such an arrangement would therefore not result in the increase in the equity interest held by Weihai Electronic in Rituo Automotive, but would rather only result in additional capital resources for Rituo Automotive for its operation and working capital purpose. We consider that the Company would not be worse off as a result of the cancellation of the Profit Guarantee given that (i) any compensation to be made by Wang Xiang and Wang Weiguo pursuant to the Profit Guarantee would have to be injected back into Rituo Automotive Group and not to be retained by Weihai Electronic; (ii) the ongoing disappointing financial performance of Rituo Automotive Group and with the existing ownership and management setup, the performance of Rituo Automotive Group is not expected to turnaround in the foreseeable future given the continuing lack of progress in the change in strategic direction and measures the Company hope to implement on Rituo Automotive Group; (iii) the Disposal Consideration allows the Company to recoup its full investment amount of RMB58.6 million in Rituo Automotive Group which already represents a premium of about 30.8% to the net asset value of Rituo Automotive as at 31 October 2012 on a proportionate basis and the Company can instead reallocate its resources including proceeds from the Disposal Consideration to other businesses with potential growth prospects within the Group; and (iv) the Disposal can resolve the ongoing management deadlock

regarding the management of Rituo Automotive Group and allow the Group's management to utilise more time and resources on other core operations of the Group that they can better control and manage.

Having considered and analysed the aforesaid terms of the Disposal Agreement and our assessment on the cancellation of the Profit Guarantee, we are of the view that the terms of the Disposal Agreement and the Supplemental Disposal Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

III. PRINCIPAL TERMS OF THE ACQUISITION

The Acquisition Agreement and the Supplemental Acquisition Agreement

On 20 November 2012 (after trading hours), Weihai Electronic, a wholly owned subsidiary of the Company, entered into the Acquisition Agreement, pursuant to which Rituo Automotive has agreed to sell, and Weihai Electronic has agreed to purchase 100% equity interest in Rituo Technology, a 100% wholly owned subsidiary of Rituo Automotive. Upon completion of the Acquisition, Rituo Technology will be a 100% wholly owned subsidiary of the Company. Pursuant to the Supplemental Acquisition Agreement, the payment date of the Acquisition Consideration is extended from 31 December 2012 to 31 March 2013.

The Acquisition Consideration

The consideration for the acquisition of 100% equity interest in Rituo Technology is RMB15.0 million (equivalent to approximately HK\$18.0 million) (the “**Acquisition Consideration**”) and shall be satisfied by cash and in full by Weihai Electronic on or before 31 March 2013.

Basis of the Acquisition Consideration

The Company confirmed that the Acquisition Consideration of RMB15.0 million was arrived at after arm's length commercial negotiations and primarily with reference to the amount invested into Rituo Technology by Rituo Automotive and the net asset value of Rituo Technology as at 31 October 2012. As at the Latest Practicable Date, the amount invested into Rituo Technology by Rituo Automotive is RMB7.5 million and the net asset value of Rituo Technology as at 31 October 2012 was RMB15.1 million.

Evaluation of the Acquisition Consideration

In order to give Shareholders an additional reference and validation benchmark of the fairness and reasonableness of the consideration for the Acquisition Consideration, we also consider the following:

(i) *Net asset value*

We note that the net asset value of Rituo Technology was about RMB18.0 million and RMB15.1 million as at 31 December 2011 and 31 October 2012 respectively. The Acquisition Consideration of RMB15.0 million therefore represents a 16.7% discount and 0.7% discount to the net asset value of Rituo Technology as at 31 December 2011 and 31 October 2012 respectively.

(ii) *Comparable Companies Analysis*

Given that the business of Rituo Technology falls within the same industry as that of Rituo Automotive, we apply the same set of Comparables to assess the Acquisition Consideration. It should be noted that the operations and prospects of Rituo Technology is not exactly the same as the Comparables even though the Comparables are generally engaged in the wire & cable industry whose principal business activities include the manufacturing and sale of wiring, cable assembly and/or connector products, and we have not conducted any in-depth investigation into the businesses and operations of the Comparables.

In considering the commonly adopted trading multiple analysis for appraising wire & cable companies, we note that price to earnings (“**PER**”) ratio and/or price to book (“**PBR**”) ratio are the most commonly adopted trading multiples after independently reviewing company specific research reports issued by research analysts of licensed securities firms. However, given that Rituo Technology was loss making in 2011, we consider PER not to be a suitable trading multiple comparable and as a result, we have primarily relied on the PBR as a valuation reference point.

Again we consider that comparison of trading multiple with listed peers including PBR is generally more meaningful and representative with a larger sample size. It is noted that among the 17 Comparables we have identified, only 2 are listed on the Stock Exchange, while significantly more companies operating in the wire & cable industry are listed outside Hong Kong, especially so in Taiwan. Notwithstanding the very limited number of Comparables that are listed in Hong Kong (including the Company), we believe a more expanded pool of Comparables would allow us to have a more representative sample size and therefore a more meaningful industry average PBR for comparison purpose.

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As illustrated in table 1 above, the Comparables have average PBR of approximately 1.1 times, while the implied PBR of Rituo Technology is approximately 1.0 times based on the Acquisition Consideration of approximately RMB15.0 million and the net asset value of Rituo Technology of approximately RMB15.1 million as at 31 October 2012.

Taking into account that (i) the Acquisition Consideration represents a 16.7% discount and 0.7% discount to the net asset value of Rituo Technology as at 31 December 2011 and 31 October 2012 respectively; and (ii) the implied PBR of the Acquisition Consideration is within the PBR range and generally in line with the average PBR of the Comparables, we are of the opinion that the Acquisition Consideration is fair and reasonable so far as the Independent Shareholders are concerned.

IV. FINANCIAL EFFECT OF THE DISPOSAL AND ACQUISITION ON THE GROUP

As extracted from the Board Letter, upon completion of the Disposal and the Acquisition, Rituo Automotive will cease to be a subsidiary of the Company and its financial results will no longer be consolidated into the Group's consolidated financial statements; whereas Rituo Technology will become a subsidiary of the Group and its financial results will be fully consolidated for in the Group's consolidated financial statements.

Effect on net asset value

Upon completion of the Disposal and Acquisition, the Group's net asset value will be affected by the following:

- The deconsolidation of Rituo Automotive and the consolidation of Rituo Technology;
- The net proceeds of the Disposal and Acquisition that will be received by the Group; and
- The derecognizing of the fair value of the contingent consideration recognized as a financial asset on the balance sheet of the Group as a result of the 2011 Rituo Acquisition.

Shareholders should note that the final effect to net asset value of the Group is subject to changes including the net asset value of Rituo Automotive and Rituo Technology and any changes in the fair value of the abovementioned financial asset as at completion date of the Disposal and the Acquisition.

Notwithstanding the effect on the Group's net asset value as a result of the Disposal and the Acquisition, the Disposal Consideration represent approximately a 10.6% and 30.8% premium to the proportionate net asset value of Rituo Automotive Group as at 31 December 2011 and 31 October 2012 respectively. We also note that

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as a result of its financial performance, the net asset value position of Rituo Automotive Group has been deteriorating, having decreased from approximately RMB96.3 million as at 31 December 2011 to approximately RMB81.4 million as at 31 October 2012. We consider that the proceeds from the Disposal Consideration is an opportunity for the Company to recoup its full investment amount made in Rituo Automotive Group in early 2011 and utilize such proceeds in other business areas within the Group instead with better potential return.

Effect on earnings

As disclosed in the letter from the Board, Weihai Electronic expects to realize from the Disposal a net gain before tax of approximately RMB3.05 million (equivalent to approximately HK\$3.66 million), representing the reversal of loss incurred by Rituo Automotive (attributable to Weihai Electronic) as a result of Disposal, according to PRC accounting standards, during the ten months ended 31 October 2012 based on the amount of the Disposal Consideration and cost of the 2011 Rituo Acquisition, and assuming that completion of the Disposal occurs on 31 October 2012. Shareholders should note that such calculation was done from an income statement perspective and only calculate impact for Weihai Electronic according to PRC accounting standards assuming completion as at 31 October 2012. The final effect on a Group level should take into account adjustments including impact arising from the net proceeds of the Disposal Consideration and Acquisition Consideration, the respective net asset value of Rituo Automotive and Rituo Technology as at completion date of the Disposal and Acquisition, and the derecognizing of the fair value of the contingent consideration recognized as a financial asset on the balance sheet of the Group as a result of the 2011 Rituo Acquisition. As disclosed in the 2012 Interim Report, such financial asset's fair value was approximately RMB15.7 million as at 30 June 2012.

Shareholders should take note that the final effect to earnings of the Group would be affected by the same factors affecting the net asset value of the Group as demonstrated in the sub-section "Effect on net asset value" under the section "IV. Financial Effects of the Disposal and Acquisition on the Group". The Directors consider that the final effect on net asset and/or earnings as a direct result of the Disposal and Acquisition not to be material given that increase in net asset as a result of the net proceeds from the Disposal and Acquisition, would have a negating effect on the loss which would result from the derecognizing of the fair value of the contingent consideration recognized as a financial asset.

While past performance should not be construed as an indication of future results, Shareholders should also note that based on the financial results of Rituo Technology for the ten months ended 31 October 2012, Rituo Technology has been loss making since 2011. We however would also draw the attention of the Shareholders that the Acquisition is conditional upon the Disposal taking place, and that both the reasons and benefits of the Acquisition and Disposal should be considered as a whole rather than the impact of the Acquisition alone. Under the existing ownership and management setup, the Directors do not expect the

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profitability and operation of Rituo Automotive Group to turnaround in the foreseeable future. The Disposal and Acquisition could give the Company a better chance of implementing its own plans and strategies to try turning around the operation and profitability of Rituo Technology on a stand-alone basis, as detailed in the section headed “Reasons and benefits of the Disposal and Acquisition”.

Effect on working capital

The Company expects working capital to improve as a result of the deconsolidation of Rituo Automotive, given the relatively longer account receivable turnover days as a result of the longer credit terms for customers of Rituo Automotive as compared to Rituo Technology.

V. CONTINUING CONNECTED TRANSACTIONS

The Directors expect Rituo Technology will continue to rely on Rituo Automotive for the procurement of certain imported raw materials such as sheathing and terminals following completion of the Disposal and the Acquisition, given the long standing relationship Rituo Automotive has with the overseas suppliers of such raw materials. The Directors confirmed that the Company will observe and comply with all applicable requirements under the Listing Rules as and when appropriate. On such basis we are of the opinion that such potential continuing connected transactions will not affect our current assessment on the fairness and reasonableness of the Disposal and the Acquisition.

OPINION

Having taken into account the above principal factors and reasons, we consider that (1) the terms of the Disposal and the Acquisition are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (2) the Disposal and the Acquisition are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the EGM to approve the Disposal Agreement, the Supplemental Disposal Agreement, the Acquisition Agreement and the Supplemental Acquisition Agreement and the transactions contemplated thereunder and we recommend the Independent Shareholders to vote in favour of the resolution(s) in this regard.

Yours faithfully,
For and on behalf of

China Galaxy International Securities (Hong Kong) Co., Limited

Elain Wong

Managing Director
Investment Banking

1. RESPONSIBILITY STATEMENT

This document, for which the directors of the issuer collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the issuer. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this document is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this document misleading.

2. DISCLOSURE OF INTERESTS

(i) Directors, Chief Executive and Supervisors of the Company

As at the Latest Practicable Date, the interests or short position of the Directors, the chief executive and the supervisors of the Company and their respective associates in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO), which, would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or would be required, pursuant to section 352 of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), to be recorded in the register therein, or would be required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, were as follows:

Name of Director	Nature of interest	Number of Shares interested	Approximate percentage in total issued share capital of the Company
Mr. Chi Shaolin	Interest in controlled corporation	294,283,839	40.87%
Mr. Jiang Taike	Beneficial owner	16,248,857	2.26%
Mr. Li Jianming	Beneficial owner	1,030,431	0.14%
Ms. Xu Yiming	Interest in controlled corporation	17,126,918	2.38%

(ii) Substantial Shareholders of the Company and other persons

As at the Latest Practicable Date, so far as is known to any Director or chief executive of the Company, other than a Director or chief executive of the Company, the following persons have interests or short positions in the Shares and underlying shares of the Company which would fall to be disclosed to the issuer under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly, interested in ten per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the group.

Name of Shareholder	Nature of interest	Number of Shares interested	Approximate percentage in total issued share capital of the Company
Chenlin International Joint Stock Company Limited	Beneficial owner	294,283,839	40.87%
Yongchang Joint Stock Company Limited	Trustee	72,903,711	10.12%
Splendor Sun Group Limited	Beneficial owner	60,945,383	8.46%
Hongxin Joint Stock Company Limited	Trustee	36,791,039	5.11%

Notes:

- (1) Chenlin International Joint Stock Company Limited held 40.87% interest in the Company, which entire issue share capital is owned by Mr. Chi Shaolin.
- (2) Yongchang Joint Stock Company Limited held 10.12% interest in the Company in trust for 37 minority shareholders, including Mr. Jiang Taike, executive Director who is interested in 16,248,857 Shares.
- (3) Hongxin Joint Stock Company Limited held 5.11% interest in the Company in trust for 136 employee shareholders, including Mr. Li Jianming, executive Director, who is interested in 1,030,431 Shares.
- (4) Splendor Sun Group Limited held 8.46% interest in the Company, Ms. Xu Yiming, non-executive Director, who is interested in 17,126,918 Shares.

3. FURTHER INFORMATION CONCERNING DIRECTORS

A. Directors' service agreements

As at the Latest Practicable Date, none of the Directors had entered or was proposing to enter into a service contract with any member of the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

B. Competing interests

None of the Directors and their respective associates has any interest in a business, which competes or may compete with the businesses of the Group and any other conflicts of interest which any such person has or may have with the Group.

C. Directors interests in assets

None of the Directors had any direct or indirect interest in any assets which had been acquired or disposed of or leased to any member of the Group or proposed to be so acquired, disposed of or leased since 31 December 2011, being the date to which the latest published audited accounts of the Group were made up, and up to the Latest Practicable Date.

D. Directors interests in contracts

There is no contract or arrangement subsisting at the Latest Practicable Date in which any of the Directors is materially interested and which is significant in relation to the business of the Group.

4. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading positions of the Group since 31 December 2011, the date to which the latest audited consolidated financial statements of the Group were made up.

5. QUALIFICATIONS OF EXPERT

The following is the qualification of the expert or professional adviser who has given opinion or advice contained in this circular:

Name	Qualifications
China Galaxy International	a licensed corporation under the SFO to carry out type 1 (dealing in securities), type 4 (advising on securities), and type 6 (advising on corporate finance) regulated activity

6. CONSENTS OF EXPERT

China Galaxy International has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which it appears.

7. INTERESTS OF EXPERT

As at the Latest Practicable Date, China Galaxy International:

- (a) does not have any shareholding in or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and
- (b) was not interested, directly or indirectly, in any assets which have been acquired or disposed of by or leased to the Group or are proposed to be acquired or disposed of by or leased to the Group since 31 December 2011, being the date to which the latest published audited accounts of the Group were made up.

8. VOTING BY POLL

Under the articles of association of the Company, at any general meeting of Shareholders, a resolution shall be decided on a show of hands unless a poll is demanded by any of the following persons before (or after) any vote by a show of hands:

- (a) the chairman of the meeting;
- (b) at least two Shareholders entitled to vote present in person or by proxy; or
- (c) one or more Shareholder(s) present in person or by proxy and representing 10% or more of all Shares carrying the right to vote at the meeting singly or in aggregate.

In accordance with Rule 13.39(4) of the Listing Rules, all resolutions set out herein will be decided by poll at the EGM and the chairman of the EGM will demand a poll for every resolution put to vote at the EGM.

9. GENERAL

- (a) The registered office of the Company is located at Offshore Incorporations (Cayman) Limited Corporation, located at Scotia Centre, 4th Floor, P.O. Box 2804 George Town Grand Cayman KY1-1112 Cayman Islands, and the principal place of business of the Company in Hong Kong is located at 33rd Floor, Shui On Centre, 6–8 Harbour Road, Wanchai, Hong Kong.
- (b) The Hong Kong Branch Share registrar and transfer office is Computershare Hong Kong Investor Services Limited, located at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.
- (c) The company secretary is Ms. Ho Wing Yan (*ACIS, ACS(PE)*).

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours at the principal place of business of the Company in Hong Kong, at 33rd Floor, Shui On Centre, 6–8 Harbour Road, Wanchai, Hong Kong from the date of this circular up to and including 14 days from the date of this circular:

- (a) the articles of association of the Company;
- (b) the Disposal Agreement and the Supplemental Disposal Agreement;
- (c) the Acquisition Agreement and the Supplemental Acquisition Agreement;
- (d) the letter of recommendation from the Independent Board Committee, the text of which is set out on pages 16 to 17 of this circular;
- (e) the letter of advice from China Galaxy International, the text of which is set out on pages 18 to 39 of this circular;
- (f) the written consent from China Galaxy International referred in paragraph 6 of this appendix;
- (g) the annual report of the Company for the year ended 31 December 2011 and the interim report of the Company for the period ended 30 June 2012; and
- (h) this circular.

NOTICE OF EXTRAORDINARY GENERAL MEETING



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)

NOTICE IS HEREBY GIVEN THAT the extraordinary general meeting (the “**EGM**”) of HL Technology Group Limited (the “**Company**”) will be held at Pudong Road, The First Industrial Park, Economic and Technological Development Zone, Weihai City, Shandong Province, PRC on Saturday, 12 January 2013 at 10:30 a.m. to consider and, if thought fit, to pass, with or without modifications, each of the following resolutions as an ordinary resolution of the Company:

ORDINARY RESOLUTIONS

1. “**THAT:**

- (a) the Disposal Agreement and the Supplemental Disposal Agreement (as defined in the circular of the Company dated 24 December 2012 (the “**Circular**”)) and the transaction contemplated thereunder be and are hereby approved, confirmed and ratified; and
- (b) any one director (“**Director(s)**”) of the Company be and is hereby authorised to perform all such acts, deeds and things and execute all documents as they consider necessary or expedient to effect and implement the Disposal Agreement, the Supplemental Disposal Agreement and the connected transaction contemplated thereunder.”

2. “**THAT:**

- (a) subject to the completion of the Disposal Agreement and the Supplemental Disposal Agreement, the Acquisition Agreement and the Supplemental Acquisition Agreement (as defined in the Circular) and the transaction contemplated thereunder be and are hereby approved, confirmed and ratified; and
- (b) any one Director of the Company be and is hereby authorised to perform all such acts, deeds and things and execute all documents as they consider necessary or expedient to effect and implement the Acquisition Agreement, the Supplemental Acquisition Agreement and the connected transaction contemplated thereunder.”

Yours faithfully,
For and on behalf of the Board of
HL Technology Group Limited
Chi Shaolin
Chairman & CE

Hong Kong, 24 December 2012

* for identification purpose only

NOTICE OF EXTRAORDINARY GENERAL MEETING

Notes:

1. Any member of the Company entitled to attend and vote at the above meeting is entitled to appoint one or, if he is the holder of two or more shares, one or more proxies to attend and, on a poll, vote in his stead. A proxy need not be a member of the Company. In addition, a proxy or proxies representing either a member who is an individual or a member which is a corporation shall be entitled to exercise the same powers on behalf of the member which he or they represent as such member could exercise.
2. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under its seal or under the hand of an officer, attorney or other person duly authorized to sign the same.
3. In order to be valid, a form of proxy together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy thereof, must be deposited at the offices of the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, located at 17M Floor, Hopewell centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 48 hours before the commencement of the above meeting or adjourned meeting or any adjournment thereof.
4. Delivery of an instrument appointing a proxy shall not preclude a shareholder of the Company from attending and voting in person at the meeting convened and in such event, the instrument appointing a proxy shall be deemed to be revoked.
5. Where there are joint holders of any share, any one of such joint holders may vote either in person or by proxy in respect of such share as if he/she were solely entitled thereto; but if more than one of such joint holders be present at any meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.
6. The transfer books and register of members of the Company will be closed from 10 January 2013 to 12 January 2013 (both dates inclusive), during which period no transfer of shares will be effected. In order to qualify for the right to attend and vote at extraordinary general meeting, 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, located at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 9 January 2013.