THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in HL Technology Group Limited (the "Company"), you should at once hand this circular accompanying with the form of proxy to the purchaser or transferee, or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities mentioned herein.

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)

http://www.hong-lin.com.cn

MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF ROSY SUN INVESTMENTS LIMITED

Financial Adviser to the Company

八方金融有限公司 OCTAL Capital Limited

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

廣發融資(香港)有限公司 GF CAPITAL (HONG KONG) LIMITED

A letter from the Independent Board Committee is set out on page 24 of this circular. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 25 to 49 of this circular.

A notice convening the EGM to be held at Pudong Road, The First Industrial Park, Economic and Technological Development Zone, Weihai City, Shandong Province, PRC on Monday, 28 January 2013 at 10:30 a.m. is set out on pages EGM-1 to EGM-2 of this circular. Whether or not you are able to attend and/or vote at the EGM in person, you are requested to complete the enclosed form of proxy and return it 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 in accordance with the instructions printed thereon as soon as possible but in any event not later than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from subsequently attending and voting in person at the EGM or any adjournment thereof (as the case may be) should you so wish.

* *for identification purpose only*

31 December 2012

CONTENTS

In this circular, the following expressions have the following meanings, unless the context otherwise requires:

"Acquisition"	the acquisition by the Company and the disposal by the Vendor of the Sale Shares, being the entire issued share capital of the Target Company, pursuant to the S&P Agreement (as supplemented by the Supplemental Agreement)
"associate(s)"	shall have the same meaning as ascribed to it under the Listing Rules
"Board"	board of Directors
"Business(es)"	the business(es) of the PRC Company as permitted under the relevant law
"Business Day"	any day (other than Saturdays, Sundays and public holidays) on which commercial banks in Hong Kong are open to the public for general banking business in general
"BVI"	British Virgin Islands
"CDMA"	Code Division Multiple Access, one of the standards for 2G mobile communications. It is a spread spectrum technology standard that assigns a pseudo-noise (PN) code to all voice and data bits, sends a scrambled transmission of the encoded voice over the air and reassembles the voice in its original format. By assigning a unique correlating code to each transmitter, several simultaneous conversations can share the same frequency allocations
"CDMA2000"	a family of 3G mobile technology standards, which use CDMA channel access, to send voice, data, and signaling data between mobile phones and cell sites
"Cloud Computing"	a concept underlining the fusion of traditional computing technologies with network technologies. The core idea is to centralise the management and modulation of massive computing resources connected through the network, forming a pool of computing resources that serve users on an as-needed basis. Cloud Computing is applied in commercial offerings such as SaaS (Software as a Service), PaaS (Platform as a Service) and IaaS (Infrastructure as a Service)

"Company"	HL Technology Group Limited, a company incorporated in the Cayman Islands and the issued Shares of which are listed on the Stock Exchange
"Completion"	completion of the transactions contemplated under the S&P Agreement (as supplemented by the Supplemental Agreement) in accordance with the terms and conditions thereof
"Completion Date"	the date of Completion
"connected person(s)"	shall have the same meaning as ascribed to it under the Listing Rules
"Consideration"	the consideration for the acquisition of the Sale Shares and the Shareholder's Loan (if any), being the sum of HK$650 million
"controlling shareholder(s)"	shall have the same meaning as ascribed to it under the Listing Rules
"Deloitte"	Deloitte Touche Tohmatsu, the auditor and the reporting accountants of the Company
"Director(s)"	director(s) of the Company
"EDGE"	Enhanced Data rates for GSM Evolution, a digital mobile phone technology that allows improved data transmission rates as a backward-compatible extension of GSM
"EGM"	the extraordinary general meeting of the Company to be convened and held on 28 January 2013 at 10:30 a.m. to consider and approve, among other things, the Acquisition and the transactions contemplated under the S&P Agreement (as supplemented by the Supplemental Agreement)
"Enlarged Group"	the Group as enlarged by the Target Group immediately upon Completion
"FDD-LTE"	Frequency Division Duplexing LTE, a 4G mobile-telecommunications technology and standard
"Group"	the Company and its subsidiaries
"GSM"	a global system for cellular mobile communications originated in Europe

"HK Company"	New Postcom Technology Company Limited, a company incorporated in Hong Kong and a direct wholly-owned subsidiary of the Target Company
"HK$"	Hong Kong dollar, the lawful currency in Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"IBC" or "Independent Board Committee"	the independent committee of the Board comprising Mr. Shu Wa Tung, Laurence, Mr. Song Lizhong and Ms. Zheng Lin, being all the independent non-executive Directors, appointed by the Board to advise the Independent Shareholders in relation to the Acquisition and the transactions contemplated under the S&P Agreement (as supplemented by the Supplemental Agreement)
"Independent accountants" or "EY"	Ernst & Young, the independent auditor engaged by the Company to prepare the accountants' reports on the Target Group and the PRC Company for the purpose of incorporation in this circular
"Independent Financial Adviser" or "GF Capital"	GF Capital (Hong Kong) Limited, a licensed corporation to carry out type 6 (advising on corporate finance) regulated activity as defined under the SFO, and the independent financial adviser to the IBC and the Independent Shareholders in respect of the terms of the Acquisition
"Independent Shareholder(s)"	Shareholder(s) that is not required to abstain from voting at a general meeting, if necessary, to approve a connected transaction
"Independent Valuer" or "Jones Lang LaSalle"	Jones Lang LaSalle Corporate Appraisal and Advisory Limited
"Internet of Things"	a network interconnecting certain things in the physical world, characterised by comprehensive sensors, reliable transmission and smart processing and aiming at connection among any objects at any time, any location
"IP"	Internet Protocol
"IPRAN"	IP-based radio access network
"IS-95"	Interim Standard 95, a 2G mobile telecommunications standard that uses CDMA, a multiple access scheme for digital radio, to send voice, data and signaling data (such as a dialed telephone number) between mobile telephones and cell sites

"Latest Practicable Date"	28 December 2012, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
"Listing Rules"	The Rules Governing the Listing of Securities on the Stock Exchange
"Long Stop Date"	31 March 2013, or such later date as the Vendor and the Company may agree in writing
"LTE"	Long Term Evolution, the long-term evolution of 3G technology with Orthogonal frequency-division multiplexing (OFDM) as the core technology, and is regarded as 4G in the making. LTE is being promoted by 3GPP and its major performance targets include maximum speed of 100Mbps (download) and 50Mbps (upload) using 20MHz bandwidth. There are two types of LTE, distinguished by the mode of division duplex, namely FDD-LTE and TDD-LTE
"Net Profit"	the consolidated net profit after tax of the PRC Company as to be shown in its audited consolidated accounts to be prepared according to the International Financial Reporting Standards
"PON"	Passive Optical Network, a point-to-multipoint, fiber to the premises network architecture in which unpowered optical splitters are used to enable a single optical fiber to serve multiple premises
"PRC"	the People's Republic of China, and for the purpose of this circular only, excluding Hong Kong, Macau Special Administrative Region of the People's Republic of China and Taiwan
"PRC Company"	Shenyang New Postcom Co., Ltd. (沈陽新郵通信設備有限公司), a wholly foreign owned enterprise established in the PRC and wholly-owned by the HK Company
"Profit Guarantee"	the guarantee given by the Vendor to the Company that, subject to the terms of the S&P Agreement (as supplemented by the Supplemental Agreement), the Net Profit for the financial year ending 31 December 2013 shall be not less than RMB85 million, details of which are set out in the paragraph headed "Profit Guarantee" in the section headed "Letter from the Board" in this circular

"Promissory Note"	the promissory note in a principal amount of HK$650 million to be issued by the Company to the Vendor (or such other person as the Vendor may nominate in writing) on Completion to satisfy the Consideration
"RMB"	Renminbi, the lawful currency in the PRC
"Sale Shares"	two shares of US$1.00 each in the share capital of the Target Company, representing the entire issued share capital of the Target Company as of the Latest Practicable Date and the Completion Date
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	ordinary share(s) of US$0.02 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Shareholder's Loan"	the loan or debt (if any) owing by the Target Company or any company within the Target Group to the Vendor
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Supplemental Agreement"	the supplemental agreement dated 28 December 2012 entered into between the Vendor and the Company, supplementing and revising certain terms of the S&P Agreement
"S&P Agreement"	the sale and purchase agreement in relation to the Acquisition dated 28 October 2012 entered into between the Vendor and the Company (as supplemented by the Supplemental Agreement)
"Target Company"	Rosy Sun Investments Limited, a company incorporated in the BVI with limited liability and wholly-owned by the Vendor as of the Latest Practicable Date and before Completion
"Target Group"	the Target Company, the HK Company and the PRC Company as of the Latest Practicable Date and the Completion Date
"TDD-LTE"	Time Division Duplex LTE, a 4G mobile-telecommunications technology and standard

"TD-SCDMA"	Time Division Synchronous Code Division Multiple Access, a 3G technology developed in the PRC to support voice and data transmission
"US$"	United States dollar, the lawful currency in United States
"Vendor"	Mr. Chi Shaolin, the controlling Shareholder, the chairman of the Company and an executive Director
"WCDMA"	Wideband Code Division Multiple Access is an air interface standard found in 3G mobile telecommunications networks
"xPON"	x version of PON, an optical access that applies wavelength-division multiplexing technology with optical fiber as transmission medium, enabling high access bandwidth and end-to-end passive optical splitting transmission. xPON has a significant edge over other optical access technology
"2G"	Second-generation mobile networks utilizing digital wireless technology to provide larger network capacity, improved voice quality and encryption and seamless international roaming for users. Existing mobile communications networks are mainly 2G GSM and CDMA utilizing GSM and GPRS for CDMA technology with a data supply capacity of up to 115.2 Kbps, or 384 Kbps in case of GSM featuring EDGE technology
"3G"	Third-generation mobile networks supporting peak data rates of 144 Kbps at mobile user speeds, 384 Kbps at pedestrian user speeds and 2 Mbps in fixed locations, although some initial deployments were configured to support just 64 Kbps
"4G"	International Mobile Telecommunications Advanced standards as defined by International Telecommunication Union (ITU), including LTE-Advanced and Wireless MANAdvanced (802.16m) standards, supporting theoretical download rates of 1Gbit/s in fixed locations and 100Mbit/s in motion
"%"	per cent.

Financial adviser to the Company	**Octal Capital Limited** 801–805, 8th Floor, Nan Fung Tower 173 Des Voeux Road Central Hong Kong
Legal advisers to the Company	*As to Hong Kong law* **Loong & Yeung** Suites 2001–2005, 20th Floor Jardine House 1 Connaught Place Central Hong Kong *As to the PRC law* **Deheng Law Office** 12/F Tower B Focus Place 19 Finance Street Beijing PRC
Auditor and reporting accountants	*On the Company* **Deloitte Touche Tohmatsu** 35/F, One Pacific Place 88 Queensway Hong Kong
Reporting accountants	*On the Target Group* **Ernst & Young** 22/F, CITIC Tower 1 Tim Mei Avenue Central Hong Kong
Independent valuer	**Jones Lang LaSalle Corporate Appraisal and Advisory Limited** 6th Floor Three Pacific Place 1 Queen's Road East Hong Kong
Independent financial adviser	**GF Capital (Hong Kong) Limited** 29–30th Floor Li Po Chun Chambers 189 Des Voeux Road Central Hong Kong

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泓淋科技集團有限公司*

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Executive Directors:
Mr. Chi Shaolin *(Chairman and Chief Executive)*
Mr. Jiang Taike
Mr. Li Jianming

Non-Executive Director:
Ms. Xu Yiming

Independent Non-Executive Directors:
Mr. Shu Wa Tung, Laurence
Mr. Song Lizhong
Ms. Zheng Lin

Registered Office:
Offshore Incorporations
(Cayman) Limited
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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

31 December 2012

To the Shareholders,

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF ROSY SUN INVESTMENTS LIMITED

INTRODUCTION

References are made to the announcements of the Company dated 30 October 2012 and 28 December 2012, respectively. On 28 October 2012, the Company entered into the S&P Agreement with the Vendor for the sale and purchase of the entire issued share capital of the Target Company. Pursuant to the S&P Agreement (as supplemented by the Supplemental Agreement), the Vendor has conditionally agreed to sell and the Company has conditionally agreed to purchase the Sale Shares and the Shareholder's Loan (if any) at a consideration of HK$650 million.

* *for identification purpose only*

The Acquisition constitutes a major transaction and a connected transaction of the Company under Chapters 14 and 14A of the Listing Rules and is subject to, among other things, the Independent Shareholders' approval at the EGM. The Vendor and his associates are regarded as having material interest in the Acquisition and they are required to abstain from voting on the resolution proposed to be passed at the EGM for approving the Acquisition and the transaction contemplated under the S&P Agreement (as supplemented by the Supplemental Agreement).

The purpose of this circular is to provide you with, among other things, (i) further information on the Acquisition; (ii) the recommendation of the IBC to the Independent Shareholders; (iii) the advice from the Independent Financial Adviser to the IBC and the Independent Shareholders; (iv) the accountants' reports on the Target Group and the PRC Company prepared by EY; (v) the valuation report of the PRC Company prepared by the Independent Valuer; and (vi) a notice of the EGM.

S&P AGREEMENT

Date: 28 October 2012

Parties:

Vendor: Mr. Chi, a controlling Shareholder, the chairman of the Company and an executive Director, who is interested in approximately 40.87% interests of the Company

Purchaser: the Company

Assets to be acquired

Pursuant to the S&P Agreement (as supplemented by the Supplemental Agreement), the Company has conditionally agreed to purchase (i) the Sale Shares, representing the entire issued share capital of the Target Company, free from all encumbrances and together with all existing and future rights and benefits attaching or accruing to the Sale Shares, on or after the Completion Date; and (ii) the Shareholder's Loan (if any), subject to the satisfaction (or waiver, where applicable) of the conditions precedent as set out in the paragraph headed "Conditions" below.

Consideration

The Consideration is HK$650 million which shall be satisfied at Completion by the Company issuing to the Vendor (or such other person as the Vendor may nominate in writing) the Promissory Note, details of which are set out in the paragraph headed "The Promissory Note" below.

The Consideration was determined after arm's length negotiations between the Vendor and the Company after taking into account a number of factors including the business nature, the business prospects, net assets value of the Target Company, the HK Company and the PRC Company as at 30 June 2012, performance of the PRC Company, the Profit Guarantee and the then preliminary estimation of the fair value of the PRC Company of approximately HK$700 million pursuant to the business valuation carried out by the Independent Valuer under the market approach using the forward price to earnings multiples of 11.35 times and forecasted net profit attributable to owners of the PRC Company for RMB66 million for the year ending 31 December 2012. According to the unaudited management accounts of the PRC Company for the ten months ended 31 October 2012, the unaudited net profit attributable to the owners of the PRC Company is approximately RMB56.3 million which represents approximately 85.3% of the forecasted profit. The Directors are optimistic that the said forecasted profit of RMB66 million can be achieved. The Directors (including the independent non-executive Directors who have taken into account the advice from the Independent Financial Adviser) consider that the terms of the Acquisition and the transactions contemplated under the S&P Agreement (as supplemented by the Supplemental Agreement) are fair and reasonable based on the current market conditions and in the interests of the Company and the Shareholders as a whole.

The principal assumptions upon which the forecasted net profit attributable to owners of the PRC Company for the year ending 31 December 2012 for the purpose of its business valuation is based are set out below:

(i) the projected business of the PRC Company can be achieved with the effort of the management of the PRC Company and the Company;

(ii) the facilities and systems proposed are sufficient for future expansion;

(iii) there will be no material change in the existing political, legal, technological, fiscal or economic conditions, which might adversely affect the business of the PRC Company;

(iv) the operational and contractual terms stipulated in the relevant contracts and agreements of the PRC Company will be honoured;

(v) the capital structure of the PRC Company will not change during the forecast period from 1 October 2012 to 31 December 2012;

(vi) revenue is generated from the manufacture and sales of cell phones, network equipment and related softwares; and the provision of services to telecommunication services providers in the PRC; and

(vii) gross profit margin of the PRC Company during the forecast period from 1 October to 31 December 2012 is forecasted with reference to the historical transactions.

Conditions

Completion is conditional upon fulfillment or waiver in writing (as the case may be) of the following conditions:

(1) the Company being satisfied in its absolute discretion with the results of the due diligence review in respect of, among other things, the Vendor, the Target Group and its business, legal status and financial position upon completion of the due diligence review conducted by the Company and its advisors;

(2) the Company having obtained all necessary or appropriate approvals, authorisations, consents and licences as a company listed on the Main Board of the Stock Exchange, including but not limited to the approval of the Shareholders of the S&P Agreement and the transactions contemplated thereunder at general meeting;

(3) having obtained all other necessary or appropriate approvals, authorisations, consents and licences which may be required by the Vendor, any member of the Target Group or under any existing contractual arrangements of the Vendor or any member of the Target Group for the consummation of the transactions contemplated under the S&P Agreement;

(4) having obtained all necessary approvals, authorisations, consents and licences which may be required by the Vendor or any member of the Target Group from any governmental or regulatory authorities for the consummation of the transactions contemplated under the S&P Agreement, and having satisfied all statutory requirements to which the Vendor or any members of the Target Group may be required to comply with for the consummation of the transactions contemplated under the S&P Agreement;

(5) having obtained a PRC legal opinion issued by PRC lawyers nominated by the Company confirming, among other things, the legal status of the Target Group, the substances of which shall be satisfactory to the Company in its absolute discretion;

(6) having obtained a business valuation report issued by independent professional valuers nominated by the Company confirming, among other things, the value of the PRC Company shall be no less than HK$700 million, the substances of which shall be satisfactory to the Company in its absolute discretion; and

(7) all representations and warranties given by the Vendor under the S&P Agreement remaining true and accurate in all respects and not misleading as if the representations and warranties are repeated by the Vendor at all times from the date of the S&P Agreement to the Completion Date.

The Company may in writing waive any of the conditions as stated above in such terms as the Company considers appropriate (other than condition (2) above which may not be waived). If any of the conditions set out above is not fulfilled or, as the case may be, waived by the Company before the Long Stop Date, then the obligations of the parties to the S&P Agreement shall cease and determine and neither party shall have any claim under the S&P Agreement against the other save in respect of any rights already accrued. Although the Company is entitled to waive any of the above conditions (other than condition (2)) pursuant to the S&P Agreement, such waiver is upon the absolute discretion of the Company and the Company is not obligated to grant such waiver. The Company will not waive any of the conditions as stated above if such waiver is not fair and reasonable, or not in the interest of the Company and the Shareholders as a whole.

As at the date of this circular, Jones Lang LaSalle has issued a valuation report of the PRC Company, the text of which is set out in Appendix VI to this circular, which fulfilled condition (6) above.

Completion

Completion shall take place on the fifth Business Day after fulfillment or, as the case may be, waiver of the abovementioned conditions (or such later date as may be agreed between the parties to the S&P Agreement in writing).

Upon Completion, the Target Company will become a wholly-owned subsidiary of the Company and all the profit and loss and assets and liabilities of the Target Company will be consolidated to the accounts of the Company.

Profit Guarantee

The Vendor guarantees to the Company that, subject to the terms of the S&P Agreement (as supplemented by the Supplemental Agreement), the Net Profit for the financial year ending 31 December 2013 shall be not less than RMB85 million (the "Guarantee Profit"). The amount of Profit Guarantee was determined with reference to the historical performance of the PRC Company, the amount attributable to the contracts on hand for the PRC Company and the expected business growth of the PRC Company.

In the event that the actual Net Profit is less than the Guarantee Profit (the "Shortfall") for the financial year ending 31 December 2013, the Vendor shall pay to the Company the sum representing the Shortfall. The Shortfall, if any, shall be paid by the Vendor and would not be set-off against the Promissory Note. In this event, the Company will make announcement in accordance with Rule 2.07C of the Listing Rules regarding the Shortfall and will include details in its next published annual report and accounts containing the opinion of the independent non-executive Directors as to whether the Vendor has fulfilled his obligations under the Profit Guarantee.

Additional Undertakings

Pursuant to the S&P Agreement, the Vendor has undertaken to the Company that:

(i) he will indemnify the Company, the Target Group or their respective beneficial owners, shareholders, directors, senior management, employees, agents and advisors (the "indemnified persons") against any penalties, administrative penalties, claims, payments, damages or any sums and penalties requested by governmental bodies, regulatory authorities and any third parties after the Completion Date which may be incurred by the indemnified persons resulting from any non-compliance or partial noncompliance of any requirement under laws and regulations by the Target Group in relation to their operation and assets (including but not limited to property interest, intellectual properties, operating concession, environmental protection, safety production, insurance and employment of labour) prior to the Completion Date; and

(ii) within 5 years from the date of the S&P Agreement, except by way of holding the Shares or being the management of the Company (if applicable), the Vendor and his associates shall not, directly or indirectly, (i) engage in the Businesses, or invest in any person/entity engaged in the Businesses (regardless of via shareholding or by contract); (ii) solicit or engage any employees of the Target Group, or to employ any employees of the Target Group in any manner for himself, his associates or any third party; or (iii) provide any consultation, assistance or subsidy for the Businesses.

THE PROMISSORY NOTE

Set out below are the principal terms of the Promissory Note:

Issuer:	The Company
Principal amount:	HK$650 million
Maturity date:	The date falling 5 years from the date of initial issue of the Promissory Note
Interest:	The Promissory Note shall not bear any interest
Prepayment:	The Promissory Note may be prepaid in whole or in part at any time without premium or penalty prior to its maturity by the Company giving the noteholder not less than 3 business days' prior written notice specifying the amount to be so prepaid
Transferability:	The Promissory Note is not transferable or assignable

INFORMATION ON THE TARGET GROUP

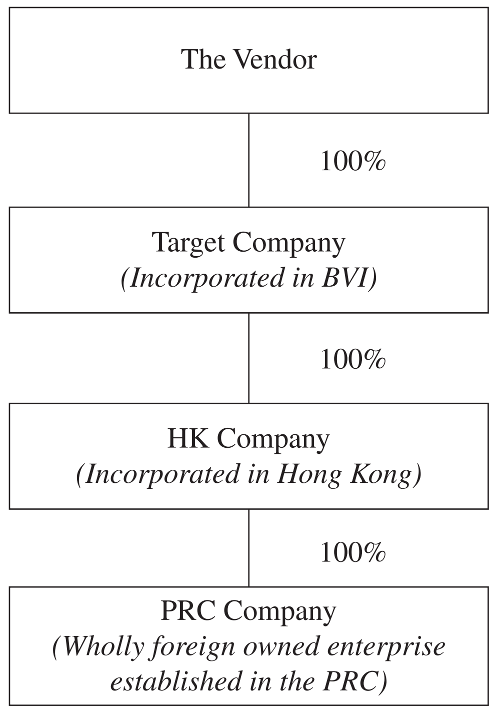
The Target Company is an investment holding company incorporated in the BVI on 8 February 2012. The Sale Shares represent the entire issued share capital of Target Company. The major asset of the Target Company is the entire issued share capital of the HK Company.

The HK Company is also an investment holding company and was incorporated in Hong Kong on 14 October 2010. The HK Company has an issued share capital of one share of HK$1. The major asset of the HK Company is the entire registered capital of the PRC Company.

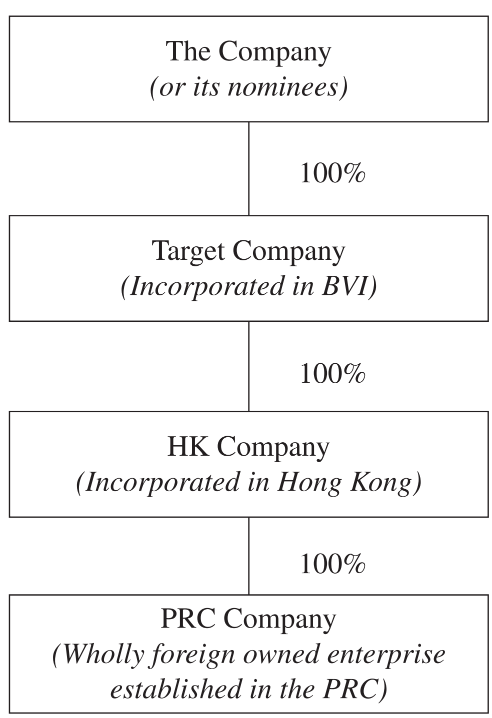
The PRC Company is a wholly foreign owned enterprise established on 14 February 2001 and it is located in Shenyang, Liaoning Province, the PRC. The total registered capital of the PRC Company is RMB233 million.

Set out below is the shareholding structure of the Target Group:

As at the Latest Practicable Date



Upon Completion



The PRC Company has been principally engaged in (i) the research and development, manufacture and sale of cell phones which can run on 2G and/or 3G networks such as GSM, IS-95, CDMA2000 and TD-SCDMA in the PRC; (ii) the sale of network equipment to the top three telecommunication services providers in the PRC such as core network equipment, IPRAN and xPON; and (iii) the provision of services to major telecommunication services providers in the PRC, such as the installation, maintenance and upgrade of the network equipment and/or wireless network optimization in their existing network systems. The above products of the PRC Company are under the brand name "POSTCOM". Such trademark is owned by Guangzhou New Postcom Co., Ltd. ("Guangzhou New Postcom"), a company mainly engaged in research and development, manufacture and sales of mobile communication system equipment, such as radio access networks, for signal transmission and reception in 3G and/or 4G base stations.

Prior to the acquisition of the PRC Company by the HK Company on 12 October 2011, Guangzhou New Postcom was an immediate holding company of the PRC Company which held approximately 93.57% equity interest in the PRC Company, it has authorised the PRC Company to use the abovementioned trademark on a non-exclusive basis and the PRC Company is not required to pay any fee for the use of the abovementioned trademark pursuant to the authorisation letter between the PRC Company and Guangzhou New Postcom. In addition, the PRC Company was authorised to use such trademark without definitive period and the authorisation will not be affected by the change in shareholding structure of both the PRC Company and Guangzhou New Postcom. Although the products of the PRC Company comprise mainly cell phones and broadband network equipment which are different from those of Guangzhou New Postcom (which comprise mainly mobile communication system equipment, such as radio access networks, for signal transmission and reception in 3G and/or 4G base stations) and the use of trademark under the authorisation is without definitive period, the product image as well as the reputation of the PRC Company could be affected by the use of such trademark by its owner. Therefore, the PRC Company currently intends to acquire the trademark (subject to negotiation on the term of acquisition and the availability of resources of the PRC Company).

Currently, the PRC Company has a research and development centre in Shenyang, the PRC for the research and development of telecommunication technologies and relevant products and it plans to establish two other centres in Xi'an and Guangzhou, the PRC. The PRC Company in-house designs and develops its cell phones, manufactures or subcontracts its manufacturing processes to third party manufacturers on an OEM basis and sells its cell phones under the abovementioned brand name through the top three telecommunication services providers and the distribution networks of some channel distributors in the PRC. The PRC Company also cooperates with these telecommunication network operators and services providers in the PRC to specifically develop and supply various cell phones to cope with the need of business developments.

During the past years, the PRC Company has become an approved services provider to the major telecommunication services providers in the PRC. The PRC Company has supplied the installation, maintenance and upgrade services and/or wireless network optimisation services in its existing TD-SCDMA wireless access network systems to some major telecommunication services providers in some provinces in the PRC such as Shanghai, Henan, Shanxi, Jiangsu, Inner Mongolia, Jilin, Anhui, Jiangxi, Zhejiang, Sichuan, Gansu, Hebei and Shandong. The PRC Company also plans to supply the installation, maintenance and upgrade services and/or wireless network optimization services in the in-building TDD-LTE wireless access network systems to certain major telecommunication services providers in the PRC in the future.

During the first half of 2012, the PRC Company has explored its new business, supply of mobile IP bearer network facilities (such as IPRAN) and optical access products (such as xPON) to major telecommunication network operators in the PRC. Currently, IPRAN equipment and facilities of the PRC Company have already been installed and in use in 7 provinces in the PRC including Zhejiang, Jiangsu, Fujian, Liaoning, Hebei, Henan and Heilongjiang whilst the xPON equipment and facilities of the PRC Company have already been installed and in use in 2 provinces in the PRC including Guangdong and Jiangsu. Meanwhile, the PRC Company is developing 4G compatible telecommunication products to cope with the advancement in telecommunication technology with focus on TDD-LTE.

Set out below is the summary of changes in shareholder of the PRC Company and the Target Company since the PRC Company was acquired by the HK Company.

(i) On 12 October 2011, the HK Company (which was wholly-owned by an Independent Third Party at that time) acquired the entire equity interest in the PRC Company from two Independent Third Parties at the consideration of approximately RMB267,308,200;

(ii) On 24 February 2012, the Target Company (which was wholly-owned by an Independent Third Party at that time) acquired the entire issued share capital of the HK Company and the shareholder's loan from an Independent Third Party at the consideration of HK$302,459,896;

(iii) On 13 June 2012, the Vendor acquired entire issued share capital of the Target Company and the shareholder's loan from an Independent Third Party at the consideration of HK$650,000,000; and

(iv) On 28 October 2012, the Vendor agreed to sell the entire issued share capital of the Target Company to the Company at the same consideration of HK$650,000,000 pursuant to the S&P Agreement (as supplemented by the Supplemental Agreement).

Set out below are summaries of key financial data of the Target Group and the PRC Company, which have been prepared in accordance with the International Financial Reporting Standards:

The Target Group

The Target Company was incorporated on 8 February 2012. Set out below is the summary of its key audited consolidated financial figures of the Target Group for the period from the incorporation date of 8 February 2012 to 30 June 2012. The audited financial information of the Target Group is set out in the Appendix II to this circular.

	For the period from 8 February 2012 to 30 June 2012 *(RMB'000)*
Revenue	222,693
Net Profit (before taxation)	78,300 *(Note)*
Net Profit (after taxation)	72,292 *(Note)*
	As at 30 June 2012
Total Assets	915,971
Net Assets	334,431

Note: The audited consolidated net profit before/after taxation includes a gain on bargain purchase of approximately RMB40.2 million which is non-recurrent in nature.

The PRC Company

The PRC Company was incorporated on 14 February 2001. Set out below is the summary of its key audited financial figures prepared in accordance with the International Financial Reporting Standards for each of the three years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2011 and 30 June 2012. The audited financial information of the PRC Company is set out in the Appendix III to this circular.

	For the year ended 31 December			**For the six months ended 30 June**	
	2009	**2010**	**2011**	**2011**	**2012**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Revenue	132,494	167,680	315,887	273,367	254,000
Net Profit/(Loss) (before taxation)	(13,273)	(21,791)	48,553	69,847	37,257
Net Profit/(Loss) (after taxation)	(11,450)	(18,761)	40,613	59,033	31,519

	As at 31 December			As at 30 June
	2009	2010	2011	2012
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Total Assets	436,295	585,983	612,383	840,578
Net Assets	225,268	206,507	247,120	278,639

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group is mainly engaged in the manufacture and sales of signal cable assembly, power cord assembly, signal transmission wire and cable products, connectors, antennas, automotive wiring harness and other products. Some of the Group's products are specially designed for high-speed data transmission and can be used in connecting telecommunication and broadband networks.

As set out in the interim report of the Company for the six months ended 30 June 2012, consumer demand of the Group's products decreased during the first half of 2012 due to the downturn in global electronic markets. Profit of the Group during the first half of 2012 decreased partially due to (i) the aggressive pricing strategy adopted in the depressed market; (ii) the increase in labour cost and outsourcing cost; and (iii) investment in research and development, sales and administration made to gain a better position in an ever-competitive market. It is also the Company's strategy to make necessary investments in high-value areas for better equipping the Group and maintaining the Group at the technological forefront. The Company may also develop the area of communication, such as research and development and manufacture of wireless communication system devices and wireless terminal devices, and the service for wireless network planning and upgrading, etc., which has more room for profitability under appropriate circumstances.

The Target Group has been principally engaged in (i) the research and development, manufacture and sale of cell phones; (ii) the sale of network equipment to the top three telecommunication services providers in the PRC such as core network equipment, IPRAN and xPON; and (iii) the provision of services to major telecommunication services providers in the PRC, such as the installation, maintenance and upgrade of the network equipment and/or wireless network optimization in their existing network systems which requires certain products of the Group such as cables, assemblies and connectors.

Over the past few years, the PRC has experienced significant growth in the telecommunication industry, including mobile telecommunication, application of 3G technology and broadband. However, the broadband penetration rate in the PRC is low as compared with many developed countries. According to the Twelfth Five Year Plan of the PRC, the PRC government plans to speed up the development in information technology industry, including mobile communication technology, broadband and wireless network. The Twelfth Five Year Plan of the PRC also set out the milestone of advancement in the PRC information technology from 2015 to 2020 such as the upgrade in information network for broadband (fixed-line or mobile) and transition to 4G telecommunication technology (i.e. FDD-LTE and TDD-LTE).

In respect of the broadband development in the PRC, it is planned that the bandwidth in both urban and rural area in the PRC will be increased whilst the coverage will also be extended so as to cope with the need of the broadened application of Internet of Things and Cloud Computing in the PRC. As set out in the Twelfth Five Year Plan of the PRC, it is planned that the information technology industry of the PRC to grow by at least 20% each year during the period from 2015 to 2020. As such, it is expected that the demand of relevant network equipment, such as PON and LAN will increase accordingly.

3G is the most advanced mobile telecommunication technologies commonly used in the PRC and WCDMA can be upgraded to FDD-LTE without the need to substantially alter the existing systems. However, 4G is still at trial stage in the PRC and tests on TDD-LTE are being conducted in some cities in the PRC. As further substantial construction and upgrade are required, the 4G licences are expected to be issued by the PRC government after two to three years.

During the year ended 31 December 2011, most of the revenue of the PRC Company was recorded during the first half of 2011 mainly due to (i) the completion of bulk purchase order of cell phones with significant amount by a PRC major telecommunication services provider; and (ii) PRC telecommunication services providers reduced their purchase during the second half of 2011. Therefore, the PRC Company incurred a net loss of approximately RMB18.4 million during the second half of 2011 as compared with the net profit of approximately RMB59.0 million during the first half of 2011. In 2012, PRC telecommunication services providers planned to source the cell phones during the second half of 2012. As a result, most of the revenue of the PRC Company attributable to the sale of cell phones was not recorded in the first half of 2012. As the gross profit margin of cell phones is generally higher than other products of the PRC Company, the decrease in sale of cell phones during the first half of 2012 led to a decrease in net profit as compared with the same period in 2011. Notwithstanding the abovementioned, the PRC Company has shown a business growth during the past three years and the Directors are optimistic that the results for the year ending 31 December 2012 would be better than those for the year ended 31 December 2011.

In light of (i) the continuous growth in the PRC telecommunication and broadband market; (ii) the advanced technology developed by the PRC Company; (iii) the strong customer base and network, comprising the top three telecommunication services providers, of the PRC Company; and (iv) the promising growth in the business and financial performance of the PRC Company, the Directors consider the Acquisition as a business opportunity which could provide synergy to the Group's existing business while diversifying the Group's business to a prospective and fast growing industry where the Group has certain relevant knowledge and experiences. The Company currently intends to continue its existing business and will review the existing business portfolio and make necessary investments in high-value areas for better equipping the Group and maintaining the Group at the technological forefront after Completion. However, should suitable business opportunities arise in the future, the Company will continue to explore and consider any such business opportunities, including acquisitions or realisations, which are in line with the Group's business strategies and may enhance the Group's future business development. As at the Latest Practicable Date, the Group had no plan and had not engaged in any discussion or negotiation with an intention to acquire any new assets or business or to dispose of its existing business.

Based on the above and notwithstanding the fluctuation in financial performance in 2011 and 2012, the Directors (including the independent non-executive Directors who have taken into account the advice from the Independent Financial Adviser) consider that the Acquisition is beneficial to the Group and that the terms of the S&P Agreement (as supplemented by the Supplemental Agreement) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

FINANCIAL EFFECT OF THE ACQUISITION

Upon Completion, the Target Company will become a wholly-owned subsidiary of the Group and the financial results of the Target Group will be consolidated into those of the Group. The unaudited pro forma financial information of the Enlarged Group is prepared as if the Acquisition had been completed and all equity interest was acquired on 30 June 2012 for the pro forma consolidated assets and liabilities statement.

The accompanying unaudited pro forma financial information of the Enlarged Group has been prepared to illustrate the effect of the Acquisition. The unaudited pro forma statement of assets and liabilities of the Enlarged Group is set out in Appendix V to this circular.

Net assets

Set out in Appendix V to this circular is the unaudited pro forma statement of assets and liabilities on the Enlarged Group which illustrates the effect of the Completion on the assets and liabilities of the Group, assuming the Acquisition had taken place on 30 June 2012.

As set out in the unaudited pro forma statement of assets and liabilities of the Enlarged Group in Appendix V to this circular, the total assets of the Enlarged Group as at 30 June 2012 will increase from approximately RMB2,357.5 million to approximately RMB3,373.5 million as a result of the Acquisition.

As set out in the unaudited pro forma statement of assets and liabilities of the Enlarged Group in Appendix V to this circular, the total liabilities of the Enlarged Group as at 30 June 2012 will increase from approximately RMB1,235.4 million to approximately RMB2,259.1 million as a result of the Acquisition.

Earnings

Upon Completion, the Target Company will become a wholly-owned subsidiary of the Company and the net profit of the Target Group will be consolidated to the Enlarged Group's accounts. Therefore, it is expected that the earnings of the Enlarged Group will increase as a result of the Acquisition.

RISK FACTORS

Risk associated with conditions precedent of the Acquisition

Completion will take effect upon the satisfaction (or waiver, where applicable) of conditions precedent and termination, including but not limited to those set out in the section headed "Conditions" in this circular. The Acquisition may or may not be completed if any conditions precedent cannot be fulfilled (or waived, as the case may be). The Company has been effectively communicating with the Target Group and its professional advisers so as to endeavour to have all conditions fulfilled before the Long Stop Date.

Risk associated with the successful operation of the Target Group

As mentioned above, the Company is principally engaged in the manufacture and sales of signal cable assembly, power cord assembly, signal transmission wire and cable products, connectors, antennas, automotive wiring harness and other products. Although the Group has certain relevant knowledge and experiences in the industry where the Target Group operates in, there is no assurance that the management of the Company will successfully operate the business of the Target Group. Therefore, the Company relies, to a certain extent, on the current management and key staff of the Target Group. In the event of failing to retain the current management of the Target Group, and the Company fails to engage suitable replacement in a timely manner, the Target Group's business, operations and financial condition may be adversely affected.

As the certain staff of the Group possesses the relevant expertise in certain area of the business of the PRC Company, the Company currently intends to assign certain competent and experienced managerial staff to oversee the operation of the PRC Company after Completion. In addition, the Company also intends to review and enhance the existing human resources management system in order to retain the key staff of the PRC Company.

Risk associated with the trademark being owned by another party

The PRC Company has been manufacturing and selling its products under the brand name owned by its previous immediate holding company. Since the PRC Company was authorised to use this trademark without definitive period and such authorisation is not affected by change in shareholding of the PRC Company, the Company considers that the risk of termination of such authorisation is minimal. On the other hand, given that certain products of the trademark owner also bear the same brand name, there could be impact, either positive or negative, on the product image as well as the reputation of the PRC Company which in turn affects the results of the PRC Company. In order to reduce the potential impact could be brought by the abovementioned trademark to the Enlarged Group after Completion, the Company intends to seek an opportunity to establish additional brands for the products of the PRC Company and may acquire the trademark from the owner (subject to the negotiation on the terms of such acquisition and the availability of resources of the Enlarged Group).

Risk associated with the reliance on few major customers

For each of the three years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012, sales to the top three customers of the PRC Company, in aggregate, accounted to approximately 99.6%, 78.1%, 73.7% and 73.0% of the total sales of the PRC Company for the respective year/period. Although network equipment of the PRC Company are installed and in use in these customers and certain relevant services are required from the PRC Company on recurrent basis, no long term supply or service contract has been entered into between the PRC Company and these customers as bidding is usually required. In the event that the PRC Company fails to retain any of its major customers, the financial results of the PRC Company could be materially adversely affected.

The Company believes that by continual research and development and by exercising stringent quality control on products, the PRC Company can improve the product/service quality which in turn helps retaining the existing major customers. In addition, the Company will also adhere to the existing business strategy of the PRC Company to explore new customers in order to reduce the reliance of the major customers of the PRC Company.

Risk associated with the PRC telecommunication industry

Over the past years, the PRC telecommunication industry has experienced significant growth. The PRC government has also launched certain policies with an aim to facilitate the coverage technology advancement of the telecommunication industry. However, there is no assurance that the demand of network equipment associated with the recent growth in PRC telecommunication industry will continue in the future. Furthermore, it is also uncertain as to whether the PRC government will further launch any policy to sustain or stimulate the growth in the telecommunication industry. If the growth in the PRC telecommunication industry slows down, the business operation, sales and results of the Target Group could be materially adversely affected. In order to reduce the abovementioned risk, the Company will keep itself updated to the industry trend and relevant policies from time to time and review its business strategy in response.

LISTING RULES IMPLICATIONS

As the applicable percentage ratios (as calculated in accordance with Rule 14.07 of the Listing Rules) for the Acquisition are more than 25% but less than 100%, the Acquisition constitutes a major transaction of the Company under Rule 14.06 of the Listing Rules. Besides, as the Vendor is a controlling Shareholder, the chairman of the Company, and an executive Director who is interested in approximately 40.87% interests of the Company, the Vendor is considered as a connected person to the Company, and the Acquisition also constitutes a connected transaction of the Company and is subject to the reporting, announcement and the Independent Shareholders' approval requirements under the Listing Rules.

The Vendor and Ms. Xu Yiming have abstained from voting on the Board in relation to resolutions approving the Acquisition and the transactions contemplated under the S&P Agreement.

The Vendor and his associates (including Chenlin International Joint Stock Company Limited and Splendor Sun Group Limited), who are interested in an aggregate of 355,229,222 Shares as at the Latest Practicable Date, are regarded as having material interest in the Acquisition and therefore they are required to abstain from voting on the resolution proposed to be passed at the EGM for approving the Acquisition and the transactions contemplated under the S&P Agreement (as supplemented by the Supplemental Agreement).

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information contained in the appendices to this circular.

RECOMMENDATION

Your attention is drawn to the letter from the IBC set out on page 24 of this circular, which contains its recommendation to the Independent Shareholders regarding the Acquisition and the transactions contemplated under the S&P Agreement (as supplemented by the Supplemental Agreement).

Your attention is also drawn to the letter from GF Capital set out on pages 25 to 49 of this circular, which contains, among other things, its advice to the IBC and the Independent Shareholders regarding the Acquisition and the transactions contemplated under the S&P Agreement (as supplemented by the Supplemental Agreement).

The Directors (including the independent non-executive Directors who have taken into account the recommendations from the Independent Financial Adviser) are of the view that the terms of the Acquisition and the transactions contemplated under the S&P Agreement (as supplemented by the Supplemental Agreement) are on normal commercial terms which are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and recommend the Independent Shareholders to vote in favour of the relevant resolution to be proposed at the EGM to approve the Acquisition and the transactions contemplated under the S&P Agreement (as supplemented by the Supplemental Agreement).

Your faithfully
For and on behalf of the Board
Chi Shaolin
Chairman and 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)

http://www.hong-lin.com.cn

31 December 2012

To the Independent Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION

We have been appointed to form an independent board committee to consider and advise you on the terms of the Acquisition and the transactions contemplated under the S&P Agreement (as supplemented by the Supplemental Agreement), details of which are set out in the circular issued by the Company to the Shareholders dated 31 December 2012 (the "Circular"), of which this letter forms part. Terms defined in the Circular will have the same meanings when used herein unless the context otherwise requires.

We wish to draw your attention to the letter from the Board and letter of advice from GF Capital set out on pages 8 to 23 and pages 25 to 49 of the Circular respectively, and the additional information set out in the appendices to the Circular.

Having taken into account the terms of the Acquisition and the transactions contemplated under the S&P Agreement (as supplemented by the Supplemental Agreement), and the principal factors and reasons considered by GF Capital, we concur with the view of GF Capital and consider that the terms of the Acquisition and the transactions contemplated under the S&P Agreement (as supplemented by the Supplemental Agreement) are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we recommend you to vote in favour of the resolution to be proposed at the EGM to approve the Acquisition and the transactions contemplated under the S&P Agreement (as supplemented by the Supplemental Agreement).

Yours faithfully,
For and on behalf of the Independent Board Committee

Mr. Shu Wa Tung, Laurence	**Mr. Song Lizhong**	**Ms. Zheng Lin**
Independent non-executive Director	*Independent non-executive Director*	*Independent non-executive Director*

* *for identification purpose only*

The following is the full text of the letter of advice to the Independent Board Committee and the Independent Shareholders from the Independent Financial Adviser which has been prepared for inclusion in this circular.

廣發融資(香港)有限公司
GF CAPITAL (HONG KONG) LIMITED

29–30/F, Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

31 December 2012

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

Dear Sirs,

MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF ROSY SUN INVESTMENTS LIMITED

INTRODUCTION

We refer to our engagement to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the S&P Agreement, including the Acquisition and the transactions contemplated thereunder, particulars of which are set out in the letter from the Board (the ''Letter from the Board'') of this circular to the Shareholders dated 31 December 2012 (the ''Circular''), of which this letter forms part. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

On 28 October 2012, the Company entered into the S&P Agreement with the Vendor for the sale and purchase of the entire issued share capital of the Target Company. Pursuant to the S&P Agreement (as supplemented by the Supplemental Agreement), the Vendor has conditionally agreed to sell and the Company has conditionally agreed to purchase the Sale Shares and the Shareholder's Loan (if any) at a consideration of HK$650 million.

As the applicable percentage ratios (as calculated in accordance with Rule 14.07 of the Listing Rules) for the Acquisition are more than 25% but less than 100%, the Acquisition constitutes a major transaction of the Company under Rule 14.06 of the Listing Rules. Besides, as the Vendor is the controlling Shareholder, the chairman of the Company, and an executive Director who is interested in approximately 40.87% equity interests of the Company, the Vendor is considered as a connected person to the Company, and the Acquisition also constitutes a connected transaction of the Company and is subject to the reporting, announcement and the Independent Shareholders' approval requirements under the Listing Rules.

The Independent Board Committee comprising, Mr. Shu Wa Tung, Laurence, Mr. Song Lizhong and Ms. Zheng Lin, being all the independent non-executive Directors, has been established to advise the Independent Shareholders in respect of the terms of the S&P Agreement, including the Acquisition and the transactions contemplated thereunder.

BASIS OF OUR OPINION

In formulating our opinion, we have relied on the accuracy of the information and representations contained in the Circular and have assumed that all information and representations made or referred to in the Circular as provided by the Directors and/or management of the Company were true, accurate and complete in all material aspects at the time they were made and continue to be true, accurate and complete in all material aspects as at the date of the Circular. We have also relied on our discussion with the Directors and the management of the Company regarding the Group and the terms of the S&P Agreement, including the information and representations contained in the Circular. We have also assumed that all statements of belief, opinion and intention made by the Directors and/or the management of the Company respectively in the Circular have been reasonably made after due and careful enquiries. We consider that we have reviewed sufficient information to reach an informed view, to justify our reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice. We have no reason to suspect that any material facts have been omitted or withheld from the information contained or opinions expressed in the Circular nor to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and/or management of the Company. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Group, the Target Group, its subsidiaries and their respective associates nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion regarding the terms of the S&P Agreement and the Acquisition and the transactions contemplated thereunder, we have considered the following principal factors and reasons:

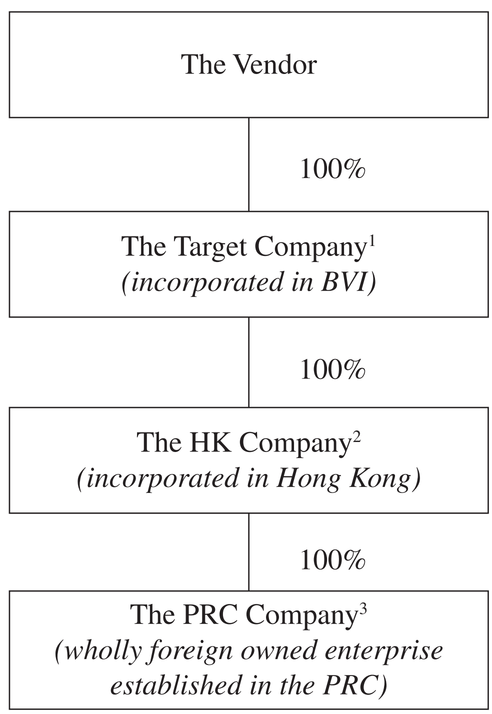
1. Background of and reasons for the Acquisition

(a) Information on the Target Group

(i) Shareholding structure of the Target Group

Set out below is the shareholding structure of the Target Group.

As at the Latest Practicable Date:



Upon Completion:

The Company
(or its nominees)

100%

The Target Company[1]
(incorporated in BVI)

100%

The HK Company[2]
(incorporated in Hong Kong)

100%

The PRC Company[3]
(wholly foreign owned enterprise established in the PRC)

Notes:

1. an investment holding company incorporated on 8 February 2012. The Sale Shares represent the entire issued share capital of the Target Company. The major asset of the Target Company is the entire issued share capital of the HK Company.

2. an investment holding company incorporated on 14 October 2010. The major asset of the HK Company is the entire registered capital of the PRC Company.

3. a wholly foreign owned enterprise established on 14 February 2001 and it is located in Shenyang, Liaoning Province, the PRC. The total registered capital of the PRC Company is RMB233 million.

As set out in the Letter from the Board, the PRC Company has been principally engaged in (i) the research and development, manufacturing and sale of cell phones under its own brand name, which can run on 2G and/or 3G networks such as GSM, IS-95, CDMA2000 and TD-SCDMA in the PRC; (ii) the sale of network equipment to the top three telecommunication services providers in the PRC under its own brand name, such as core network equipment, IPRAN and xPON; and (iii) the provision of services to major telecommunication services providers in the PRC, such as the installation, maintenance and upgrade of the network equipment and/or wireless network optimisation in their existing network systems. The above products of the PRC Company are under the brand name "POSTCOM". Such trademark is owned by Guangzhou New Postcom Co., Ltd. ("Guangzhou New Postcom"), a company mainly engaged in research and development, manufacture and sales of mobile communication system equipment, such as radio access networks, for signal transmission and reception in 3G and/or 4G base stations.

Prior to the acquisition of the PRC Company by the HK Company on 12 October 2011, Guangzhou New Postcom was an immediate holding company of the PRC Company which held approximately 93.57% equity interest in the PRC Company, and it has authorised the PRC Company to use the abovementioned trademark on a non-exclusive basis and the PRC Company is not required to pay any fee for the use of the abovementioned trademark pursuant to the authorisation letter between the PRC Company and Guangzhou New Postcom. In addition, the PRC Company was authorised to use such trademark without definitive period and the authorisation will not be affected by the change in shareholding structure of both the PRC Company and Guangzhou New Postcom. Although the products of the PRC Company comprises mainly cell phones and broadband network equipment which are different from those of Guangzhou New Postcom (which comprise mainly mobile communication system equipment, such as radio access networks, for signal transmission and reception in 3G and/or 4G base stations) and the use of trademark under the authorisation is without definitive period, the product image as well as the reputation of the PRC Company could be affected by the common use of the same trademark by its owner (or any other parties so authorised by it), which impact we consider could be either positive or negative depending on the way Guangzhou New Postcom handles its business with the same trademark. Therefore, the PRC Company currently intends to acquire the trademark (subject to negotiation on the term of acquisition and the availability of resources of the PRC Company). In this connection, we have discussed with the management of the Company and understand therefrom that such intended acquisition may or may not materialise subject to the relative bargaining power between the PRC Company and Guangzhou New Postcom in relation to the asking price (and other terms for the transfer) of the relevant trademark.

In other words, the PRC Company has been manufacturing and selling its products under the brand name owned by its previous immediate holding company, which is a consequence arising from the history and development of the PRC Company. We have discussed with the management of the Company and understand therefrom that such authorisation to use the same trademark is deemed irrevocable, legally-binding and has no termination clause, irrespective of any possible future change in shareholder of either GZ New Postcom or the PRC Company. On such basis, we concur with the Company's belief that the risk of termination of such authorisation to use the same trademark of "POSTCOM" is minimal and must be subject to mutual consent. Further, in order to mitigate the potential impact which could be brought by the common use of trademark to the Enlarged Group after Completion, the Company intends to seek an opportunity to establish additional brands for the products of the

PRC Company (if considered suitable) and may acquire the trademark from its owner (subject to negotiation on the terms of such acquisition and the availability of resources of the Enlarged Group).

Upon our due diligence enquiry, we have obtained a breakdown from the Directors that the top five customers of the PRC Company for each of the three years ended 31 December 2011 and the six months ended 30 June 2012 included the top three telecommunication services providers in the PRC and a related party of the PRC Company. We have reviewed details of the related parties transactions of the PRC Company as set out in Appendix III to the Circular, which shows that related party sales accounted for a decreasing proportion of the total revenue and other income of the PRC Company for each of the three years ended 31 December 2011 (down from approximately 81.6% (2009) to 26.7% (2010) to 5.8% (2011), before ceasing to 0% (2012H1).

Currently, the PRC Company has a research and development centre in Shenyang, the PRC, for the research and development of telecommunication technologies and relevant products and it plans to establish two other centres in Xi'an and Guangzhou, the PRC. The PRC Company in-house designs and develops its cell phones, manufactures or subcontracts its manufacturing processes to third party manufacturers on an OEM basis and sells its cell phones under its own brand name through the top three telecommunication services providers and the distribution networks of some channel distributors in the PRC. The PRC Company also cooperates with these telecommunication network operators and services providers in the PRC to specifically develop and supply various cell phones to cope with the need of business developments.

During the past years, the PRC Company has become an approved services provider to the major telecommunication services providers in the PRC. The PRC Company has supplied the installation, maintenance and upgrade services and/or wireless network optimisation services in its existing TD-SCDMA wireless access network systems to some major telecommunication services providers in some provinces in the PRC such as Shanghai, Henan, Shanxi, Jiangsu, Inner Mongolia, Jilin, Anhui, Jiangxi, Zhejiang, Sichuan, Gansu, Hebei and Shandong. The PRC Company also plans to supply the installation, maintenance and upgrade services and/or wireless network optimisation services in the in-building TDD-LTE wireless access network systems to certain major telecommunication services providers in the PRC in the future. Upon our due diligence enquiry, we understand from the Directors that for each of the three years ended 31 December 2011 and the six months ended 30 June 2012, 100% sales turnover of the PRC Company was geographically generated from the PRC, with no export sales to overseas.

During the first half of 2012, the PRC Company has explored its new business, supply of mobile IP bearer network facilities (such as IPRAN) and optical access products (such as xPON) to major telecommunication network operators in the PRC. Currently, IPRAN equipment and facilities of the PRC

Company have already been installed and in use in 7 provinces in the PRC such as Zhejiang, Jiangsu, Fujian, Liaoning, Hebei, Henan and Heilongjiang whilst the xPON equipment and facilities of the PRC Company have already been installed and in use in 2 provinces in the PRC such as Guangdong and Jiangsu. Meanwhile, the PRC Company is developing 4G compatible telecommunication products to cope with the advancement in telecommunication technology with focus on TDD-LTE.

The Vendor acquired the entire equity interest in the Target Company on 13 June 2012 at the consideration of HK$650 million and proposed to sell the same at the same consideration of HK$650 million to the Company pursuant to the S&P Agreement. Upon our due diligence enquiry, we understand from the Directors that despite the Vendor owns the Target Company for only about four months (since 13 June 2012 up to the date of the S&P Agreement), there is a core management team of the Target Company who has been serving continuously over 5 years for the marketing and operation of the Target Company (rather than relying on the Vendor).

(ii) Financial information of the Target Group and the PRC Company

The Target Group

Set out below is the summary of the key audited consolidated financial figures of the Target Group for the period from the incorporation date of 8 February 2012 to 30 June 2012. The audited financial information of the Target Group is set out in the Appendix II to the Circular.

	For the period from 8 February 2012 to 30 June 2012 *(RMB'000)*
Revenue	222,693
Net Profit before taxation *(Note)*	78,300
Net Profit after taxation *(Note)*	72,292

	As at 30 June 2012 *(RMB'000)*
Total Assets	915,971
Net Assets	334,431

Note: The audited consolidated net profit before/after taxation includes a gain on bargain purchase of approximately RMB40.2 million which is non-recurrent in nature.

The PRC Company

Set out below is the summary of its key audited financial figures prepared in accordance with the International Financial Reporting Standards for the three years ended 31 December 2011 and the six months ended 30 June 2011 and 30 June 2012. The audited financial information of the PRC Company is set out in the Appendix III to the Circular.

	For the year ended 31 December			For the six months ended 30 June	
	2009	**2010**	**2011**	**2011**	**2012**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Revenue	132,494	167,680	315,887	273,367	254,000
Net Profit/(Loss) (before taxation)	(13,273)	(21,791)	48,553	69,847	37,257
Net Profit/(Loss) (after taxation)	(11,450)	(18,761)	40,613	59,033	31,519

	As at 31 December			As at 30 June
	2009	**2010**	**2011**	**2012**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Total Assets	436,295	585,983	612,383	840,578
Net Assets	225,268	206,507	247,120	278,639

Upon review of the accountants' report on the PRC Company as set out in Appendix III to the Circular and the "Management Discussion and Analysis on the Target Group" as set out in Appendix IV to the Circular, we have the following observation and analysis:

(i) despite recording a loss-making result for the two consecutive years ended 31 December 2010 (of RMB11.5 million (2009) and RMB18.8 million (2010)), the PRC Company managed to turn-around to achieve positive earnings for the year ended 31 December 2011 (of RMB40.6 million), and continued to sustain positive earnings for the six months ended 30 June 2012 (of RMB31.5 million).

Upon our due diligence review, we note that the loss-making result for the year ended 31 December 2009 was primarily due to

(a) the PRC Company has not yet achieved the economies of scale for its sale of cell phones and other terminal products to cover the fixed cost; and

(b) sales of network equipment represented a significant portion of the total sale of the PRC Company for the year ended 31 December 2009 but the gross profit margin of which is relatively low, whereas the loss-making result for the year ended 31 December 2010 was primarily due to the fact that

(a) the PRC Company expanded its production capacity and improved its services by increasing its capital expenditure and recruiting more service staff which caused the increase of the cost of sales and the gross loss of approximately RMB4.1 million recorded;

(b) selling and distribution costs increased from approximately RMB1.0 million for the year ended 31 December 2009 to approximately RMB5.3 million for the year ended 31 December 2010 as the PRC Company increased its marketing activities to expand the customer base and market shares;

(c) administrative expenses increased from approximately RMB7.7 million for the year ended 31 December 2009 to approximately RMB13.0 million for the year ended 31 December 2010 as the PRC Company improved its administration by increasing employment investment in recruiting professional parties and purchasing fixed assets in relation to administration; and

(d) finance costs increased from approximately RMB1.8 million for the year ended 31 December 2009 to approximately RMB7.6 million for the year ended 31 December 2010 due to the increase of short term interest-bearing bank and other borrowings so as to maintain the working capital requirement for the expansion of business.

(ii) the revenue of the PRC Company decreased from approximately RMB273.4 million for the six months ended 30 June 2011 to approximately RMB254.0 million for the six months ended 30 June 2012, which was primarily due to the decrease in sales of cell phones from approximately RMB168.6 million in the first half of 2011 to approximately RMB38.0 million in the first half of 2012 as a main customer delayed its group purchase to the second half of 2012. In other words, PRC telecommunication services providers planned to source the cell phones from the PRC Company during the second half of 2012. As a result, most of the revenue of the PRC Company attributable to the sale of cell phones was not recorded in the first half 2012.

Upon comparison, we note that the "terminals" segment (representing the manufacture and sale of mobile phone handsets, related accessories and data cards for laptop and related software) managed to continuously account for an increasing proportion of the total revenue of the PRC Company of approximately 6%, 32% and 73% for each of the three years ended 31 December 2011, before reducing to a proportion of approximately 19% for the six months ended 30 June 2012;

(iii) the net profit after taxation of the PRC Company decreased from RMB59.0 million for the six months ended 30 June 2011 to approximately RMB31.5 million for the six months ended 30 June 2012, which was primarily due to the fact that (i) gross profit decreased from approximately RMB87.6 million for the six months ended 30 June 2011 to approximately RMB61.3 million for the six months ended 30 June 2012 which was mainly attributable to the decrease of revenue; and (ii) finance costs increased from approximately RMB6.9 million for the six months ended 30 June 2011 to approximately RMB10.8 million for the six months ended 30 June 2012 as interest-bearing bank and other borrowings increased to maintain the working capital required for the expansion of business. As cited in point (ii) above, most of the revenue of the PRC Company attributable to the sale of cell phones was not recorded in the first half 2012 as PRC telecommunication services providers planned to source the cell phones during the second half of 2012. As the gross profit margin of cell phones is generally higher than other products of the PRC Company, the decrease in sale of cell phones during the first half of 2012 led to a decrease in net profit as compared with the same period in 2011.

Upon comparison, we note that the "network" segment actually accounted for a decreasing proportion of the total revenue of the PRC Company for each of the three years ended 31 December 2011, before increasing to a majority proportion for the six months ended 30 June 2012;

(iv) the PRC Company incurred a net loss after taxation during the second half of 2011, because most of the revenue of the PRC Company was recorded during the first half of 2011 as (i) the completion of bulk purchase order of cell phones with significant amount by a PRC major telecommunication services provider took place during the first half of 2011; and (ii) PRC telecommunication services providers reduced their purchase during the second half of 2011.

Based on the foregoing, we consider that the PRC Company was at a growing and profitable phase in 2011 and 2012H1 (after turning-around from loss-making results in 2009 and 2010), and is in a position to sustain its profitability subject to signing new sales contracts from its customers. Upon enquiry on the latest operating performance of the PRC Company, we have obtained from the Directors a breakdown of signed sales contracts for the six months ending 31 December 2012. For the same period, it comes to our attention that the sum of the signed sales contract value of the PRC Company matches with its total budgeted sales. According to the latest unaudited management accounts of the PRC Company for the ten months ended 31 October 2012, unaudited the net profit attributable to the owners of the PRC Company was approximately RMB56.3 million.

(b) Industry overview

According to an article namely "Issue of the telecommunications industry's Twelfth Five Year Plan" announced by the Ministry of Industry and Information Technology of the PRC as published on cnii.com.cn (中國信息產業網) on 4 May 2012, by 2015, the number of phone users in the PRC is expected to exceed 1.4 billion with a penetration rate of 100%, of which the number of mobile phone users is expected to exceed 1.2 billion with a penetration rate of 85%. Although it doesn't mean everyone will own a phone, some people may have several phones, it shows the potential of the domestic mobile phone market in the PRC.

Further according to the National Bureau of Statistics of China, the retail sales of communication equipment from enterprises above designated size in the PRC increased from approximately RMB25 billion in 2007 to approximately RMB47 billion in 2011, representing a compound annual growth rate of approximately 15.3% during the period.

(c) Reasons for the Acquisition

The Group is mainly engaged in the manufacture and sales of signal cable assembly, power cord assembly, signal transmission wire and cable products, connectors, antennas, automotive wiring harness and other products. Some of the Group's products are specially designed for high-speed data transmission and can be used in connecting telecommunication and broadband networks.

As set out in the interim report of the Company for the six months ended 30 June 2012, consumer demand of the Group's products decreased during the first half of 2012 due to the downturn in global electronic markets. Profit of the Group during the first half of 2012 decreased partially due to (i) the aggressive pricing strategy adopted in the depressed market; (ii) the increase in labour cost and outsourcing cost; and (iii) investment in research and development, sales and administration made to gain a better position in an ever competitive market. Upon our due diligence review, we observe that the profit attributable to owners of the Company was approximately RMB27.9 million for the six months ended 30 June 2012, representing a significant reduction of approximately 66.9% as compared to the same period in 2011. We have reviewed the section headed "FINANCIAL AND TRADING PROSPECTS OF THE GROUP" as set out in Appendix I to the Circular, noting that:

(i) The operating environment for global 3Cs markets was met with challenges and difficulties for the past two years in 2011 and 2012;

(ii) The global economic crisis and the downturn of markets continued to intensify;

(iii) The sovereign debt crisis in Europe had been escalating and unemployment rates hit record high in Europe and the United States;

(iv) Consumers became less confident towards markets and consumer demands remained low; and

(v) It is expected that the overall economy will not recover quickly from the recession.

Upon our due diligence review on the latest annual report of the Company, we observe that for financial year ended 31 December 2011, as to approximately 32% of the total sales turnover of the Company was generated from customers whose geographical locations are outside China (i.e. export sales to overseas including Taiwan and Hong Kong).

It is also the Company's strategy to make necessary investments in high-value areas for better equipping the Group and maintaining the Group at the technological forefront. The Company may also develop the area of communication, such as research and development and manufacture of wireless communication system devices and wireless terminal devices, and the service for wireless network planning and upgrading, etc., which has more room for profitability under appropriate circumstances.

As stated in the Letter from the Board, over the past few years, the PRC has experienced significant growth in the telecommunication industry, including mobile telecommunication, application of 3G technology and broadband. However, the broadband penetration rate in the PRC is low as compared with many developed countries. According to the Twelfth Five Year Plan of the PRC, the PRC government plans to speed up the development in information technology industry, including mobile communication technology, broadband and wireless network. The Twelfth Five Year Plan of the PRC also set out the milestone of advancement in the PRC information technology from 2015 to 2020 such as the upgrade in information network for broadband (fixed-line or mobile) and transition to 4G telecommunication technology (i.e. FDD-LTE and TDD-LTE).

Taken into account that:

(i) the Acquisition is consistent with the Company's strategy to make investments in high-value areas;

(ii) the Acquisition can broaden the revenue stream of the Group;

(iii) the continuous growth in the PRC telecommunication and broadband market (in line with the Twelfth Five Year Plan of the PRC);

(iv) the potential of the domestic mobile phone market given the rising phone penetration rate in the PRC;

(v) the strong customer base and network, comprising the top three telecommunication services providers, of the PRC Company;

(vi) the long-established track record and proven operating history of the PRC Company (over 11 years) engaging in its principal activity since 2001;

(vii) the growth potential in the business and financial performance of the PRC Company; and

(viii) the risk of termination of authorisation from Guangzhou New Postcom for the PRC Company to use the same trademark of "POSTCOM" is minimal,

we concur with the Directors that the Acquisition represents a business opportunity which could provide synergy to the Group's existing business while diversifying the Group's business to a prospective and fast growing industry where the Group has certain relevant knowledge and experiences (in terms of its existing product mix for high-speed data transmission and connecting telecommunication and broadband networks), and consider that the Acquisition is in the ordinary and usual course of business of the Group and in the interests of the Group and the Shareholders as a whole.

2. Key terms of the S&P Agreement

(a) Assets to be acquired

Pursuant to the S&P Agreement (as supplemented by the Supplemental Agreement), the Company has conditionally agreed to purchase (i) the Sale Shares, representing the entire issued share capital of the Target Company, free from all encumbrances and together with all existing and future rights and benefits attaching or accruing to the Sale Shares, on or after the Completion Date; and (ii) the Shareholder's Loan (if any), subject to the satisfaction (or waiver, where applicable) of the conditions precedent as set out in the paragraph headed "Conditions" in the Letter from the Board.

(b) Consideration

The Consideration is HK$650 million which shall be satisfied at Completion by the Company issuing to the Vendor (or such other person as the Vendor may nominate in writing) the Promissory Note, details of which are set out in the paragraph headed "Promissory Note" in the ensuing section.

The Consideration was determined after arm's length negotiations between the Vendor and the Company after taking into account a number of factors including the business nature, the business prospects, net assets value of the Target Company, the HK Company and the PRC Company as at 30 June 2012, performance of the PRC Company, the Profit Guarantee and the then preliminary estimation of the fair value of the PRC Company of approximately HK$700 million pursuant to the business valuation carried out by the Independent Valuer under the market approach using the forward price to earnings multiples and forecasted net profit attributable to owners of the PRC Company for the year ending 31 December 2012.

In assessing the fairness and reasonableness of the Consideration, we have reviewed the valuation report set out in Appendix VI to the Circular (the "Valuation Report") prepared by the Independent Valuer.

For our due diligence purpose, we have performed the steps, including (i) reviewing the terms of engagement of the Independent Valuer and we are of the view that the scope of work is appropriate to the opinion required to be given and not aware that any limitations on the scope of work which might adversely impact on the degree of assurance given by the expert's report, opinion or statement; (ii) obtaining from the Independent Valuer the name, qualification and experience of the director in charge of this engagement, and noting that the director in charge of this engagement is a CPA Fellow member of the Hong Kong Institute of Certified Public Accountants, a CPA Fellow member of CPA Australia and a Certified Valuation Analyst, who has extensive experience in valuation and corporate advisory business. He has provided a wide range of valuation services to numerous listed and private companies in different industries in Mainland China, Hong Kong, Singapore and the United States; (iii) the Independent Valuer confirmed that, save for acting as valuer, there is no prior or current relationship between the Independent Valuer and the Company, the Vendor and their respective connected persons; and (iv) we are not aware that the Company or the Vendor has made any other formal or informal representations to the Independent Valuer which are not in accordance with our knowledge.

We have discussed with the Independent Valuer the methodology of, and the bases and assumptions adopted for, the valuation of the PRC Company. We understand from the Independent Valuer that the Independent Valuer has considered three different generally accepted approaches, namely market approach, cost approach and income approach in arriving at the market value of the entire equity interest in the PRC Company. The Independent Valuer considered that it is inappropriate to adopt the income approach and the cost approach for the purpose of valuing the entire equity interest in the PRC Company, as the cost approach does not directly incorporate information about the economic benefits contributed by the subject assets and the income approach requires subjective assumptions to which the valuation is highly sensitive. Detailed operational information and long-term financial projections are also needed to arrive at an indication of value but such information is not available as at the valuation date. The Independent Valuer considered the market approach as the only appropriate approach for the purpose of valuing the entire equity interest in the PRC Company. Based on our discussion with the Independent Valuer, we consider that the adoption of market approach to value the entire equity interest in the PRC Company is appropriate and no major factors have been identified which cause us to doubt the fairness and reasonableness of the bases and assumptions adopted for the valuation.

In order to reflect the PRC Company's latest financial performance and given the availability of operational details for projecting the forecasted net profit attributable to owners in 2012, we understand from the Independent Valuer that the suitable multiple in the valuation of the PRC Company is the 2012 forward price to earnings ratio, which is defined as the current market price to forecasted net profit attributable to owners of the PRC Company in 2012. As assessed by the Independent Valuer, based on the forecasted net profit attributable to owners of the PRC Company for the year ending 31 December 2012 of RMB66 million (as then multiplied by the average 2012 forward price to earnings multiples of comparable listed companies of 11.35 times, with an adjustment of "lack of marketability discount" of 25%), the value of the entire issued share capital of the Target Group is valued at RMB700 million as at 26 October 2012.

Regarding the forecasted net profit attributable to owners of the PRC Company for the year ending 31 December 2012 of RMB66 million as adopted for the valuation purpose, we note that the net profit attributable to the owners of the PRC Company was approximately RMB56.3 million according to the latest unaudited management accounts of the PRC Company for the ten months ended 31 October 2012, which already represents approximately 85% of the forecasted net profit attributable to owners of the PRC Company for the year ending 31 December 2012 of RMB66 million. Based on such actual data, and in view of

(i) the breakdown of signed sales contracts of the PRC Company for the six months ending 31 December 2012, which already matches with its total budgeted sales for the same period;

(ii) the comfort letter issued by the auditors to the PRC Company that the same forecast is presented on a basis consistent in all material respects with the accounting policies normally adopted by the PRC Company (as set out in Appendix VII to the Circular); and

(iii) the comfort letter issued by the financial adviser to the Company satisfying that the same forecast, for which the Directors are solely responsible, has been made after due and careful enquiry (as set out in Appendix VII to the Circular),

we consider that there is a reasonable ground that the forecasted net profit attributable to owners of the PRC Company for the year ending 31 December 2012 of RMB66 million can be achieved.

As an independent evaluation of the Consideration, we have identified five companies listed on the main board of the Stock Exchange, which represent an exhaustive list to the best of our knowledge, principally engaged in the research and development, manufacturing and sale of mobile phones and the provision of telecommunications services (the "Comparables"). We have also compared the historical price to earnings multiple ("P/E") and the historical price to book value multiple ("P/B") of the respective Comparables against the P/E and P/B represented by the Consideration, details of which are set out in the table below:

Company (Stock code)	Principal activities	Market capitalisation[1] (HK$)	Historical P/E[2] (times)	Historical P/B[3] (times)
ZTE Corporation (763)	Design, development, production, distribution and installation of a broad range of advanced telecommunications equipment, including carriers' networks, handsets, and telecommunications software systems and services	37,281,886,700	14.7	1.2
China Communications Services Corporation Ltd. (552)	Provide telecommunications infrastructure services, business process outsourcing services and applications, content and other services	30,890,041,000	11.9	1.3
Comba Telecom Systems Holdings Ltd. (2342)	Research, development, manufacture and sale of wireless telecommunications network enhancement system equipment and the provision of related engineering services	4,624,374,500	7.0	1.2
China Wireless Technologies Ltd. (2369)	Research, development, production and sale of mobile phones; and property investment	4,617,814,900	17.0	2.0
Centron Telecom International Holding Ltd. (1155)	Manufacture and sale of wireless telecommunications coverage system equipment and provision of related engineering services, sale of digital television network coverage equipment and provision of related engineering services	716,804,100	3.3	0.4
		Mean	10.8	1.2
		Median	11.9	1.2
		Maximum	17.0	2.0
		Minimum	3.3	0.4

The Consideration (HK$)	Net Profit of the PRC Company year ended 31 December 2011 (HK$)	Historical P/E[4] (times)	Net asset of the Target Group as at 30 June 2012 (HK$)	Historical P/B (times)
650,000,000	49,949,929	13.0	411,316,687	1.6

Notes:

1. Based on the market capitalisation on Bloomberg on 26 October 2012, being the last trading day immediately prior to the date of the S&P Agreement.

2. Calculated by market capitalisation/profit attributable to shareholders. Profit attributable to shareholders of the Comparables is obtained from the latest financial data as published in the respective annual reports of the Comparables as at 28 October 2012, being the date of the S&P Agreement.

3. Calculated by market capitalisation/net asset attributable to shareholders. Net asset attributable to shareholders of the Comparables is obtained from the latest financial data as published in the respective annual reports or interim reports of the Comparables as at 28 October 2012, being the date of the S&P Agreement.

4. In calculating the historical P/E as represented by the Consideration, the net profit of the PRC Company for the year ended 31 December 2011 was used instead of the net profit of the Target Group for the year ended 31 December 2011 because the Target Company was only incorporated on 8 February 2012 and the HK Company is an investment holding company whose major asset is the entire registered capital of the PRC Company.

5. The conversion of RMB into HK$ is based on the exchange rate of RMB1 to HK$1.2299 as published by the People's Bank of China on 26 October 2012, being the last trading day immediately prior to the date of the S&P Agreement.

(i) Price to earnings multiple

As illustrated in the table above, the price to earnings multiple as represented by the Consideration of approximately 13.0 times is within the range of the price to earnings multiple of the Comparables from approximately 3.3 times to approximately 17.0 times, despite being higher than the median of approximately 11.9 of the Comparables.

(ii) Price to book multiple

As illustrated in the table above, the price to book multiple as represented by the Consideration of approximately 1.6 times is within the range of the price to book multiple of the Comparables from approximately 0.4 times to approximately 2.0 times, despite being higher than the median of approximately 1.2 of the Comparables.

Taking into account that:

(i) the Consideration of HK$650 million represented a discount of approximately 7.2% over the preliminary estimation of the fair value of the PRC Company of approximately HK$700 million pursuant to the business valuation carried out by the Independent Valuer;

(ii) there is a reasonable ground that the forecasted net profit attributable to owners of the PRC Company for the year ending 31 December 2012 of RMB66 million as adopted for the valuation purpose can be achieved, based on (amongst others) the actual profit level attained according to the latest unaudited management accounts of the PRC Company for the ten months ended 31 October 2012;

(iii) the price to earnings multiple as represented by the Consideration is within the range (despite being higher than the median) of the price to earnings multiple of the Comparables;

(iv) the price to book multiple as represented by the Consideration is within the range (despite being higher than the median) of the price to book multiple of the Comparables; and

(v) the original cost of acquisition incurred by the Vendor for acquisition of entire equity interest in the Target Company on 13 June 2012 was HK$650 million, which is the same as the Consideration,

we consider that the Consideration is fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Group and the Shareholders as a whole.

(c) The promissory note

Set out below are the principal terms of the Promissory Note:

Issuer:	The Company
Principal amount:	HK$650 million
Maturity date:	The date falling 5 years from the date of initial issue of the Promissory Note
Interest:	The Promissory Note shall not bear any interest
Prepayment:	The Promissory Note may be prepaid in whole or in part at any time without premium or penalty prior to its maturity by the Company giving the noteholder not less than 3 business days' prior written notice specifying the amount to be so prepaid
Transferability:	The Promissory Note is not transferable or assignable

In order to assess the fairness and reasonableness of the terms of the Promissory Note, we have identified, to the best of our knowledge, an exhaustive list of comparable transactions (the "Comparable Transactions") that (i) involved the issue of promissory notes by companies listed on the Stock Exchange; and (ii) were announced within the six-month period prior to the date of the S&P Agreement (of 28 October 2012). Details of the Comparable Transactions are set out in the table below:

Date of announcement	**Company name (stock code)**	**Principal amount** *(HK$ million)*	**Maturity** *(year)*	**Interest rate per annum** *(%)*
25 May 2012	Media China Corporation Limited (419)	150	2	At the best lending rate of The Hongkong and Shanghai Banking Corporation Limited (which was 5% as at the date of the S&P Agreement and, hence, 5% is used for assessment purpose)
17 August 2012	China Solar Energy Holdings Limited (155)	25	2	0
25 September 2012	Merdeka Resources Holdings Limited (8163)	45	3	2
14 November 2012	China Ruifeng Galaxy Renewable Energy Holdings Limited (527)	92	3	5
		Mean	2.5	3.0
		Median	2.5	3.5
		Maximum	3	5
		Minimum	2	0
	The Company	**650**	**5**	**0**

Source: the website of Stock Exchange

(i) Maturity

As shown in the above table, the maturity of the Comparable Transactions ranged from 2 to 3 years, with a median of approximately 2.5 years. The maturity of the Promissory Note of 5 years is longer than the range of maturity of the Comparable Transactions.

(ii) Interest rate

As shown in the above table, the interest rate of the Comparable Transactions ranged from 0% to 5%, with a median of approximately 3.5%. The interest rate of the Promissory Note of 0% is at the low end of the range of interest rate of the Comparable Transactions.

In view of the longer maturity period and the low interest rate of the Promissory Note relative to the Comparable Transactions, we consider that the terms of the Promissory Note are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Group and the Shareholders as a whole.

(d) Profit Guarantee

The Vendor guarantees to the Company that, subject to the terms of the S&P Agreement (as supplemented by the Supplemental Agreement), the Net Profit for the financial year ending 31 December 2013 shall be not less than RMB85 million (the "Guarantee Profit"). The amount of Profit Guarantee was determined with reference to the historical performance of the PRC Company, the amount attributable to the contracts on hand for the PRC Company and the expected business growth of the PRC Company. In the event that the actual Net Profit is less than the Guarantee Profit for the financial year ending 31 December 2013, the Vendor shall pay to the Company the sum representing the difference between the actual Net Profit and the Guarantee Profit (the "Shortfall").

Based on the Guarantee Profit of RMB85 million for the financial year ending 31 December 2013, we note that the price to earnings multiple as represented by the Consideration is approximately 6.2 times, which is lower than that of approximately 8.0 times based on the forecasted net profit attributable to owners of the PRC Company for the year ending 31 December 2012 of RMB66 million. However, overall speaking, we consider that the Guarantee Profit of RMB85 million for the financial year ending 31 December 2013 serves as a weak sweetener measure for protecting the interests of the Group as a purchaser, because the maximum amount of the Shortfall shall be RMB85 million, rather than the entire Consideration of HK$650 million. In other words, in the worst case scenario that the Net Profit for the financial year ending 31 December 2013 turns out to be zero or negative, the Shortfall to be guaranteed is way smaller than the entire Consideration already paid by the Company, representing only a portion of approximately 16% thereof.

Upon review of the S&P Agreement, we note that the Shortfall shall be compensated in cash (rather than off-setting the principal amount of the Promissory Note issued).

(e) Additional undertakings

Pursuant to the S&P Agreement, the Vendor has undertaken to the Company that:

- he will indemnify the Company, the Target Group or their respective beneficial owners, shareholders, directors, senior management, employees, agents and advisors (the "indemnified persons") against any penalties, administrative penalties, claims, payments, damages or any sums and penalties requested by governmental bodies, regulatory authorities and any third parties after the Completion Date which may be incurred by the indemnified persons resulting from any non-compliance or partial noncompliance of any requirement under laws and regulations by the Target Group in relation to their operation and assets (including but not limited to property interest, intellectual properties, operating concession, environmental protection, safety production, insurance and employment of labour) prior to the Completion Date; and

- within 5 years from the date of the S&P Agreement, except by way of holding the Shares or being the management of the Company (if applicable), the Vendor and his associates shall not, directly or indirectly, (i) engage in the Businesses, or invest in any person/entity engaged in the Businesses (regardless of via shareholding or by contract); (ii) solicit or engage any employees of the Target Group, or to employ any employees of the Target Group in any manner for himself, his associates or any third party; or (iii) provide any consultation, assistance or subsidy for the Businesses.

  Based on the foregoing, we consider that the undertaking is a safeguarding measure for protecting the interests of the Group as a purchaser.

3. Possible financial effects of the Acquisition on the Group

Upon Completion, the Target Company will become a wholly-owned subsidiary of the Group.

(a) Cashflow

- *Impact from the mode of settlement of the Consideration*

  As set out in the Letter from the Board, the Enlarged Group shall satisfy the Consideration of HK$650 million by promissory note which shall bear no interest and the maturity date is 5 years from the date of initial issue of the promissory note. According to the "Unaudited Pro Forma Statement of Assets and Liabilities of the Enlarged Group" as set out in Appendix V, the principal amount of the promissory note is HK$650,000,000 and the Directors currently plan to settle it in the next five years from the date of issuance that HK$400,000,000, HK$150,000,000 and HK$100,000,000 will be repaid in 2015, 2016 and 2017, respectively.

Timing wise, we noted that the said promissory note as the mode of settlement of the Consideration has the benefit of preserving the cash (or banking facility) of the Enlarged Group for an extended period of time, and at the same time without incurring any cash interest expense from the Completion Date up to the maturity date (or earlier).

However, as the outstanding principal amount of the promissory note shall be repaid by the Enlarged Group in cash to the Vendor on the maturity date at its 100% face value, the Enlarged Group will have a cash outflow on the maturity date. Upon comparison, as illustrated in the "Unaudited Pro Forma Statement of Assets and Liabilities of the Enlarged Group" as set out in Appendix V to the Circular which has been prepared as if Completion had taken place on 30 June 2012, immediately upon Completion, the total consolidated cash and cash equivalents of the Enlarged Group was approximately HK$153.5 million.

Upon our due diligence enquiry, we understand from the Directors that the Consideration is expected to be settled fully in cash by (i) internal resources of the Enlarged Group (which is mainly the operating cash inflow of the Enlarged Group); and (ii) available banking facilities or loans arrangement of the Enlarged Group amounting to RMB1,525.0 million (of which approximately RMB840.4 million has been drawn) as at the 31 October 2012. On such basis, despite the Enlarged Group will have a cash outflow on or prior to the maturity date, we understand from the Directors that the Enlarged Group is expected to have sufficient working capital for settling the Consideration.

- *Impact from the funding requirements of the Target Group*

  Upon our due diligence enquiry, we have been advised by the Directors that the Target Group can basically be self-sustained in securing its own financial resources to maintain its current operation, and hence no material operating expenditure nor capital expenditure requirement from the Enlarged Group is expected to arise for supporting the operations of the Target Group after Completion.

(b) Net assets

As disclosed in the interim report of the Company for the year ended 30 June 2012, the net asset (excluding non-controlling interests) of the Group amounted to approximately RMB1,063 million as at 30 June 2012. According to the "Unaudited Pro Forma Statement of Assets and Liabilities of the Enlarged Group" as set out in Appendix V, the net assets of the Enlarged Group will slightly reduce from approximately RMB1,122.0 million to approximately RMB1,114 million as a result of the Acquisition, which is mainly attributable to the recognition of goodwill of approximately RMB49.0 million arising from consolidation of the Target Group, which is the difference between

(i) RMB428.9 million, representing the fair value of the Promissory Note as determined by the Valuer (to be recognised as "other financial liability" by the Group as the Consideration payable); and

(ii) RMB379.9 million, representing the sum of the fair value of (a) net assets of Target Group and (b) shareholder's loan due to the Vendor by the Target Company acquired in the Acquisition.

(c) Gearing

As disclosed in the interim report of the Company for the year ended 30 June 2012, the gearing ratio of the Group was approximately 33.5% (measured by total short term borrowings as a percentage of total assets). Upon Completion, the liabilities of the Target Group will be fully consolidated into the accounts of the Group.

According to the "Unaudited Pro Forma Statement of Assets and Liabilities of the Enlarged Group" as set out in Appendix V, the total liabilities of the Enlarged Group as at 30 June 2012 will increase from approximately RMB1,235.4 million to approximately RMB2,259.1 million after Completion, whereas the total assets of the Enlarged Group as at 30 June 2012 will increase from approximately RMB2,357.5 million to approximately RMB3,373.5 million after Completion. The gearing ratio of the Enlarged Group, expressed as total liabilities over the total assets will worsen from approximately 52.4% to approximately 67.0% as a result of the Acquisition.

(d) Earnings

As disclosed in the annual report of the Company for the year ended 31 December 2011, the net profit attributable to Shareholders (excluding non-controlling interests) amounted to approximately RMB116 million.

After Completion, the financial results of the Target Group will be fully consolidated into the accounts of the Group. We consider that the effect of the Acquisition on the earnings of the Enlarged Group will depend on the actual profit and loss performance of the Target Group after Completion, which in turn is subject to the risk factors summarised in the ensuing section.

4. Risk factors

Set out below are the risk factors (which are not meant to be exhaustive) associated with the Acquisition (details of which are set out in the section headed "Risk Factors" in the Letter from the Board):

- risk associated with conditions precedent of the Acquisition
- risk associated with the reliance on few major customers
- risk associated with the trademark being owned by another party
- risk associated with the PRC telecommunication industry
- risk associated with the successful operation of the Target Group

Independent Shareholders should bear in mind the possible risk factors associated with the Acquisition when considering the Acquisition as they could have different risk tolerance level. In any event, the Acquisition of the Target Group (which itself was profitable for both the latest full financial year and the latest interim period) represents an opportunity for the Company to vertically-integrate into the faster growing PRC telecommunication industry (including mobile telecommunication, application of 3G technology and broadband industry) where the Group already has certain relevant knowledge and experiences (in terms of its existing product mix for high-speed data transmission and connecting telecommunication and broadband networks). On such basis, we consider that the risk exposure level associated with the Acquisition would not be as significant as otherwise would be if the Company were to acquire any target whose principal business activity deviates more from "information-technology hardware" industry (being the exact industry classification on the Company as provided by Hang Seng Indexes Company Limited) than that of the Target Group.

Based on the foregoing, despite the relevant risk factors set out above (which are common to the PRC telecommunication industry, and are subject to the Directors' proposed mitigation to the extent where applicable), we consider the Acquisition is, on balance, still in a position to be beneficial to the Company and is fair and reasonable so far as the Independent Shareholders are concerned.

RECOMMENDATION

Having considered the principal factors and reasons for entering into the S&P Agreement above, in particular,

(1) the PRC Company has long-established track record and proven history of over 11 years engaging in the principal activity since 2001;

(2) despite recording a loss-making result for the two consecutive years ended 31 December 2010 (of RMB11.5 million (2009) and RMB18.8 million (2010)), the PRC Company managed to turn-around to achieve positive earnings for the year ended 31 December 2011 (of RMB40.6 million), and continued to sustain positive earnings for the six months ended 30 June 2012 (of RMB31.5 million);

(3) upon enquiry on the latest operating performance of the PRC Company, we have obtained from the Directors a breakdown of signed sales contracts for the six months ending 31 December 2012, which already matches with its total budgeted sales for the same period;

(4) the Vendor is willing to guarantee to the Company that the Net Profit of the PRC Company for the financial year ending 31 December 2013 shall be not less than RMB85 million; and

(5) the profit attributable to owners of the Company was approximately RMB27.9 million for the six months ended 30 June 2012, representing a significant reduction of approximately 66.9% as compared to the same period in 2011. In light of the latest lackluster financial performance of the Company's existing business, the Acquisition represents an opportunity for the Company to vertically-integrate into the

faster growing PRC telecommunication industry (including mobile telecommunication, application of 3G technology and broadband industry) where the Group already has certain relevant knowledge and experiences (in terms of its existing product mix for high-speed data transmission and connecting telecommunication and broadband networks),

we consider that the Acquisition is in the ordinary and usual course of business of the Group and is in the interests of the Group and the Shareholders as a whole and the terms of the S&P Agreement (as supplemented by the Supplemental Agreement) and the transactions contemplated thereunder are of normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend, and we advise the Independent Shareholders, to vote in favour of the ordinary resolution to be proposed at the EGM to approve the S&P Agreement (as supplemented by the Supplemental Agreement) and the Acquisition and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
GF Capital (Hong Kong) Limited

Danny Wan	**Harry Yu**
Managing Director and Head of Corporate Finance	*Director*

1. THREE-YEAR AUDITED FINANCIAL INFORMATION

Financial information of the Group for each of the three years ended 31 December 2011, 2010 and 2009 are disclosed in the annual reports of the Company for the two years ended 31 December 2011 and 2010, and the prospectus of the Company respectively, which are published on both the website of the Stock Exchange (http://www.hkex.com.hk) and the website of the Company (http://www.hong-lin.com.cn).

2. MANAGEMENT DISCUSSION AND ANALYSIS ON THE GROUP

The following is the management discussion and analysis of the business, financial results and position of the Group for the three years ended 31 December 2009, 2010 and 2011 and six months ended 30 June 2011 and 2012 respectively:

Six months ended 30 June 2012 compared with the six months ended 30 June 2011

Revenue

For the six months ended 30 June 2012, the aggregated turnover of the Group increased to approximately RMB1,030.8 million from approximately RMB881.7 million for the six months ended 30 June 2011. The increase was mainly attributable to (i) the ability of the Group to gain market share in its key target markets despite the weak operating environment; (ii) the ability of the Group to develop new customers and obtain new orders; and (iii) the adoption of aggressive pricing strategy by the Company for acquiring halogen-free product market which brought the substantial revenue increase in power cord assembly and signal transmission wire and cable segment. However, the overall revenue of the Group was also negatively affected by the decrease in average selling price because of both the decreasing copper price and the aggressive pricing strategy to increase market share under the overall weak operating environment in the first half of 2012.

Segment Analysis

1. External signal cable assembly

The external signal cable assembly segment of the Group recorded an increase in revenue from approximately RMB181.9 million for the six months ended 30 June 2011 to approximately RMB205.4 million for the six months ended 30 June 2012, representing an increase of approximately 12.9%. Such increase was primarily due to the fact that the Group developed a few new customers and obtained some new orders as well as gained more market share in the key existing markets of the Group in the second half of 2011 and the first half of 2012 despite the weak operating environment. All external signal cable assembly product segments recorded increases in sales especially USB assembly.

2. *Internal signal cable assembly*

The internal signal cable assembly segment of the Group recorded an increase in revenue from approximately RMB169.1 million for the six months ended 30 June 2011 to approximately RMB210.6 million for the six months ended 30 June 2012, representing an increase of approximately 24.5%. Such increase was primarily due to (i) the growth on the production capacity of LVDS assembly in Chongqing base which started production in the second quarter of 2011, sales of LVDS assembly increased by approximately RMB46.5 million for the six months ended 30 June 2012 or approximately 36.0%, as compared to the corresponding period in 2011; and (ii) negative effects of weak operating environment and the decrease on the purchase from the existing customers due to the decrease of their production capacities during their product upgrading. The FFC assembly of the Group recorded a decrease in revenue of approximately RMB5.0 million for the six months ended 30 June 2012 or approximately 12.6%, as compared to the corresponding period in 2011.

3. *Power cord assembly*

The power cord assembly segment of the Group recorded an increase in revenue from approximately RMB136.4 million for the six months ended 30 June 2011 to approximately RMB176.9 million for the six months ended 30 June 2012, representing an increase of approximately 29.7%. Such increase was primarily due to (i) strengthening of customer base of the Group, especially the newly obtained reputable customers in the second half of 2011, contributed to the revenue growth; (ii) the success of the aggressive pricing strategy adopted by the Group for acquiring halogen-free product market brought the increase in the market share of this segment; and (iii) the completion of integration in the aspects of production and management in Weihai facility enhanced the production capacity of power cord assembly.

4. *Signal transmission wire and cable*

The signal transmission wire and cable segment of the Group recorded an increase from approximately RMB236.4 million for the six months ended 30 June 2011 to approximately RMB272.2 million for the six months ended 30 June 2012, representing an increase of approximately 15.1%. Such increase was primarily due to increased revenue contribution from the customers of Huizhou Honglin Technology Co., Ltd which was formerly known as Huizhou Daya Bay Heping Telecommunication Co., Ltd ("Huizhou Daya Bay") post the acquisition by the Group in May 2011 and increased procurement volume from the existing customers of the Group. Furthermore, revenue generated by the halogen-free wire and cable of the Group increased by approximately RMB33.5 million or approximately 124.1% as compared to the corresponding period in 2011. The Group has also started sale of specialty wire and cable, a kind of cable used in special environment, from February 2012, revenue generated from this segment amounted to approximately RMB0.6 million in the first half of 2012.

5. *Connectors*

The connectors segment of the Group recorded a decrease in revenue from approximately RMB28.2 million for the six month ended 30 June 2011 to approximately RMB14.5 million for the six month ended 30 June 2012, representing a decrease of approximately 48.6%. Such decrease was primarily due to (i) the drop of orders from major customers subject to the impact of economic landscape; and (ii) the rise of inventory level in downstream customers due to the slowdown in sales, which in turn weakened demand and suppressed the selling price of the Company's products.

6. *Antennas*

The antennas segment of the Group recorded an increase in revenue from approximately RMB18.9 million for the six month ended 30 June 2011 to approximately RMB23.5 million for the six month ended 30 June 2012, representing an increase of approximately 24.3%. Such increase was primarily due to (i) the initial success of the substantial investment in earlier research and development and sales made by the Group to the antennas segment, as well as continuous investment in the first half of 2012, which resulted in an ever-increasing number of customers and a rise in overall revenue; and (ii) the maturing of the Group's antenna business in network communication of Shenzhen base that achieved an increase in sales.

7. *Automotive wiring harness*

The automotive wiring harness segment of the Group recorded an increase in revenue from approximately RMB69.0 million for the six month ended 30 June 2011 to approximately RMB87.5 million for the six month ended 30 June 2012, representing an increase of approximately 26.8%. Such increase was primarily due to the increase in the market share in the key customers of the Group.

Year ended 31 December 2011 compared with year ended 31 December 2010

Revenue

For the year ended 31 December 2011, the aggregated turnover of the Group increased to approximately RMB1,865.4 million from approximately RMB1,414.0 million for the year ended 31 December 2010. The increase was mainly attributable to (i) the Group's ability to gain market share in our key target markets despite the weak operating environment; and (ii) revenue contribution from new products such as wireless antennas and automotive wiring harness that only began to have revenue contribution from the fourth quarter of 2010 and beginning of 2011 respectively. However, the overall revenue of the Group was also negatively affected by the depreciating US dollar in 2011 and decrease in average selling price of some of products of the Group because of pricing strategy to increase market share and also due to overall weakness in market demand especially in the second half of 2011.

Segment Analysis

1. External signal cable assembly

The external signal cable assembly segment of the Group recorded a decrease in revenue from approximately RMB353.4 million for the year ended 31 December 2010 to approximately RMB337.8 million for the year ended 31 December 2011, representing a decrease of approximately 4.4%. The increase in revenue for RGB, DVI and DC assembly was offset by the decrease in revenue for USB assembly product due to the decision of the Group to exit the supply chain of two customers in 2011 as the Group re-scheduled its production capacity for new customers which targets to enter in 2012.

2. Internal signal cable assembly

The internal signal cable assembly segment of the Group recorded an increase in revenue from approximately RMB307.0 million for the year ended 31 December 2010 to approximately RMB339.9 million for the year ended 31 December 2011, representing an increase of approximately 10.7%. Such increase was primarily due to the growth in the FFC segment of the Group which targets the global flat screen TV and monitor industry.

Revenue for the FFC segment of the Group increased by approximately 57.5% as the FFC products of the Group which was only launched in the second half of 2009 continued to gain momentum with the customers of the Group. As the Group increased production capacity significantly since the first half of 2010, the Group was able to ramp up production to meet the increase in demand from its customers in 2011.

3. Power cord assembly

The power cord assembly segment of the Group recorded an increase from approximately RMB246.8 million for the year ended 31 December 2010 to approximately RMB329.0 million for the year ended 31 December 2011, representing an increase of approximately 33.3%. Such increase was primarily due to the increase in sales volume as the Group continued to increase its market share with increasing order from existing customers. As the Group strategically sought to increase its market share ahead of ongoing industry landscape change where the Group believed that in the next few years, increasing proportion of cable jacket for power cord assembly would be manufactured using halogen-free materials instead of conventional plastic materials due to increasing environmental awareness. To better position itself to benefit from such trend (and given that we are already capable of producing the own internally generated halogen-free materials of the Group), the Group undertook a more aggressive pricing strategy in 2011 which resulted in an overall decrease in unit selling price. In addition, in the first half of 2011, in order to improve efficiency at the Weihai plant of the Group which is mainly used for the manufacturing of the power cord assembly products of the Group, the Group integrated its wire and cable and power cord assembly business unit in terms of production and management team. During such integration process, the Group sacrificed certain level of production output and therefore sales, which together with a weak operating environment, also negatively impact the profit margin of the power cord assembly segment of the Group. Nonetheless, in 2011, the Group also managed to win orders from important new customers in this segment.

4. Signal transmission wire and cable

The signal transmission wire and cable segment of the Group recorded an increase from approximately RMB348.3 million for the year ended 31 December 2010 to approximately RMB488.4 million for the year ended 31 December 2011, representing an increase of approximately 40.2%. As the Group saw a strong increase in sales across products such as communication cable which increased by approximately 1,537.7% primarily due to increased revenue contribution from the customers of Huizhou Daya Bay post the acquisition by the Group in May 2011 and increased procurement volume from the existing customers of the Group. The Group has also started the sale of wire and cable (primarily consumer electronics cable) manufactured using halogen-free materials towards the end of 2010. Of the total revenue of approximately RMB488.4 million for the signal transmission wire and cable segment of the Group, approximately RMB84.8 million or approximately 17.4% of revenue for this segment was generated by the halogen-free wire and cable of the Group as compared to approximately RMB25.9 million in 2010.

5. Connectors

The connectors segment of the Group recorded an increase from approximately RMB46.4 million for the year ended 31 December 2010 to approximately RMB49.9 million for the year ended 31 December 2011, representing an increase of approximately 7.5%. Such increase was primarily due to increase in the procurement amount of the existing customers of the Group despite the weak global PC operating environment.

6. Antennas

The antennas segment of the Group recorded an increase in revenue from approximately RMB11.8 million for the year ended 31 December 2010 to approximately RMB28.5 million for the year ended 31 December 2011, representing an increase of approximately 141.5%. Such increase was primarily due to the fact that as the Group only started to manufacture and sell wireless antenna products in 2010. The Group continued to add new customers and had 4 customers as at 31 December 2011.

7. Automotive wiring harness

The automotive wiring harness segment of the Group recorded a revenue of approximately RMB156.7 million for the year ended 31 December 2011. The automotive wiring harness was a new segment market after the Group had made an acquisition of 55% interest in Tianjin Rituo Automotive Electronics Co., Ltd. in February 2011. Revenue attributable to automotive wiring harness segment for 2011 amounted to approximately RMB156.7 million or represented approximately 8.4% of the total revenue of the Group for the year ended 31 December 2011.

Year ended 31 December 2010 compared with year ended 31 December 2009

Revenue

For the year ended 31 December 2010, the aggregated turnover of the Group increased to approximately RMB1,414.0 million from approximately RMB872.4 million for the year ended 31 December 2009. The increase was mainly attributable to overall increase in customer demands, growing customer base and the expansion in production capacity of the Group as the general economy grew at a relatively faster pace during 2010 as compared to 2009, during which customer demands were lower as the economy just started to recover from the economic downturn and the growth of the consumer electronics industry was relatively slower.

Segment Analysis

1. External signal cable assembly

The external signal cable assembly segment of the Group recorded an increase in revenue from approximately RMB322.5 million for the year ended 31 December 2009 to approximately RMB353.4 million for the year ended 31 December 2010, representing an increase of approximately 9.6%. Such increase was primarily due to the increase in sales volume of external signal cable assembly products in 2010 as customer demands for the RGB, DVI and USB assembly products grew, which was partially offset by a decrease in average unit selling price mainly as a result of the reduction in the average length of assembly products that the Group sold in 2010 pursuant to product requirements as requested by the customers of the Group in general.

2. Internal signal cable assembly

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

3. Power cord assembly

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

4. Signal transmission wire and cable

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

5. Connectors

The connectors segment of the Group recorded an increase from approximately RMB36.1 million for the year ended 31 December 2009 to approximately RMB46.4 million for the year ended 31 December 2010, representing an increase of approximately 28.5%. Notwithstanding an approximately 37.2% decrease in sales volume during the year, the Group were able to increase the average selling price of its connector products as the Group increased the production and sales of connectors with higher selling price and margin, such as D SUB connectors, in 2010 as compared to a higher proportion of DVI and USB connector products with lower selling price and margin in 2009.

6. *Antennas*

The Group started to manufacture and sell antenna products from 2010 and had 7 customers as of 31 December 2010. Sales of antenna products were RMB11.8 million for the year ended 31 December 2010.

Year ended 31 December 2009

Revenue

For the year ended 31 December 2009, the aggregated turnover of the Group was approximately RMB872.4 million. During the year, average unit selling prices of the products of the Group decreased mainly as a result of the lower average copper price in 2009. Nevertheless, such decrease was partially offset by an overall increase in sales volume of our products as the Group increased production to meet customer demand as the global economy started to recover in 2009.

Segment Analysis

1. *External signal cable assembly*

The external signal cable assembly segment of the Group recorded a revenue of approximately RMB322.5 million for the year ended 31 December 2009. During the year, average unit selling price of the Group's external cable assembly products decreased mainly as a result of the lower average copper prices in 2009 while the sales volume increased by approximately 1.5% in 2009 primarily due to an increase in sales volume of USB assembly as the Group continued to expand its customer base. As major contributors to the sales of the Group's external signal cable assembly products, (i) sales of RGB assembly decreased by 27.3% to RMB156.2 million for the year ended 31 December 2009, primarily due to a decrease in average unit selling price while the sales volume increased by approximately 0.6% in 2009, and (ii) sales of DVI assembly decreased by 17.3% to RMB76.3 million in 2009, primarily due to a decrease in average unit selling price while the sales volume increased by approximately 7.2% in 2009.

2. *Internal signal cable assembly*

The internal signal cable assembly segment of the Group recorded a revenue of approximately RMB126.6 million for the year ended 31 December 2009. During the year, sales volume of LVDS assembly increased by approximately 85.0% as the Group continued to expand the production of and develop customer base for LVDS assembly products with customers for such products. Notwithstanding the fluctuation in copper prices, the average unit selling prices of the internal signal cable assembly products of the Group remained stable during 2009, primarily because the Group focused on production and sales of LVDS assembly for notebook in 2009 which have a relatively higher unit selling price and profit margin, and the proportion of sales relating to harness further decreased in 2009.

3. Power cord assembly

The power cord assembly segment of the Group recorded a revenue of approximately RMB170.2 million for the year ended 31 December 2009. During the year, sales volume increased by approximately 110.6% primarily due to the increased purchase order from the Group's customers as their demands for power cord products grew and their relationships with the Group further developed and the expansion of customer base during 2009 for the power cord products of the Group. Such increase in sales volume was partially offset by a decrease in average unit selling prices mainly as a result of the lower average copper price in 2009.

4. Signal transmission wire and cable

The signal transmission wire and cable segment of the Group recorded a revenue of approximately RMB172.1 million for the year ended 31 December 2009. During the year, average unit selling price of the wire and cable products of the Group decreased but was partially offset by an increase of approximately 16.7% in sales volume in 2009 as the Group expanded the production of its wire and cable products, primarily power cable, consumer electronic cable and automotive cable, in response to the increased customer demands. As a major contributor to the sales of the wire and cable products of the Group, sales of consumer electronic cables decreased by 9.9% to RMB119.8 million for the year ended 31 December 2009 primarily due to a decrease in average unit selling price mainly as a result of the lower average copper prices in 2009, which was partially offset by an increase of approximately 3.0% in sales volume in 2009.

5. Connectors

The connectors segment of the Group recorded a revenue of approximately RMB36.1 million for the year ended 31 December 2009. During the year, sales volume increased by approximately 42.3% as the Group expanded customer base for its connector products and the average unit selling price increased in 2009.

3. STATEMENT OF INDEBTEDNESS

At the close of business on 31 October 2012, being the latest practicable date prior to the printing of the Circular for the purpose of this indebtedness statement, the Group had outstanding bank borrowings of approximately RMB840.4 million (of which RMB447.0 million was unsecured and RMB393.4 million was secured by fixed charges on certain of the Group's assets and all will be due prior to 31 December 2013).

Save as aforesaid and apart from intra-group liabilities, at the close of business on 31 October 2012, the Group did not have any outstanding loan capital, debt securities, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

The total amount of banking facilities or loans arrangement for the abovementioned borrowings was approximately RMB1,525.0 million, of which approximately RMB840.4 million has been drawn. As at the Latest Practicable Date, the Company has already received written confirmations from certain banks expressing their intention to renew their existing banking facilities for terms of no less than twelve months which amounts to a total of approximately RMB1,361.0 million and of which the applications for renewal of banking facilities with an aggregate amount of approximately RMB155.0 million have been accepted by the relevant banks.

As at the close of business on 31 October 2012, being the latest practicable date for the purpose of this indebtedness statement, the Target Group had outstanding unsecured bank borrowings of approximately RMB71.2 million and other unsecured loans of approximately RMB185 million. The Target Group also had an outstanding loan of approximately RMB9.4 million borrowed from the Target Company's sole shareholder, Mr. Chi. Save as the aforesaid and apart from intragroup liabilities, at the close of business on 31 October 2012, the Target Group did not have any outstanding loan capital, debt securities, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptable credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

4. LIQUIDITY AND FINANCIAL RESOURCES

The Group continued to implement prudent financial management policies and maintain a reasonable gearing ratio during its expansion. As at 31 December 2009, 2010 and 2011 and 30 June 2012, the Group's gearing ratio (measured by total short term borrowings as a percentage of total assets of the Group) were approximately 35.7%, 33.5%, 28.4% and 33.5%.

As at 31 December 2009, 2010 and 2011 and 30 June 2012, the equity attributable to owners of the Company was approximately RMB316.6 million, RMB909.9 million, RMB1,031.7 million and RMB1,062.4 million respectively. The net current liabilities at 31 December 2009 was approximately RMB7.9 million and it was improved to the net current assets of RMB432.1 million, RMB351.4 million and RMB312.9 million as at 31 December 2010 and 2011 and 30 June 2012 respectively, while cash and cash equivalents as at 31 December 2009, 2010, 2011 and 30 June 2012 were approximately RMB73.7 million, RMB160.4 million, RMB106.7 million and RMB105.1 million respectively. The Group had bank borrowings as at 31 December 2009, 2010, 2011 and 30 June 2012 of approximately RMB353.4 million, RMB663.1 million, RMB653.5 million and RMB790.7 million respectively which are at fixed interest rates or at a floating rate basis.

5. MATERIAL ADVERSE CHANGES

Save for the paragraph headed "Performance Review" as set out in the interim report of the Company for the six months ended 30 June 2012 in relation to, among other things, the challenges and difficulties in the operating environment for global Computer, Consumer electronics and Communication (3Cs) markets during the first half of 2012 and the impact on the results of the Company, the Directors are not aware of any material adverse changes in the financial or trading position or prospects of the Group since 31 December 2011, being the date to which the latest audited consolidated financial statements of the Group were made up.

6. WORKING CAPITAL

The Group and the Target Group have historically financed working capital primarily through proceeds from sales of its products and borrowings from banks and other financial institutions. The Enlarged Group will continue to finance the working capital primarily by proceeds from sales of products, and external borrowings from banks and other financial institutions. At the close of business on 31 October 2012, being the date for the purpose of ascertaining information in respect of the indebtedness of the Group, the Group had total amount of banking facilities or loans arrangement amounting to approximately RMB1,525.0 million, of which approximately RMB840.4 million has been drawn. Among these banking facilities and loans arrangement, around half of them, in value, will not expire until the second half of 2013.

As at the Latest Practicable Date, the Company has already received written confirmations from certain banks expressing their intention to renew their existing banking facilities with an aggregate amount of approximately RMB1,361.0 million for terms of no less than twelve months from their respective due date and of which the applications for renewal of banking facilities with an aggregate amount of approximately RMB155.0 million have been accepted by the relevant banks. The Directors are of the opinion that, based on past experience, they have not experienced any significant difficulties for the Group to meet the requirements for renewing and/or applying such facilities and believe that the Group will finally be granted for the relevant facilities.

The Directors, after due and careful consideration, are of the opinion that, after taking into consideration the financial resources available to the Group including internally generated funds and the credit facilities available to the Group, the cash flow impact of the Acquisition, and provided that the lenders of the Enlarged Group will not demand immediate repayment and the Enlarged Group can refinance the bank loans of RMB840.4 million on similar terms to existing facilities which shall be repayable prior to 31 December 2013, and in the absence of any unforeseen circumstances, the Enlarged Group will have sufficient working capital to satisfy its requirements for at least the next twelve months from the date of this circular.

However, the Enlarged Group will not have sufficient working capital if:

(i) the banks withdraw the existing banking facilities of the Group; and

(ii) the banks do not grant the banking facilities which the Group is applying for.

In such circumstance, the Group will use its best endeavours to obtain other banking facilities and/or financial assistance from its controlling Shareholder. Currently, no negotiation has been made between the Company and any other bank and controlling Shareholder.

7. FOREIGN EXCHANGE MANAGEMENT

As certain trade and other receivables, trade and other payables and bank borrowings of the Group are denominated in foreign currencies such as US$, hence exposure to exchange rate fluctuation arises. The Group had entered into certain foreign exchange forward contracts to mitigate its foreign currency exposure.

8. GEARING

As at 30 June 2012, the Group had no long term debt. Gearing ratio of approximately 33.5% is computed based on the short term bank loans over the total assets of the Group.

9. CAPITAL STRUCTURE

The capital structure of the Group consisted of debt (which included secured and unsecured bank borrowings), cash and bank balances, pledged bank deposits and equity attributable to owners of the Company, comprising issued share capital and reserves of the Group.

10. TREASURY POLICIES

The Group usually finances its working capital through funds from its operations and short term bank borrowings.

11. CAPITAL COMMITMENT

As at 30 June 2012, the Group had a total capital commitment of approximately RMB44.6 million, contracted for but not provided for in the financial statements, mainly used in respect of acquisition of property, plant and manufacturing facilitates.

12. SIGNIFICANT INVESTMENT, MATERIAL ACQUISITION AND DISPOSALS

Other than the Acquisition and the proposed disposal of equity interest of a non-wholly owned subsidiary and the acquisition of the entire interest in a company owned by the aforesaid subsidiary as announced by the Company on 20 November 2012, the Company did not have any significant investments, material acquisition or disposal during the course of the current financial year up to the Latest Practicable Date.

13. CONTINGENT LIABILITIES

As at the Latest Practicable Date, the Group did not have any material contingent liability.

14. PLEDGE OF ASSETS

As at 30 June 2012, the Group had pledged its bank deposits, property, plant and equipment, prepaid lease payment, accounts and bill receivables with a carrying value of approximately RMB30.7 million, RMB250.0 million, RMB52.7 million and RMB189.2 million respectively to banks to secure for banking facilities granted to the Group.

15. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Group is mainly engaged in the manufacture and sales of signal cable assembly, power cord assembly, signal transmission wire and cable products, connectors, antennas, automotive wiring harness and other products.

The Group's turnover for the six month period ended 30 June 2012 amounted to approximately RMB1,030.8 million, representing an increase of approximately 16.9% as compared to the same period in 2011. Profit from operations for the six month period ended 30 June 2012 decreased by 74.6%, as compared to the same period in 2011, to approximately RMB22.0 million. The profit attributable to owners of the Company was approximately RMB27.9 million, representing a decrease of approximately 66.9% as compared to the same period in 2011.

The operating environment for global Computer, Consumer electronics and Communication (3Cs) markets was met with challenges and difficulties for the past two years in 2011 and 2012. The global economic crisis and the downturn of markets continued to intensify. The sovereign debt crisis in Europe had been escalating and unemployment rates hit record high in Europe and the United States. Consumers became less confident towards markets and consumer demands remained low. It is expected that the overall economy will not recover quickly from the recession. Therefore the Company will remain cautious in dealing with the complicated operating environment. The Group will continue to make necessary investments in high-value areas for better equipping the Group and maintaining the Group at the technological forefront. In order to further enhance the Group's competitiveness, the Company had been considering some industrial upgrading by developing downstream supply chain, such as the PRC telecommunication industry.

In view of that the growth in the PRC telecommunication industry, including mobile telecommunication, application of 3G technology and broadband and the PRC government's plans to speed up the development in information technology industry, the Board considers that it is an opportune time to invest in the PRC telecommunication industry and the Acquisition provides an opportunity for the Group to diversify the Group's business to a prospective and fast growing industry whilst increasing its communication portfolio in the PRC.

The following is the text of a report, prepared for the purpose of incorporation in this circular, received from the independent reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong.

ERNST & YOUNG
安 永

22/F, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

31 December 2012

The directors
HL Technology Group Limited

Dear Sirs,

We set out below our report on the financial information of Rosy Sun Investments Limited (the "Target Company") and its subsidiaries (hereinafter collectively referred to as the "Target Group") comprising the consolidated statement of comprehensive income, the consolidated statement of changes in equity and consolidated statement of cash flows of the Target Group for the period from 8 February 2012 (date of incorporation) to 30 June 2012 (the "Period"), and the consolidated statement of financial position of the Target Group and the statement of financial position of the Target Company as at 30 June 2012, together with the notes thereto (the "Financial Information"), for inclusion in the circular of HL Technology Group Limited dated 31 December 2012 (the "Circular") in connection with the proposed acquisition of the Target Company by HL Technology Group Limited.

The Target Company was incorporated as a limited liability company in the British Virgin Islands (the "BVI") on 8 February 2012. The principal activity of the Target Company is investment holding.

As at the date of this report, no statutory financial statements have been prepared for the Target Company, as the Target Company is an investment holding company and it is not subject to statutory audit requirements under the relevant rules and regulations in its jurisdiction of incorporation.

As at the date of this report, the Target Company holds 100% equity interests in New Postcom Technology Company Limited ("New Postcom Technology") and Shenyang New Postcom Co., Ltd. (the "PRC Company"). The principal activity of New Postcom Technology is investment holding. The PRC Company is principally engaged in (1) the research and development, manufacture and sale of mobile phones in the People's Republic of China (the "PRC"); (2) the sale of network equipment and (3) the provision of services to major telecommunications service providers in the PRC, such as the installation, maintenance and upgrade of network equipment and/or wireless network optimisation in their existing network systems.

All companies now comprising the Target Group have adopted 31 December as their financial year end date. No statutory financial statements of New Postcom Technology and the PRC Company have been issued for the Period.

For the purpose of this report, the director of the Target Group (the "Director") has prepared the consolidated financial statements of the Target Group (the "Underlying Financial Statements") in accordance with the International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB"). The Underlying Financial Statements for the Period were audited by us in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The Financial Information set out in this report has been prepared from the Underlying Financial Statements with no adjustments made thereon.

DIRECTORS' RESPONSIBILITY

The Director of the Target Company is responsible for the preparation of the Underlying Financial Statements and the Financial Information that give a true and fair view in accordance with IFRSs, and for such internal control as the Director determines is necessary to enable the preparation of the Underlying Financial Statements and Financial Information that are free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANTS' RESPONSIBILITY

It is our responsibility to form an independent opinion on the Financial Information, and to report our opinion thereon to you.

For the purpose of this report, we have carried out procedures on the Financial Information in accordance with Auditing Guideline 3.340 *Prospectuses and the Reporting Accountant* issued by the HKICPA.

OPINION IN RESPECT OF THE FINANCIAL INFORMATION

In our opinion, for the purpose of this report, the Financial Information gives a true and fair view of the state of affairs of the Target Group and the Target Company as at 30 June 2012, and of the Target Group's profit and cash flows for the Period.

I. FINANCIAL INFORMATION

Consolidated Statement of Comprehensive Income

	Notes	8 February 2012 (date of incorporation) to 30 June 2012 *RMB'000*
REVENUE	*6*	222,693
Cost of sales		(169,736)
Gross profit		52,957
Other income and gains	*6*	42,008
Selling and distribution costs		(1,572)
Administrative expenses		(6,377)
Other expenses		(1,233)
Finance costs	*7*	(7,483)
PROFIT BEFORE TAX	*8*	78,300
Income tax expense	*10*	(6,008)
PROFIT FOR THE PERIOD		72,292
OTHER COMPREHENSIVE INCOME		
Exchange differences on translation of foreign operations		(1,185)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		71,107
ATTRIBUTABLE TO:		
Owner of the parent		71,107

Consolidated Statement of Financial Position

	Notes	30 June 2012 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	13	58,057
Prepaid land lease payments	14	44,170
Intangible assets	15	168,168
Available-for-sale investment	17	15,000
Deferred tax assets	18	4,132
Total non-current assets		289,527
CURRENT ASSETS		
Inventories	19	292
Trade receivables	20	372,907
Amounts due from customers for contract works	21	12,460
Prepayments, deposits and other receivables	22	190,238
Pledged deposits	23	2,118
Cash and cash equivalents	23	48,429
Total current assets		626,444
CURRENT LIABILITIES		
Trade payables	24	237,152
Amounts due to customers for contract works	21	4,103
Other payables and accruals	25	30,286
Tax payable		10,133
Interest-bearing bank and other borrowings	26	266,196
Amount due to a shareholder	34	9,458
Total current liabilities		557,328
NET CURRENT ASSETS		69,116
TOTAL ASSETS LESS CURRENT LIABILITIES		358,643

	Notes	30 June 2012 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		358,643
NON-CURRENT LIABILITIES		
Deferred tax liabilities	*18*	9,994
Government grants	*27*	14,218
Total non-current liabilities		24,212
Net assets		334,431
EQUITY		
Issued capital	*28*	—
Reserves	*29(a)*	334,431
Total equity		334,431

Consolidated Statement of Changes in Equity

Period from 8 February 2012 (date of incorporation) to 30 June 2012

	Attributable to owner of the parent					
	Issued capital *(note 28)* *RMB'000*	**Share premium** *(note 28)* *RMB'000*	**Statutory surplus reserve** *(note 29(a))* *RMB'000*	**Exchange fluctuation reserve** *RMB'000*	**Retained profits** *RMB'000*	**Total equity** *RMB'000*
At 8 February 2012 (date of incorporation)	—	—	—	—	—	—
Profit for the Period	—	—	—	—	72,292	72,292
Exchange differences on translation of foreign operations	—	—	—	(1,185)	—	(1,185)
Appropriation of statutory reserve	—	—	3,152	—	(3,152)	—
Total comprehensive income for the Period	—	—	3,152	(1,185)	69,140	71,107
Issue of shares	—	263,324	—	—	—	263,324
At 30 June 2012	—	263,324	3,152	(1,185)	69,140	334,431

Consolidated Statement of Cash Flows

	Notes	8 February 2012 (date of incorporation) to 30 June 2012 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax		78,300
Adjustments for:		
Finance costs	7	7,483
Interest income	6	(31)
Depreciation	13	1,833
Recognition of prepaid land lease payments	14	330
Amortisation of intangible assets	15	9,438
Write-down of inventories to net realisable value	8	211
Impairment of prepayments, deposits and other receivables	8	352
Government grants released	27	(1,776)
Gain on bargain purchase from the acquisition of a subsidiary	30	(40,201)
		55,939
Decrease in inventories		6,584
Increase in trade receivables		(209,560)
Decrease in prepayments, deposits and other receivables		1,948
Increase in trade payables		156,374
Decrease in amounts due from customers for contract works		5,004
Increase in amounts due to customers for contract works		647
Decrease in other payables and accruals		(465)
Cash generated from operations		16,471
Interest paid		(10,039)
Interest received		31
Income tax paid		(99)
Net cash flows from operating activities		6,364

	Notes	8 February 2012 (date of incorporation) to 30 June 2012 RMB'000
Net cash flows from operating activities		6,364
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of a subsidiary	*30*	27,157
Purchases of property, plant and equipment		(11)
Increase in pledged bank deposits		(700)
Decrease in other receivables		32,751
Net cash flows from investing activities		59,197
CASH FLOWS FROM FINANCING ACTIVITIES		
New bank loans		21,030
Repayment of bank loans		(28,794)
Repayment of other borrowings		(20,000)
Increase in amount due to a shareholder		10,643
Net cash flows used in financing activities		(17,121)
NET INCREASE IN CASH AND CASH EQUIVALENTS		48,440
Effect of foreign exchange rate changes, net		(11)
CASH AND CASH EQUIVALENTS AT END OF PERIOD		48,429
ANALYSIS of BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	*23*	48,429

Statement of Financial Position

	Notes	30 June 2012 RMB'000
NON-CURRENT ASSET		
Investment in a subsidiary	*16*	—
Total non-current asset		—
CURRENT ASSET		
Amount due from a subsidiary	*16,34*	263,215
Total current asset		263,215
Net assets		263,215
EQUITY		
Issued capital	*28*	—
Reserves	*29(b)*	263,215
Total equity		263,215

II. NOTES TO FINANCIAL INFORMATION

1. CORPORATE INFORMATION

The Target Company is a limited company incorporated in the BVI on 8 February 2012. The registered office of the Target Company is located in P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, the BVI.

As at the date of this report, the Target Company has direct or indirect interest in the following subsidiaries, both of which are private companies with limited liability, the particulars of which are set out as follows:

Name	Date of incorporation	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Target Company Direct	Indirect	Principal activities
New Postcom Technology Company Limited	14 October 2010	Hong Kong	HK$1	100	—	Investment holding
Shenyang New Postcom Co., Ltd.	14 February 2001	People's Republic of China/Mainland China	RMB233,000,000	—	100	Manufacture of telecommunications products and provision of service for base station construction

2.1 BASIS OF PREPARATION

The Financial Information has been prepared in accordance with IFRSs (which include all International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations) issued by the IASB. For the purpose of the Financial Information, the Target Group has adopted, at the beginning of the Period, all new and revised IFRSs applicable to the Period.

The Financial Information has been prepared under the historical cost convention. The Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Target Group for the Period. The financial statements of the subsidiaries are prepared for the same reporting period as the Target Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Target Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Target Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Target Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

2.2 ISSUED BUT NOT YET EFFECTIVE IFRSs

The Target Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in the Financial Information herein:

IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards — Government Loans*[2]
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities*[2]
IFRS 9	*Financial Instruments*[4]
IFRS 10	*Consolidated Financial Statements*[2]
IFRS 11	*Joint Arrangements*[2]
IFRS 12	*Disclosure of Interests in Other Entities*[2]
IFRS 13	*Fair Value Measurement*[2]
IAS 1 Amendments	Amendments to IAS 1 *Presentation of Financial Statements — Presentation Items of Other Comprehensive Income*[1]
IAS 19 Amendments	Amendments to IAS 19 *Employee Benefits*[2]
IAS 27 (Revised)	*Separate Financial Statements*[2]
IAS 28 (Revised)	*Investments in Associates and Joint Ventures*[2]
IAS 32 Amendments	Amendments to IAS 32 *Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities*[3]
IFRIC Interpretation 20	*Stripping Costs in the Production Phase of a Surface Mine*[2]
Amendments to IFRS 10, IFRS 11 and IFRS 12	*Amendments to IFRS 10, IFRS 11 and IFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance*[2]
Amendments to IFRS 10, IFRS 12 and IAS 27	*Amendments to IFRS 10, IFRS 12 and IAS 27: Investment Entities*[3]
Annual Improvements to IFRSs 2009–2011 Cycle	*Amendments to a number of IFRSs issued in May 2012*

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

The Target Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, the Target Group considers that these new and revised IFRSs are unlikely to have a significant impact on the Target Group's results of operations and financial position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Target Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Target Company's income statement to the extent of dividends received and receivable. The Target Company's investments in subsidiaries that are not classified as held for sale in accordance with IFRS 5 are stated at cost less any impairment losses.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Target Group, liabilities assumed by the Target Group to the former owners of the acquiree and the equity interests issued by the Target Group in exchange for control of the acquiree. For each business combination, the Target Group elects whether it measures the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition costs are expensed as incurred.

When the Target Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of IAS 39, it is measured in accordance with the appropriate IFRS.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Target Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Target Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Target Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Target Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of comprehensive income in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of comprehensive income in the period in which it arises.

Related parties

A party is considered to be related to the Target Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Target Group;

(ii) has significant influence over the Target Group; or

(iii) is a member of the key management personnel of the Target Group or of a parent of the Target Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Target Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Target Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Target Group or an entity related to the Target Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of comprehensive income in the period in which it is incurred. In situations the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Target Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives used for this purpose are as follows:

	Estimated useful lives	Residual values
Buildings	20 years	5%
Plant and machinery	5–10 years	5%
Motor vehicles	5 years	5%
Furniture, fixtures and office equipment	5 years	5%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each end of the reporting period.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of comprehensive income in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Technology know-how

Technology know-how is accounted for as intangible assets with useful lives of 20 years and is amortised over 20 years. It is stated at cost less any impairment provision.

Computer software

Computer software is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful lives of 10 years.

Patents

Patents are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 1 to 10 years.

Trademarks

Trademarks are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 22 months.

Customer relationships

Contractual customer relationships are stated at cost and are amortised on the straight-line basis over their estimated useful lives of 3 to 7 years.

Unfinished contracts

Unfinished contracts are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 10 to 34 months.

Research and development costs

All research costs are charged to the statement of comprehensive income as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Target Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Target Group is the lessor, assets leased by the Target Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of comprehensive income on the straight-line basis over the lease terms. Where the Target Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of comprehensive income on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial investments, or as derivative designated as hedging instruments in an effective hedge, as appropriate. The Target Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss. All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Target Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Target Group's financial assets include cash and bank balances, pledged deposits, trade and other receivables and unlisted equity investment, which are classified as loans and receivables and available-for-sale investment.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the statement of comprehensive income. The loss arising from impairment is recognised in the statement of comprehensive income in finance costs for loans and in other expenses for receivables.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, when the cumulative gain or loss is recognised in the statement of comprehensive income in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to other expenses in the statement of comprehensive income. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the statement of comprehensive income as other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Target Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Target Group is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Target Group may elect to reclassify these financial assets. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Target Group has the intent and ability to hold these assets for the foreseeable future or to maturity. Reclassification to the held-to-maturity category is permitted only when the Target Group has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of comprehensive income.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or

- the Target Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Target Group has transferred substantially all the risks and rewards of the asset, or (b) the Target Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Target Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Target Group's continuing involvement in the asset. In that case, the Target Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Target Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Target Group could be required to repay.

Impairment of financial assets

The Target Group assesses at the end of the reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the Target Group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Target Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Target Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the impairment loss is recognised in the statement of comprehensive income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Target Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to other expenses in the statement of comprehensive income.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial investments

For available-for-sale financial investments, the Target Group assesses at each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of comprehensive income, is removed from other comprehensive income and recognised in the statement of comprehensive income.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of comprehensive income — is removed from other comprehensive income and recognised in the statement of comprehensive income. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of comprehensive income; increases in their fair value after impairment are recognised directly in other comprehensive income.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Target Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value plus, in the case of loans and borrowings, directly attributable transaction costs.

The Target Group's financial liabilities include trade payables, other payables, interest-bearing bank and other borrowings and amount due to a shareholder.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of comprehensive income when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of comprehensive income.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of comprehensive income.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and conditions are accounted for as follows:

Raw materials	Purchase cost on the first-in, first-out basis
Work in progress	Cost of direct materials
Finished goods	Cost of direct materials, direct labour and an appropriate proportion of overheads

Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, which are repayable on demand and form an integral part of the Target Group's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Employee benefits

Pension schemes

The Target Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Target Group in an independently administered fund. The Target Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Target Group's subsidiary which operates in Mainland China are required to participate in a central pension scheme, including pension schemes, medical insurance, unemployment insurance and housing fund, organised by the relevant principal and municipal social insurance management bodies of the local municipal government for those employees who are eligible to participate in the schemes. The Target Group and the employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salary during the Period. The contributions payable are charged as an expense to the statement of comprehensive income as incurred. The assets of the schemes are held separately from those of the Target Group in independently administered funds.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Target Group and the revenue can be reliably measured, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Target Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) income from the telecommunications system service contracts, recognised only to the extent that the expenses incurred are eligible to be recovered, as further explained in the accounting policy for "Contracts for services" below;

(c) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and

(d) for contracts involving multiple deliverables, where the deliverables are governed by more than one authoritative accounting standard, the Target Group generally evaluates each deliverable to determine whether it represents a separate unit of accounting based on the following criteria: (i) whether the delivered item has value to the customer on a stand-alone basis, (ii) whether there is objective and reliable evidence of the fair value of the undelivered item(s), and (iii) whether the contract that includes a general right of return relative to the delivered item, delivery or performance of the undelivered item(s) is considered probable and substantially in the control of the Target Group. If objective and reliable evidence of fair value exists for all units of accounting in the arrangement, revenue is allocated to each unit of accounting or exists for all units of accounting in the arrangement, revenue is allocated to each unit of accounting or element based on the relative fair values. In situations where there is objective and reliable evidence of fair value for all undelivered elements, but not for delivered elements, the residual method is used to allocate the contract consideration. Under the residual method, the amount of revenue allocated to delivered elements equals the total arrangement consideration less the aggregate fair value of any undelivered elements. Each unit of accounting is then accounted for under the applicable revenue recognition guidance. So long as elements otherwise governed by separate authoritative accounting standards cannot be treated as separate units of accounting, the elements are combined into a single unit of accounting for revenue recognition purposes. In this case, revenue allocated to the unit of accounting is deferred until all combined elements have been delivered or, once there is only one remaining element to be delivered, based on the revenue recognition guidance applicable to the last delivered element within the unit of accounting.

Contracts for services

Contract revenue on the rendering of services comprises the agreed contract amount. Costs of rendering services comprise labour and other costs of personnel directly engaged in providing the services and attributable overheads.

Revenue from the rendering of services is recognised based on the percentage of completion of the transaction, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The percentage of completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction. Where the outcome of a contract cannot be measured reliably for fixed price telecommunications system contracts, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to customers for contract works.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of comprehensive income over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of comprehensive income by way of a reduced depreciation charge.

Where the Target Group receives a non-monetary grant, the asset and the grant are recorded at the fair value of the non-monetary asset and released to the statement of comprehensive income over the expected useful life of the relevant asset by equal annual instalments.

Where the Target Group receives government loans granted with no or at a below-market rate of interest for the construction of a qualifying asset, the initial carrying amount of the government loans is determined using the effective interest rate method, as further explained in the accounting policy for "Financial liabilities" above. The benefit of the government loans granted with no or at a below-market rate of interest, which is the difference between the initial carrying value of the loans and the proceeds received, is treated as a government grant and released to the statement of comprehensive income over the expected useful life of the relevant asset by equal annual instalments.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Target Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of each reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Foreign currencies

The functional currency of the Target Company is Hong Kong dollar ("HK$") while the presentation currency of the Target Company and the Target Group for the Financial Information is RMB. Each entity in the Target Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Target Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences arising on settlement or translation of monetary items are taken to the profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on retranslation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currency of a subsidiary is a currency other than RMB. As at the end of the reporting period, the assets and liabilities of the entity are translated into the presentation currency of the Target Company at the exchange rate ruling at the end of the reporting period and its profit or loss is translated into RMB at the weighted average exchange rate for the Period. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of the foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of the subsidiary are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of the subsidiary which arise throughout the Period are translated into RMB at the weighted average exchange rate for the Period.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Financial Information require management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Target Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Revenue recognition

For contracts involving multiple deliverables, where the deliverables are governed by more than one authoritative accounting standard, the Target Group generally evaluates each deliverable to determine whether it represents a separate unit of accounting based on the following criteria: (i) whether the delivered item has value to the customer on a stand-alone basis, (ii) whether there is objective and reliable evidence of the fair value of the undelivered item(s), and (iii) whether the contract that includes a general right of return relative to the delivered item, delivery or performance of the undelivered item(s) is considered probable and substantially in the control of the Target Group.

The Target Group's determination of whether deliverables within a multiple element arrangement can be treated separately for revenue recognition purposes involves significant estimates and judgements, such as whether fair value can be established on undelivered obligations and/or whether delivered elements have stand-alone value to the customer. Changes to the Target Group's assessment of the accounting units in an arrangement and/or its ability to establish fair values could significantly change the timing of revenue recognition.

If objective and reliable evidence of fair value exists for all units of accounting in the contract, revenue is allocated to each unit of accounting or element based on relative fair values. In situations where there is objective and reliable evidence of fair value for all undelivered elements, but not for delivered elements, the residual method is used to allocate the contract consideration. Under the residual method, the amount of revenue allocated to delivered elements equals the total arrangement consideration less the aggregate fair value of any undelivered elements. Each unit of accounting is then accounted for under the applicable revenue recognition guidance. If sufficient evidence of fair value cannot be established for an undelivered element, revenue related to delivered elements is deferred until the earlier of the time when sufficient fair value is established and when all remaining elements have been delivered. Once there is only one remaining element to be delivered within the unit of accounting, the deferred revenue is recognised based on the revenue recognition guidance applicable to the last delivered element. For instance, where post-contract support is the last delivered element within the unit of accounting, the deferred revenue is recognised ratably over the term of the remaining post-contract support term once post-contract support is the only undelivered element.

The Target Group's assessment of which revenue recognition guidance is appropriate for accounting for a deliverable also involves significant judgement. This assessment could significantly impact the amount and timing of revenue recognition.

Recognition of deferred tax liability for withholding taxes

Deferred tax liability is recognised for withholding tax levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. Significant management judgement is required to determine the amount of deferred tax liabilities that can be recognised, based upon the likely dividends declared. The Target Group is of the view that it is able to fully control the timing of the reversal of the temporary difference arising from dividend distribution of the subsidiaries and that the subsidiaries will not make any profit distribution in the foreseeable future for profit generated in the Period. Therefore, the Target Group has not recognised any deferred income tax liability. More details are set out in note 10 to the Financial Information.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Impairment of receivables

Impairment of receivables is made based on an assessment of the recoverability of receivables. The identification of doubtful debts requires management's judgement and estimates. Provision is made when there is objective evidence that the Target Group will not be able to collect the debts. Where the actual outcome or further expectation is different from the original estimate, such differences will impact the carrying value of the receivables, doubtful debt expenses and write-back of receivables in the period in which such estimate has been changed.

The carrying value of trade receivable and prepayments, deposits and other receivable measured at cost as at 30 June 2012 is approximately RMB372,907,000 and RMB190,238,000, respectively. Further details are disclosed in note 20 and note 22 to the Financial Information respectively.

Impairment of non-financial assets (other than goodwill)

The Target Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Useful lives and residual values of items of property, plant and equipment

In determining the useful lives and residual values of items of property, plant and equipment, the Target Group has to consider various factors, such as expected usage of the asset, expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Target Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from previous estimation. Useful lives and residual values are reviewed at each financial year end date based on changes in circumstances.

The carrying value of property, plant and equipment measured at cost as at 30 June 2012 is approximately RMB58,057,000. Further details are disclosed in note 13 to the Financial Information.

Useful lives of intangible assets

Useful life of an intangible asset is determined by the period over which it is expected to bring economic benefits to the Target Group. The Target Group reviews, at least at each year end, useful lives of intangible assets with definite lives and makes adjustment when necessary.

The carrying value of intangible assets measured at cost as at 30 June 2012 is approximately RMB168,168,000. Further details are disclosed in note 15 to the Financial Information.

Net realisable value of inventories

Net realisable value of an inventory is the estimated selling price in the ordinary course of business, less estimated costs to be incurred to completion and disposal. These estimates are based on the current market condition and the historical experience of selling products of similar nature which could change significantly as a result of changes in customer taste or competitor actions in response to severe consumer product industry cycles. Management reassesses these estimates at each reporting date.

The carrying value of inventories measured at cost as at 30 June 2012 is approximately RMB292,000. Further details are disclosed in note 19 to the Financial Information.

Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences, and carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

The carrying value of deferred tax assets measured as at 30 June 2012 is approximately RMB4,132,000. Further details are disclosed in note 18 to the Financial Information.

5. OPERATING SEGMENT INFORMATION

For management purposes, the Target Group is organised into business units based on their products and services and has two reportable operating segments as follows:

(a) The terminals segment engages in the manufacture and sale of mobile phone handsets, related accessories and data cards for laptop and related software.

(b) The networks (telecommunications system) segment serves for construction of base stations for telecommunications networks including TD-SCDMA and GSM networks, trading of telecommunications equipment, such as IPRAN, xPON and core network equipment.

Management monitors the results of its operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax from continuing operations. The adjusted profit before tax from continuing operations is measured consistently with the Target Group's profit before tax from continuing operations except that interest income, finance costs as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude prepaid land lease payments, an available-for-sale investment, deferred tax assets, cash and cash equivalents, pledged deposits, other receivables, other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank and other borrowings, tax payable, deferred tax liabilities, other payables and accruals and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Capital expenditure consists of additions to property, plant and equipment.

Segment information for the period from 8 February 2012 (date of incorporation) to 30 June 2012 was as follows:

	8 February 2012 (date of incorporation) to 30 June 2012		
	Terminals	**Networks**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Revenue:			
Revenue from external customers	24,440	198,253	222,693
Segment results	9,738	42,938	52,676
Interest income			31
Gain on bargain purchase			40,201
Corporate and other unallocated expenses			(7,125)
Finance costs			(7,483)
Profit before tax			78,300
As at 30 June 2012			
Segment assets	193,976	402,456	596,432
Prepaid land lease payments			44,170
Available-for-sale investment			15,000
Deferred tax assets			4,132
Pledged deposits			2,118
Cash and cash equivalents			48,429
Corporate and other unallocated assets			205,690
Total assets			915,971
Segment liabilities	45,687	215,904	261,591
Interest-bearing bank and other borrowings			266,196
Corporate and other unallocated liabilities			53,753
Total liabilities			581,540
Other segment information:			
Impairment losses recognised in statement of comprehensive income	563	—	563
Depreciation and amortisation	5,741	3,051	8,792
Capital expenditure*	1	—	1

* *Capital expenditure consists of additions to property, plant and equipment.*

The Target Group's revenue from external customers was all derived from its operations in the PRC and its non-current assets are substantially located in the PRC.

Information about major customers

The revenue derived from sales to major external customers from which the revenue individually derived has exceeded 10% of the revenue of the Target Group is as follows:

		8 February 2012 (date of incorporation) to 30 June 2012 *RMB'000*
Customer	**Segment**	
Customer A	Networks	28,320
Customer B	Networks	48,756
Customer C	Networks	104,163

6. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Target Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts; an appropriate proportion of contract revenue of construction contracts and the value of services rendered during the Period. Analyses of revenue and other income and gains are as follows:

	8 February 2012 (date of incorporation) to 30 June 2012 *RMB'000*
Revenue	
Terminals	24,440
Networks	198,253
Total	222,693

	8 February 2012 (date of incorporation) to 30 June 2012 *RMB'000*
Other income and gains	
Interest income	31
Government grants *(note 27)*	1,776
Gain on bargain purchase *(note 30)*	40,201
Total	42,008

7. FINANCE COSTS

An analysis of finance costs is as follows:

	8 February 2012 (date of incorporation) to 30 June 2012 *RMB'000*
Interest on bank loans and other loans wholly repayable within five years	7,483

8. PROFIT BEFORE TAX

The Target Group's profit before tax is arrived at after charging/(crediting):

	Notes	8 February 2012 (date of incorporation) to 30 June 2012 *RMB'000*
Cost of inventories sold		166,608
Cost of services provided		3,128
Depreciation	*13*	1,833
Recognition of prepaid land lease payments	*14*	330
Amortisation of intangible assets	*15*	9,438
Write-down of inventories to net realisable value		211
Impairment of prepayments, deposits and other receivables	*22*	352
Auditors' remuneration		140
Research and development costs		882
Government grants released	*6*	(1,776)
Gain on bargain purchase	*6*	(40,201)
Interest income	*6*	(31)
Finance costs	*7*	7,483
Staff costs		
Wages and salaries		5,079
Staff welfare and other expenses		2,333

9. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

(a) A director's remuneration

A director's remuneration for the Period is as follows:

	8 February 2012 (date of incorporation) to 30 June 2012 *RMB'000*
Salaries, allowances and benefits in kind	68

(b) Five highest paid employees

Details of the remuneration paid to the non-directors, highest paid employees for the Period are as follows:

	8 February 2012 (date of incorporation) to 30 June 2012 *RMB'000*
Salaries, allowances and benefits in kind	205
Pension scheme contributions	47
Total	252

The number of the above non-directors, highest paid employees whose remuneration fell within the following band is as follows:

	8 February 2012 (date of incorporation) to 30 June 2012
Nil to RMB100,000	5

10. INCOME TAX

The Target Group is subject to income tax on an entity basis based on profits arising in or derived from the jurisdictions in which members of the Target Group are domiciled and operates.

The Target Company, which was incorporated in the BVI, is not subjected to income tax.

Hong Kong profits tax

No provision for Hong Kong profits tax has been made as the Target Group had no assessable profits derived from or earned in Hong Kong during the Period.

PRC corporate income tax ("CIT")

The provision for Mainland China current income tax is based on statutory rate of 25% of the assessable profit of the PRC Company as determined in accordance with the PRC Corporation Income Tax Law which was approved and became effective on 1 January 2008. Meanwhile, the PRC Company, a subsidiary of the Target Group, was recognised as a high-tech enterprise by the PRC tax authority in 2009 with an effective period of three years from year 2009 to year 2011 and was entitled to a 15% enterprise income tax rate for the years ended 31 December 2009, 2010 and 2011. The PRC Company has renewed its high-tech enterprise accreditation. Therefore, the PRC Company is subject to 15% enterprise income tax rate for the Period.

Pursuant to the New Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. For the Target Group, the applicable rate is 10%. The Target Group is therefore liable to withholding taxes on dividends distributed by the PRC Company in respect of earnings generated from 1 January 2008.

At 30 June 2012, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Target Group's subsidiary in Mainland China. In the opinion of the Director, it is not probable that the subsidiary will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with the investment in the subsidiary in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB3,976,000 at 30 June 2012.

Group

	8 February 2012 (date of incorporation) to 30 June 2012 *RMB'000*
Current — Mainland China:	
— Charge for the Period	4,818
Deferred *(note 18)*	1,190
Total	6,008

A reconciliation of the income tax charge applicable to profit before tax using the statutory rate for the jurisdiction in which the Target Company and the majority of its subsidiaries are principally domiciled to the income tax charge at the effective tax rate is as follows:

Group

		8 February 2012 (date of incorporation) to 30 June 2012	
	Note	*RMB'000*	*%*
Profit before tax		78,300	
Tax at the applicable tax rate of 25%		19,575	25.0
Tax effect of:			
Effect of difference tax rates in different jurisdictions		(9,985)	(12.8)
Lower tax rate enacted by local authority		(3,887)	(5.0)
Expenses not deductible for tax		178	0.3
Tax losses not recognised	*18*	127	0.2
Tax charge at the Target Group's effective tax rate		6,008	7.7

11. DIVIDENDS

No dividend has been paid or declared by the Target Group in the Period.

12. PROFIT ATTRIBUTABLE TO THE OWNER OF THE PARENT

The consolidated profit attributable to the owner of the parent for the Period does not include any profit or loss which has been dealt with in the financial information of the Target Company as the Target Company did not incur any profit or loss during the Period (note 29 (b)).

13. PROPERTY, PLANT AND EQUIPMENT ("PP&E")

Group

	Buildings	Plant and machinery	Motor vehicles	Furniture, fixtures, and office equipment	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost						
At 8 February 2012 (date of incorporation)	—	—	—	—	—	—
Additions	—	—	—	11	—	11
Acquisition of a subsidiary *(note 30)*	47,461	21,348	1,654	2,179	35	72,677
Exchange realignment	—	—	—	1	—	1
At 30 June 2012	47,461	21,348	1,654	2,191	35	72,689
Depreciation						
At 8 February 2012 (date of incorporation)	—	—	—	—	—	—
Depreciation charge for the Period	759	836	111	127	—	1,833
Acquisition of a subsidiary *(note 30)*	4,148	6,482	947	1,221	—	12,798
Exchange realignment	—	—	—	1	—	1
At 30 June 2012	4,907	7,318	1,058	1,349	—	14,632
Net book value						
At 8 February 2012	—	—	—	—	—	—
At 30 June 2012	42,554	14,030	596	842	35	58,057

All of the PP&E owned by the Target Group are located in the Mainland China and Hong Kong.

14. PREPAID LAND LEASE PAYMENTS

Group

	30 June 2012
	RMB'000
Carrying amount at 8 February 2012 (date of incorporation)	—
Acquisition of a subsidiary *(note 30)*	45,491
Recognised during the Period	(330)
Carrying amount at 30 June 2012	45,161
Current portion included in prepayments, deposits and other receivables *(note 22)*	(991)
Non-current portion	44,170

The Target Group's leasehold lands are held under medium lease terms and are situated in Mainland China.

15. INTANGIBLE ASSETS

Group

	Technology know-how	Software	Patents	Trademarks	Unfinished contracts	Customer relationship	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost							
At 8 February 2012 (date of incorporation)	—	—	—	—	—	—	—
Acquisition of a subsidiary *(note 30)*	140,703	242	6,403	5,079	8,506	50,487	211,420
At 30 June 2012	140,703	242	6,403	5,079	8,506	50,487	211,420
Amortisation							
At 8 February 2012 (date of incorporation)	—	—	—	—	—	—	—
Acquisition of a subsidiary *(note 30)*	32,748	166	900	—	—	—	33,814
Amortisation	2,348	13	183	923	2,831	3,140	9,438
At 30 June 2012	35,096	179	1,083	923	2,831	3,140	43,252
Net book value							
At 8 February 2012	—	—	—	—	—	—	—
At 30 June 2012	105,607	63	5,320	4,156	5,675	47,347	168,168

16. INVESTMENTS IN SUBSIDIARIES

Company

	30 June 2012
	RMB'000
Unlisted share, at cost	—
Due from a subsidiary	263,215
	263,215

The amount of HK$322,875,606 (equivalent to approximately RMB263,215,000) due from a subsidiary included in the Target Company's current asset is unsecured, interest-free and repayable on demand.

Details of the particulars of the principal subsidiaries are set out in the corporate information to the Financial Information.

During the Period, the Target Company acquired New Postcom Technology from Hugo Luxury Limited ("Hugo Luxury"), an independent party of the Target Company. Further details of this acquisition are set out in note 30 to the Financial Information.

17. AVAILABLE-FOR-SALE INVESTMENT

Group

	30 June 2012
	RMB'000
Unlisted equity investment, at cost	15,000

Unlisted equity investment represents the cost of the 10% interests in Shenyang Shenbei Fumin Village and Town Bank Corporation Limited (瀋陽瀋北富民村鎮銀行股份有限公司, "Shenbei Bank") with no fixed maturity date. Shenbei Bank was established in the PRC where it operates. It is a financial entity approved by the China Bank Regulatory Commission in the PRC and a private entity which is not listed on any public exchange.

The above unlisted equity investment was stated at cost less impairment because the range of reasonable fair value estimates is so wide that the directors are of the opinion that their fair value cannot be measured reliably. The Target Group does not intend to dispose of the unlisted equity investment in the near future.

18. DEFERRED TAX

The movements in deferred tax assets and liabilities during the Period are as follows:

Group

Deferred tax assets

	Losses available for offsetting against future taxable profits	Deductible temporary differences	Total
	RMB'000	*RMB'000*	*RMB'000*
At 8 February 2012 (date of incorporation)	—	—	—
Acquisition of a subsidiary *(note 30)*	1,269	5,126	6,395
Deferred tax credited to the profit and loss during the Period *(note 10)*	(1,269)	(994)	(2,263)
Gross deferred tax assets recognised in the consolidated statement of financial position at 30 June 2012	—	4,132	4,132

Deferred tax liabilities

	Fair value adjustments arising from acquisition of a subsidiary	Total
	RMB'000	*RMB'000*
At 8 February 2012 (date of incorporation)	—	—
Acquisition of a subsidiary *(note 30)*	11,067	11,067
Deferred tax charged to the profit and loss during the Period *(note 10)*	(1,073)	(1,073)
Gross deferred tax liabilities recognised in the consolidated statement of financial position at 30 June 2012	9,994	9,994

Deferred tax assets has not been recognised in respect of tax losses of approximately RMB769,000 as it has been arisen in a subsidiary that has been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

19. INVENTORIES

Group

	30 June 2012
	RMB'000
Raw materials	75
Finished goods	217
	292

20. TRADE RECEIVABLES

Group

	30 June 2012
	RMB'000
Trade receivables	373,409
Impairment	(502)
	372,907

Progress payment for telecommunications system contracts is normally made in accordance with the agreed payment schedule. The Target Group's trading terms with its major customers are mainly on credit, except for new or individual customers, where payment in advance or upon goods delivery is normally required. The Target Group does not have a standard credit period granted to the customers. The credit period generally ranges from 15 to 60 days, but longer credit terms will be granted to certain major customers. The Target Group seeks to maintain strict control over its outstanding receivables and keeps close monitoring on them to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Target Group does not hold any collateral or other credit enhancements over its trade receivable balances. The Target Group's credit risk maximum exposure in respect of trade receivables is equal to the carrying amount of the trade receivables.

An aged analysis of the trade receivables as at end of reporting period, based on the invoice date, is as follows:

Group

	30 June 2012
	RMB'000
Within 1 month	245,271
1 to 3 months	54
3 to 6 months	3,425
6 to 12 months	6,762
Over 12 months	117,395
	372,907

Trade receivables are unsecured and non-interest-bearing. The carrying amounts of trade receivables approximate to their fair values.

Movement in the provision for impairment of trade receivables is as follows:

Group

	30 June 2012
	RMB'000
At 8 February 2012 (date of incorporation)	—
Acquisition of a subsidiary *(note 30)*	502
At 30 June 2012	502

The above provision for impairment of trade receivables represents full provision made for individually impaired trade receivables with aggregate gross balance of RMB502,000 as at 30 June 2012. The individually impaired trade receivables related to customers that were in unexpected financial difficulties and those receivables are not expected to be recovered. The Target Group does not hold any collateral or other credit enhancements over these impaired balances.

The aged analysis of the trade receivables that are not considered to be impaired is as follows:

Group

	30 June 2012
	RMB'000
Neither past due nor impaired	227,818
Past due but not impaired:	
Less than 3 months past due	48,000
4 to 6 months past due	—
7 to 12 months past due	2,315
Over 1 year past due	94,774
	372,907

Receivables that were neither past due nor impaired relate to a number of independent customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have good repayment records with the Target Group. Based on past experience, the directors of the Target Group are of the opinion that no impairment provision is necessary in respect of these balances as the Target Group maintained a good long-term relationship with these customers. There has not been a significant change in credit quality and the balances are still considered fully recoverable. The Target Group does not hold any collateral or other credit enhancements over these balances.

21. AMOUNTS DUE FROM/TO CUSTOMERS FOR CONTRACT WORKS

Group

Telecommunications system contracts

	30 June 2012
	RMB'000
Amounts due from customers for contract works	12,460
Amounts due to customers for contract works	(4,103)
	8,357
Contract costs incurred plus recognised profits less recognised losses to date	59,912
Less: Progress billings	(51,555)
	8,357

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Group

	30 June 2012
	RMB'000
Prepayments	2,072
Deferred expenses	303
Deposits and other receivables *(note 35)*	189,117
Current portion of prepaid land lease payments *(note 14)*	991
Impairment	(2,245)
	190,238

Movement in the provision for impairment of prepayments, deposits and other receivables is as follows:

Group

	30 June 2012
	RMB'000
At 8 February 2012 (date of incorporation)	—
Acquisition of a subsidiary *(note 30)*	1,893
Impairment losses recognised *(note 8)*	352
At 30 June 2012	2,245

Prepayments, deposits and other receivables with a carrying amount of approximately RMB2,245,000 was impaired and fully provided for as at 30 June 2012. Financial assets included in the above balance relate to receivables for which there was no recent history of default.

Save for the above, the balance of other receivables as at 30 June 2012 was unsecured, interest-free and has no fixed terms of repayment.

Included in deposits and other receivables was a deposit amounting to RMB704,000 as at 30 June 2012 for the Target Group's contract bidding, which was restricted for use.

The carrying amounts of the other receivables approximate to their fair values.

23. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

Group

	30 June 2012
	RMB'000
Cash and bank balances	48,429
Time deposits	2,118
	50,547
Less:	
Pledged time deposits for banking facilities with original maturity of more than three months when acquired *(note a)*	(2,118)
Cash and cash equivalents *(note b)*	48,429

Notes:

(a) These bank deposits were pledged for contract bidding, which were restricted as to use.

(b) As at 30 June 2012, the cash and bank balances denominated in RMB of the subsidiary in Mainland China amounted to approximately RMB39,995,000. The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Target Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents and the pledged deposits approximate to their fair values.

24. TRADE PAYABLES

Group

An aged analysis of the trade payables as at 30 June 2012, based on the invoice date, is as follows:

	30 June 2012
	RMB'000
Less than 3 months	196,307
4 to 6 months	3,961
7 to 12 months	11,493
Over 1 year	25,391
	237,152

The Target Group normally obtains credit terms ranging from 1 to 3 months from its suppliers. Trade payables are unsecured and interest-free. The carrying amounts of the trade payables approximate to their fair values.

25. OTHER PAYABLES AND ACCRUALS

Group

	30 June 2012
	RMB'000
Advances from customers	5,122
Accruals	1,971
Other payables *(note 35)*	11,072
Payroll payable	2,323
Other taxes payable	9,798
	30,286

The carrying amounts of other payables approximate to their fair values.

26. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group

	30 June 2012		
	Effective contractual interest rate *(%)*	Maturity	*RMB'000*
Current			
Bank loans			
unsecured	8.53%	8/15/2012	20,000
unsecured	7.87%	12/20/2012	5,185
unsecured	7.87%	12/8/2012	5,721
unsecured	7.87%	1/13/2013	18,862
unsecured	7.87%	2/16/2013	398
unsecured	7.87%	3/2/2013	20,000
unsecured	7.87%	3/2/2013	1,030
Other interest-bearing borrowings			
unsecured	8.00%	1/1/2013	50,000
unsecured	8.50%	7/20/2012	100,000
unsecured	6.10%	8/14/2012	45,000
			266,196

The carrying amounts of the Target Group's current loans and borrowings approximate to their fair values.

	30 June 2012
	RMB'000
Analysed into:	
Bank loans repayable:	
Within one year or on demand	71,196
Other borrowings repayable:	
Within one year or on demand	195,000
	266,196

Notes:

The Target Group's bank and other borrowings are guaranteed by the independent third parties as follows:

	30 June 2012
	RMB'000
新郵通信設備有限公司	101,196
瀋陽融信達中小企業擔保有限公司	20,000
	121,196

27. GOVERNMENT GRANTS

Group

	30 June 2012
	RMB'000
At 8 February 2012 (date of incorporation)	—
Acquisition of a subsidiary *(note 30)*	15,994
Released to the statement of comprehensive income during the Period *(note 6)*	(1,776)
At 30 June 2012	14,218
Non-current	14,218

Various government subsidies have been granted to the Target Group by the local governments as incentives for technology research and development and purchase of machinery used in manufacturing of terminals.

There are no unfulfilled conditions or contingencies attached to these grants for those released to the statement of comprehensive income. The remaining grants are special funds subject to verification by the local government or will be amortised over the useful lives of those assets it compensated.

28. ISSUED CAPITAL

Shares

	30 June 2012
Authorised:	
50,000 ordinary shares of US$1 each	US$50,000
Issued and fully paid:	
2 ordinary shares of US$1 each	US$2
Equivalent to	RMB13

The Target Company was incorporated in the BVI with limited liabilities on 8 February 2012 and wholly owned by Joy Bliss Limited ("Joy Bliss"), a company incorporated in the BVI. Pursuant to a sale and purchase agreement entered into between Joy Bliss and Mr. 遲少林 ("Mr. Chi Shaolin"), a PRC resident and an independent third party, on 13 June 2012, Joy Bliss sold its entire interest in the Target Company and assigned the debt of HK$322,875,607 (equivalent to approximately RMB263,324,000) owed by the Target Company to Joy Bliss to Mr. Chi Shaolin. Pursuant to a resolution of the Target Company dated 18 June 2012, the shareholder's loan owed by the Target Company to Mr. Chi Shaolin was credited as fully paid capital by allotment and issue of one ordinary share of the Target Company with a par value of US$1 and share premium of HK$322,875,599 (equivalent to approximately RMB263,324,000).

29. RESERVES

(a) Group

The amounts of the Target Group's reserves and the movements therein for the Period are presented in the statements of changes in equity of the Target Group.

Pursuant to the relevant PRC laws and regulations, each wholly-owned foreign enterprise registered in the PRC is required to transfer not less than 10% of its profit after tax, as determined in accordance with generally accepted accounting principles in the PRC, to its reserve fund, until the balance of the fund reaches 50% of the registered capital of that company. The fund is restricted as to use.

(b) Company

	Share premium *RMB'000*	**Exchange fluctuation reserve** *RMB'000*	**Total** *RMB'000*
At 8 February 2012 (date of incorporation)	—	—	—
Other comprehensive income for the Period:			
Exchange differences on translation of foreign operations	—	(109)	(109)
Total comprehensive income for the Period	—	(109)	(109)
Issue of one share	263,324	—	263,324
At 30 June 2012	263,324	(109)	263,215

30. BUSINESS COMBINATION

On 24 February 2012, the Target Group acquired 100% equity interests in New Postcom Technology from Hugo Luxury, an independent third party of the Target Group. The subsidiary of New Postcom Technology, the PRC Company, is principally engaged in the manufacture of electronic products and provision services for base station construction in the PRC. The acquisition was made as part of the Target Group's strategy to expand its market share in telecommunications industry in Mainland China. The purchase consideration for the acquisition was in the form of cash, with HK$1 (equivalent to approximately RMB1) paid on 24 February 2012.

The fair values of the identifiable assets and liabilities of New Postcom Technology as at the date of acquisition were as follows:

	Notes	Fair value recognised on acquisition *RMB'000*
Property, plant and equipment	*13*	59,879
Prepaid land lease payments	*14*	45,491
Available-for-sale investment		15,000
Deferred tax assets	*18*	6,395
Intangible assets	*15*	177,606
Amounts due from customers for contract work		17,464
Inventories		7,087
Trade receivables		163,347
Prepayments, deposits and other receivables		224,298
Pledged deposits		1,418
Cash and bank balances		27,157
Tax payables		(5,414)
Trade payables		(80,778)
Amounts due to customers for contract work		(3,456)
Other payables and accruals		(32,133)
Interest-bearing bank and other borrowings		(293,960)
Due to Hugo Luxury		(262,139)
Deferred tax liabilities	*18*	(11,067)
Government grants	*27*	(15,994)
Total identifiable net assets at fair value		40,201
Gain on bargain purchase recognised in other income and gains in the consolidated statement of comprehensive income		(40,201)
Satisfied by cash		—

The fair values of the trade receivables and other receivables as at the date of acquisition amounted to approximately RMB163,347,000 and RMB223,320,000, respectively. The gross contractual amounts of trade receivables and other receivables were approximately RMB163,849,000 and RMB225,213,000, respectively, of which trade receivables of approximately RMB502,000 and other receivables of approximately RMB1,893,000 are expected to be uncollectible, respectively.

The Target Group recognised a gain on bargain purchase of approximately RMB40,201,000 in the consolidated statement of comprehensive income for the Period, which was primarily attributable to the consideration determined based on the carrying amount of the net assets of New Postcom Technology that was mutually agreed between the parties

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

	June 30 2012
	RMB'000
Cash consideration	—
Cash and bank balances acquired	27,157
Net inflow of cash and cash equivalents included in cash flows from investing activities	27,157

Since the acquisition, New Postcom Technology contributed approximately RMB222,693,000 to the Target Group's turnover and approximately RMB38,168,000 to the consolidated profit for the Period.

Had the acquisition taken place on 8 February 2012, the revenue of the Target Group and the profit of the Target Group for the Period would have been approximately RMB225,884,000 and RMB67,253,000, respectively.

31. MAJOR NON-CASH TRANSACTION

On 18 June 2012, the shareholder's loan of HK$322,875,607 (equivalent to RMB263,324,000) owed by the Target Company to Mr. Chi Shaolin was credited as fully paid by allotment and issue of one ordinary share of the Target Company and with a par value of US$1 and share premium of HK$322,875,599 (equivalent to RMB263,324,000), as further detailed in note 28 to the Financial Information.

32. OPERATING LEASE ARRANGEMENTS

As lessee

The Target Group leases certain of its office properties under lease arrangements. Leases for properties are negotiated for terms for two years.

At 30 June 2012, the Target Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2012
	RMB'000
Within one year	881
In the second to fifth years, inclusive	587
	1,468

33. COMMITMENTS

In addition to the operating lease commitments detailed in note 32 above, the Target Group had the following capital commitments at end of the Period:

	30 June 2012
	RMB'000
Contracted, but not provided for:	
Plant and machinery	92

34. RELATED PARTY DISCLOSURES

(a) In addition to the transactions detailed elsewhere in these Financial Information, the Target Group had the following transaction with a related party during the Period:

	8 February 2012 (date of incorporation) to 30 June 2012 *RMB'000*
Loan from a shareholder:	
Mr. Chi Shaolin	9,458

(b) Outstanding balance with a related party:

	30 June 2012 *RMB'000*
Amount due to a shareholder:	
Mr. Chi Shaolin	9,458

Loan from a shareholder and amount due to a shareholder related to loan borrowed from Mr. Chi Shaolin, the sole shareholder of the Target Group since 13 June 2012. The loan was interest free and repayable on demand.

(c) Compensation of key management personnel of the Target Group

	8 February 2012 (date of incorporation) to 30 June 2012 *RMB'000*
Short term employee benefits	333

Further details of directors' emoluments are included in note 9 to the Financial Information.

35. FINANCIAL INSTRUMENTS

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Group

Available-for-sale financial asset

	30 June 2012 *RMB'000*
Unlisted equity investment, at cost	15,000

Financial assets — loans and receivables

	30 June 2012
	RMB'000
Trade receivables *(note 20)*	372,907
Financial assets included in prepayments, deposits and other receivables *(note 22)*	189,117
Pledged deposits *(note 23)*	2,118
Cash and cash equivalents *(note 23)*	48,429
	612,571

Financial liabilities at amortised cost

	30 June 2012
	RMB'000
Trade payables *(note 24)*	237,152
Financial liabilities included in other payables and accruals *(note 25)*	11,072
Interest-bearing bank and other borrowings *(note 26)*	266,196
Amount due to a shareholder *(note 34)*	9,458
	523,878

Company

Financial assets — loans and receivables

	30 June 2012
	RMB'000
Amount due from a subsidiary *(note 16)*	263,215

The carrying amounts and fair values of the Target Group's financial instruments are as follows:

Group

	Carrying amounts 30 June 2012 *RMB'000*	Fair values 30 June 2012 *RMB'000*
Financial assets		
Trade receivables	372,907	372,907
Financial assets included in prepayments, deposits and other receivables	189,117	189,117
Pledged deposits	2,118	2,118
Cash and cash equivalents	48,429	48,429
	612,571	612,571
Financial liabilities		
Trade payables	237,152	237,152
Financial liabilities included in other payables and accruals	11,072	11,072
Interest-bearing bank and other borrowings	266,196	266,196
Amount due to a shareholder	9,458	9,458
	523,878	523,878

Company

	Carrying amounts 30 June 2012 *RMB'000*	Fair values 30 June 2012 *RMB'000*
Financial assets		
Amount due from a subsidiary *(note 16)*	263,215	263,215

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following method and assumption was used to estimate the fair values:

The fair value of cash and cash equivalents, pledged deposits, trade receivables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, trade payables, interest-bearing bank and other borrowings and amount due to a shareholder approximate to their carrying amounts largely due to the short term maturities of these instruments.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Target Group's principal financial instruments, other than derivatives, comprise bank loans and overdrafts, other interest-bearing loans, and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Target Group's operations. The Target Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Target Group's financial instruments are business risk, interest rate risk, foreign currency risk, credit risk and liquidity risk. The Target Group does not have any written risk management policies and guidelines. Generally, the Target Group introduces prudent strategies on its risk management. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Business risk

The Target Group conducts its operations in Mainland China, and accordingly, it is subject to special considerations and significant risks. These include risks associated with, among others, the political, economic and legal environments, the influence of national authorities over pricing and the financing regulations in the telecommunications industry.

Interest rate risk

Management does not anticipate any significant impact resulting from the changes in interest rates because most of the Target Group's loans as at the end of the reporting period were at fixed interest rates which have no significant impact on cash flow interest rate risk.

Foreign currency risk

The Target Group's businesses are located in Mainland China and most of the transactions are conducted in RMB. Most of the Target Group's assets and liabilities are denominated in RMB. Fluctuations of the exchange rates of RMB against foreign currencies do not have significant effects on the Target Group's results. The Target Group has not hedged its foreign exchange rate risk.

A reasonably possible change of 5% in the exchange rate between the RMB and HK$ would have no material impact on the Target Group's profit or loss during the Period and there would have been no material impact on the Target Group's equity.

Credit risk

The Target Group trades only with recognised and credit worthy third parties. It is the Target Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Target Group's exposure to bad debts is not significant.

The credit risk of the Target Group's other financial assets, which comprise cash and cash equivalents, prepayments, deposits and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Target Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. There is no significant concentration of credit risk within the Target Group.

Liquidity risk

The Target Group monitors its risk of a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of the Target Group's financial assets (e.g. trade receivables, other financial assets) and projected cash flows from operations.

The maturity profile of the Target Group's financial liabilities at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

Group

	30 June 2012					
	On demand	**Less than 3 months**	**3 to less than 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	40,845	196,307	—	—	—	237,152
Financial liabilities included in other payables and accruals	11,072	—	—	—	—	11,072
Interest-bearing bank and other borrowings	—	168,041	103,601	—	—	271,642
Amount due to a shareholder	9,458	—	—	—	—	9,458
	61,375	364,348	103,601	—	—	529,324

Capital management

The primary objectives of the Target Group's capital management are to safeguard the Target Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholder's value.

The Target Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Target Group may adjust the dividend payment to shareholder, return capital to shareholder or issue new shares.

The Target Group monitors capital using a gearing ratio, which is total short-term borrowings divided by total assets. The gearing ratio at the end of the Period was as follows:

Group

	30 June 2012
	RMB'000
Total short-term borrowings	266,196
Total assets	915,971
Gearing ratio	29.1%

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Group or any of its subsidiaries in respect of any period subsequent to 30 June 2012.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

The following is the text of a report, prepared for the purpose of incorporation in this circular, received from the independent reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong.

ERNST & YOUNG
安 永

22/F, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

31 December 2012

The directors
HL Technology Group Limited

Dear Sirs,

We set out below our report on the financial information of Shenyang New Postcom Co., Ltd. (沈陽新郵通信設備有限公司, the "PRC Company") comprising the statements of comprehensive income, the statements of changes in equity and the statements of cash flows for each of the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012 (the "Relevant Periods"), and the statements of financial position of the PRC Company as at 31 December 2009, 2010 and 2011 and 30 June 2012, together with the notes thereto (the "Financial Information"), and the comparative statement of comprehensive income, the statement of changes in equity and the statement of cash flows of the PRC Company for the six months ended 30 June 2011 (the "Interim Comparative Information"), prepared on the basis of presentation set out in note 2.1 of Section II below, for inclusion in the circular of HL Technology Group Limited dated 31 December 2012 (the "Circular") in connection with the proposed acquisition of Rosy Sun Investments Limited (the "Target Company") by HL Technology Group Limited.

The PRC Company was established as a limited liability company in the People's Republic of China (the "PRC") on 14 February 2001. The PRC Company is located in Shenyang, Liaoning Province, the PRC.

The PRC Company is principally engaged in (1) the research and development, manufacture and sale of mobile phones in the PRC; (2) the sale of network equipment and (3) the provision of services to major telecommunications service providers in the PRC, such as the installation, maintenance and upgrade of network equipment and/or wireless network optimisation in their existing network systems. The particulars of the PRC Company is set out in note 1 of Section II below.

The statutory audited financial statements of the PRC Company were prepared in accordance with the PRC accounting standards and financial regulations. The financial statements of the PRC Company for years ended 31 December 2009 and 2010 were audited by Shenyang Shui Qing Mu Hua C.P.A. Partnership (瀋陽水清木華聯合會計師事務所), and the financial statements of the PRC Company for the year ended 31 December 2011 were audited by Liaoning Zhuo Cheng Certified Public Accountants Co., Ltd. (遼寧卓成會計師事務所有限公司), both of which were certified public accountants registered in the PRC.

For the purpose of this report, the director of the PRC Company (the "Director") has prepared the financial statements of the PRC Company (the "Underlying Financial Statements") in accordance with the International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB"). The Underlying Financial Statements for each of the years ended 31 December 2009, 2010 and 2011, and the six months ended 30 June 2012 were audited by us in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The Financial Information set out in this report has been prepared from the Underlying Financial Statements with no adjustments made thereon.

DIRECTORS' RESPONSIBILITY

The Director is responsible for the preparation of the Underlying Financial Statements and the Interim Comparative Information that give a true and fair view in accordance with IFRSs, and for such internal control as the Director determines is necessary to enable the preparation of the Underlying Financial Statements and the Interim Comparative Information that are free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANTS' RESPONSIBILITY

It is our responsibility to form an independent opinion and a review conclusion on the Financial Information and the Interim Comparative Information, respectively, and to report our opinion and review conclusion thereon to you.

For the purpose of this report, we have carried out procedures on the Financial Information in accordance with Auditing Guideline 3.340 *Prospectuses and the Reporting Accountant* issued by the HKICPA.

We have also performed a review of the Interim Comparative Information in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA. A review consists principally of making enquiries of management and applying analytical procedures to the Financial Information and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets and liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an opinion on the Interim Comparative Information.

OPINION IN RESPECT OF THE FINANCIAL INFORMATION

In our opinion, for the purpose of this report and on the basis of presentation set out in note 2.1 of Section II below, the Financial Information gives a true and fair view of the state of affairs of the PRC Company as at 31 December 2009, 2010 and 2011 and 30 June 2012, and of the financial results and cash flows of the PRC Company for each of the Relevant Periods.

REVIEW CONCLUSION IN RESPECT OF THE INTERIM COMPARATIVE INFORMATION

Based on our review which does not constitute an audit, for the purpose of this report, nothing has come to our attention that causes us to believe that the Interim Comparative Information is not prepared, in all material respects, in accordance with the same basis adopted in respect of the Financial Information.

I FINANCIAL INFORMATION

Statements of Comprehensive Income

		Year ended 31 December			Six months ended 30 June	
		2009	2010	2011	2011	2012
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(unaudited)	
REVENUE	*6*	132,494	167,680	315,887	273,367	254,000
Cost of sales		(132,390)	(171,813)	(224,365)	(185,807)	(192,662)
Gross profit/(loss)		104	(4,133)	91,522	87,560	61,338
Other income and gains	*6*	971	11,208	5,693	2,629	1,916
Selling and distribution costs		(1,031)	(5,253)	(5,305)	(3,497)	(1,873)
Administrative expenses		(7,703)	(13,043)	(16,717)	(7,451)	(9,599)
Other expenses		(3,770)	(3,012)	(12,289)	(2,506)	(3,765)
Finance costs	*7*	(1,844)	(7,558)	(14,351)	(6,888)	(10,760)
(LOSS)/PROFIT BEFORE TAX	*8*	(13,273)	(21,791)	48,553	69,847	37,257
Income tax expense	*10*	1,823	3,030	(7,940)	(10,814)	(5,738)
(LOSS)/PROFIT FOR THE YEAR/PERIOD		(11,450)	(18,761)	40,613	59,033	31,519
Other comprehensive income for the year/period		—	—	—	—	—
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR/PERIOD ATTRIBUTABLE TO:						
Owners of the PRC Company		(11,450)	(18,761)	40,613	59,033	31,519

Statements of Financial Position

		31 December			30 June
		2009	2010	2011	2012
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
NON-CURRENT ASSETS					
Property, plant and equipment	*13*	51,571	61,556	60,030	57,386
Prepaid land lease payments	*14*	43,348	42,427	41,506	41,046
Intangible assets	*15*	122,974	116,815	108,855	105,325
Available-for-sale investment	*16*	15,000	15,000	15,000	15,000
Deferred tax assets	*17*	3,012	6,042	5,052	4,132
Total non-current assets		235,905	241,840	230,443	222,889
CURRENT ASSETS					
Inventories	*18*	27,367	20,811	5,471	292
Trade receivables	*19*	49,130	100,691	132,965	372,907
Amounts due from customers for contract works	*20*	11,361	10,756	15,340	12,460
Prepayments, deposits and other receivables	*21*	3,015	18,996	219,985	189,917
Amount due from a director	*31*	3,298	—	—	—
Amount due from the immediate holding company	*31*	62,905	115,500	—	—
Amount due from the ultimate holding company	*31*	5,883	28	—	—
Amount due from a fellow subsidiary	*31*	31,552	55,482	—	—
Pledged deposits	*22*	18	818	4,218	2,118
Cash and cash equivalents	*22*	5,861	21,061	3,961	39,995
Total current assets		200,390	344,143	381,940	617,689

		31 December			30 June
		2009	2010	2011	2012
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
CURRENT LIABILITIES					
Trade payables	*23*	46,702	75,414	83,010	237,152
Amounts due to customers for contract works	*20*	594	2,760	5,420	4,103
Other payables and accruals	*24*	32,334	44,168	24,735	30,139
Tax payable		3,063	1,350	6,373	10,131
Interest-bearing bank and other borrowings	*25*	59,469	140,000	179,643	266,196
Amounts due to fellow subsidiaries	*31*	51,025	45,426	—	—
Total current liabilities		193,187	309,118	299,181	547,721
NET CURRENT ASSETS		7,203	35,025	82,759	69,968
TOTAL ASSETS LESS CURRENT LIABILITIES		243,108	276,865	313,202	292,857
NON-CURRENT LIABILITIES					
Government grants	*26*	17,840	17,446	16,082	14,218
Other payable	*24*	—	2,912	—	—
Interest-bearing bank and other borrowings	*25*	—	50,000	50,000	—
Total non-current liabilities		17,840	70,358	66,082	14,218
Net assets		225,268	206,507	247,120	278,639
EQUITY					
Capital	*27*	233,000	233,000	233,000	233,000
Contributed surplus	*28*	350	350	350	350
Reserves	*29*	1,111	1,111	2,377	5,529
Accumulated (losses)/profits		(9,193)	(27,954)	11,393	39,760
Total equity		225,268	206,507	247,120	278,639

Statements of Changes in Equity

	Attributable to owners of the PRC Company				
	Capital *(note 27)* *RMB'000*	**Contributed surplus** *(note 28)* *RMB'000*	**Statutory surplus reserve** *(note 29)* *RMB'000*	**Accumulated (losses)/ profits** *RMB'000*	**Total equity** *RMB'000*
At 31 December 2008 and 1 January 2009	233,000	350	1,111	2,257	236,718
Loss for the year	—	—	—	(11,450)	(11,450)
Other comprehensive income for the year	—	—	—	—	—
At 31 December 2009 and 1 January 2010	233,000	350	1,111	(9,193)	225,268
Loss for the year	—	—	—	(18,761)	(18,761)
Other comprehensive income for the year	—	—	—	—	—
At 31 December 2010 and 1 January 2011	233,000	350	1,111	(27,954)	206,507
Profit for the year	—	—	—	40,613	40,613
Appropriation of statutory reserve	—	—	1,266	(1,266)	—
Other comprehensive income for the year	—	—	—	—	—
At 31 December 2011 and 1 January 2012	233,000	350	2,377	11,393	247,120
Profit for the period	—	—	—	31,519	31,519
Appropriation of statutory reserve	—	—	3,152	(3,152)	—
Other comprehensive income for the period	—	—	—	—	—
At 30 June 2012	233,000	350	5,529	39,760	278,639
At 31 December 2010 and 1 January 2011	233,000	350	1,111	(27,954)	206,507
Profit for the period (unaudited)	—	—	—	59,033	59,033
Appropriation of statutory reserve	—	—	3,108	(3,108)	—
Other comprehensive income for the period	—	—	—	—	—
At 30 June 2011 (unaudited)	233,000	350	4,219	27,971	265,540

Statements of Cash Flows

	Notes	Year ended 31 December 2009 RMB'000	2010 RMB'000	2011 RMB'000	Six months ended 30 June 2011 RMB'000 (unaudited)	2012 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES						
(Loss)/profit before tax		(13,273)	(21,791)	48,553	69,847	37,257
Adjustments for:						
Finance costs	*7*	1,844	7,558	14,351	6,888	10,760
Interest income	*6*	(404)	(42)	(529)	(296)	(52)
Depreciation	*13*	2,304	3,280	4,933	2,209	2,680
Recognition of prepaid land lease payments	*14*	921	921	921	460	460
Amortisation of intangible assets	*15*	7,055	7,059	7,960	4,430	3,530
Write-down of inventories to net realisable value		—	7,344	2,803	1,901	210
Impairment of accounts receivable and prepayments, deposits and other receivables	*19,21*	605	115	1,058	1,057	969
Government grants released	*26*	—	(10,941)	(3,034)	(1,271)	(1,864)
Discounted amount of other borrowings arising from the passage of time	*6*	(531)	(221)	(56)	(57)	—
		(1,479)	(6,718)	76,960	85,168	53,950
(Increase)/decrease in inventories		(27,168)	(788)	12,536	15,620	4,969
Increase in trade receivables		(24,506)	(51,667)	(32,430)	(92,934)	(240,182)
(Increase)/decrease in amounts due from customers for contract works		(11,361)	605	(4,584)	(7,769)	2,880
Decrease/(increase) in prepayments, deposits and other receivables		294	(15,830)	(46,327)	13,896	10,659
(Decrease)/increase in trade payables		(67,940)	28,712	7,596	46,778	154,142
Increase/(decrease) in amounts due to customers for contract works		594	2,166	2,660	2,265	(1,317)
Increase/(decrease) in other payables and accruals		10,502	26,424	(26,520)	(22,375)	7,248
Receipt of government grants		12,640	10,894	2,831	1,702	—
Increase/(decrease) in amounts due to fellow subsidiaries		51,377	(5,530)	(45,847)	(34,262)	—
Cash (used in)/from operations		(57,047)	(11,732)	(53,125)	8,089	(7,651)
Interest paid		(1,844)	(3,763)	(9,144)	(4,815)	(12,548)
Interest received		404	42	529	31	52
Income tax paid		(8,348)	(1,713)	(1,927)	(1,626)	(1,060)
Net cash flows (used in)/from operating activities		(66,835)	(17,166)	(63,667)	1,679	(21,207)

		Year ended 31 December			Six months ended 30 June	
		2009	2010	2011	2011	2012
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchases of items of property, plant and equipment		(8,669)	(28,493)	(5,438)	(19,584)	(36)
Purchases of intangible assets	*15*	(60)	(900)	—	—	—
Proceeds from sale of other financial assets		5,001	—	—	—	—
(Increase)/decrease in amount due from a director		(1,020)	3,298	—	—	—
Decrease/(increase) in amount due from the immediate holding company		3,782	(52,595)	115,500	27,212	—
Decrease in amount due from the ultimate holding company		291	5,855	28	28	—
(Increase)/decrease in amount due from a fellow subsidiary		(4,320)	(23,930)	55,482	(18,626)	—
(Increase)/decrease in other receivables		—	—	(205,725)	—	18,680
Decrease/(increase) in pledged time deposits		20,128	(800)	(3,400)	(2,000)	2,100
Net cash flows from/(used in) investing activities		15,133	(97,565)	(43,553)	(12,970)	20,744
CASH FLOWS FROM FINANCING ACTIVITIES						
New bank loans		35,000	40,000	59,699	—	40,291
Proceeds from other borrowings		48,000	170,000	170,000	20,000	45,000
Repayment of bank loans		(35,000)	(20,000)	(40,000)	(20,000)	(28,794)
Repayment of other borrowings		(8,000)	(60,000)	(100,000)	—	(20,000)
(Decrease)/increase in amounts due to fellow subsidiaries		(352)	(69)	421	1,519	—
Net cash flows from financing activities		39,648	129,931	90,120	1,519	36,497
NET (DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS		(12,054)	15,200	(17,100)	(9,772)	36,034
Opening cash and cash balances		17,915	5,861	21,061	21,061	3,961
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD		5,861	21,061	3,961	11,289	39,995
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS						
Cash and bank balances	*22*	5,861	21,061	3,961	11,289	39,995

II NOTES TO THE FINANCIAL INFORMATION

1. CORPORATE INFORMATION

The PRC Company was registered in the PRC with limited liability on 14 February 2001. The PRC Company is located in Shenyang, Liaoning Province, the PRC, since 26 June 2007 and is principally engaged in the development, manufacture and sales of third generation (3G) mobile phones, related accessories, communication equipment and provision of installation and maintenances service for communications networks such as Time Division-Synchronous Code Division Multiple Access ("TD-SCDMA") and Global System for Mobile Communications ("GSM") network and technology development, which include commercial activities and related consultation services. The PRC Company's operation can be divided into two major business segments which comprises (1) terminals segment which engages in the manufacture and sale of mobile phone handsets, related accessories and data cards for laptop and related software and (2), the networks (telecommunications system) segment which provide services for the construction of base stations for telecommunicates networks including TD-SCDMA and GSM networks, and sale of telecommunications equipment, such as IPRAN, xPON and core network equipment, etc.

In the opinion of the Director, the immediate holding company of the PRC Company was Guangzhou New Postcom Co., Ltd. (新郵通信設備有限公司, "Guangzhou New Postcom"), a company established in the PRC which held 93.57% equity interest in the PRC Company, and the ultimate holding company was Beijing Hongji Lianxing Co., Ltd. (北京鴻基聯興科技開發有限公司, "Beijing Hongji Lianxing"), a company established in the PRC, since the PRC Company was acquired by Guangzhou New Postcom in 2007. Pursuant to a sale and purchase agreement entered into between Guangzhou New Postcom, Mr. 華峰 ("Mr. Hua Feng"), a PRC resident and the remaining equity holder of the PRC Company who held 6.43% equity interest in the PRC Company, and New Postcom Technology Company Limited (新郵通信技術有限公司, "New Postcom Technology"), an independent third party private company incorporated in Hong Kong, on 22 December 2010, New Postcom Technology acquired a 100% equity interest in the PRC Company and the ultimate holding company of the PRC Company was changed to Smooth Union Limited, a private company incorporated in the British Virgin Islands (the "BVI") and ultimately held by a Hong Kong resident, Mr. 孫粗洪 ("Mr. Suen Cho Hung"). Pursuant to another sale and purchase agreement entered into between Hugo Luxury Limited ("Hugo Luxury"), the then immediate holding company of New Postcom Technology and the Target Company, an independent third party private company incorporated in the BVI, on 23 February 2012, the Target Company acquired one ordinary share in New Postcom Technology representing the entire issued share of New Postcom Technology and the ultimate holding company of the PRC Company was then changed to Valiant Features Limited, a company incorporated in the BVI with limited liabilities. Pursuant to another sale and purchase agreement entered into between Joy Bliss Limited, a company incorporated in the BVI and the then immediate holding company of the Target Company and Mr. 遲少林 ("Mr. Chi Shaolin"), a PRC resident and an independent third party, on 13 June 2012, Mr. Chi Shaolin acquired one ordinary share of the Target Company representing the then entire issued share of the Target Company and the Target Company then became the ultimate holding company of the PRC Company with Mr. Chi Shaolin being the sole shareholder of the Target Company. More information of the share transfer is set out in note 27 of the Financial Information.

2.1 BASIS OF PREPARATION

The Financial Information has been prepared in accordance with IFRSs (which include all International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations) issued by the IASB. For the purpose of the Financial Information, the PRC Company has adopted, at the beginning of the Relevant Periods, all new and revised IFRSs applicable to the Relevant Periods.

The Financial Information has been prepared under the historical cost convention. The Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

2.2 ISSUED BUT NOT YET EFFECTIVE IFRSs

The PRC Company has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in the Financial Information:

IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards — Government Loans*[2]
IFRS 7 Amendments	Amendments to IFRS 7 *Financial instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities*[2]
IFRS 9	*Financial Instruments*[4]
IFRS 10	*Consolidated Financial Statements*[2]
IFRS 11	*Joint Arrangements*[2]
IFRS 12	*Disclosure of Interests in Other Entities*[2]
IFRS 13	*Fair Value Measurement*[2]
IAS 1 Amendments	Amendments to IAS 1 *Presentation of Financial Statements — Presentation Items of Other Comprehensive Income*[1]
IAS 19 Amendments	Amendments to IAS 19 *Employee Benefits*[2]
IAS 27 (Revised)	*Separate Financial Statements*[2]
IAS 28 (Revised)	*Investments in Associates and Joint Ventures*[2]
IAS 32 Amendments	Amendments to IAS 32 *Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities*[3]
IFRIC Interpretation 20	*Stripping Costs in the Production Phase of a Surface Mine*[2]
Amendments to IFRS 10, IFRS 11 and IFRS 12	*Amendments to IFRS 10, IFRS 11 and IFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance*[2]
Amendments to IFRS 10, IFRS 12 and IAS 27	*Amendments to IFRS 10, IFRS 12 and IAS 27: Investment Entities*[3]
Annual Improvements to IFRSs 2009–2011 Cycle	*Amendments to a number of IFRSs issued in May 2012*

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

The PRC Company is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, the PRC Company considers that these new and revised IFRSs are unlikely to have a significant impact on the PRC Company's results of operations and financial position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of comprehensive income in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of comprehensive income in the period in which it arises.

Related parties

A party is considered to be related to the PRC Company if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the PRC Company;

(ii) has significant influence over the PRC Company; or

(iii) is a member of the key management personnel of the PRC Company or of a parent of the PRC Company;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the PRC Company are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the PRC Company are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the PRC Company or an entity related to the PRC Company;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of comprehensive income in the period in which it is incurred. In situations the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the PRC Company recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives used for this purpose are as follows:

	Estimated useful lives	Residual values
Buildings	20 years	5%
Plant and machinery	5–10 years	5%
Motor vehicles	5 years	5%
Furniture, fixtures and office equipment	5 years	5%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each end of the reporting period.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of comprehensive income in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Technology know-how

Technology know-how is accounted for as intangible assets with useful lives of 20 years and is amortised over 20 years. It is stated at cost less any impairment provision.

Computer software

Computer software is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful lives of 10 years.

Patents

Patents are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful life of 1 year.

Research and development costs

All research costs are charged to the statement of comprehensive income as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the PRC Company can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the PRC Company is the lessor, assets leased by the PRC Company under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of comprehensive income on the straight-line basis over the lease terms. Where the PRC Company is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of comprehensive income on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial investments, or as derivative designated as hedging instruments in an effective hedge, as appropriate. The PRC Company determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss. All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the PRC Company commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The PRC Company's financial assets include cash and bank balances, pledged deposits, trade and other receivables, amount due from a director, amount due from the immediate holding company, amount due from the ultimate holding company, amount due from a fellow subsidiary and unlisted equity investment which are classified as loans and receivables and available-for-sale investment.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the statement of comprehensive income. The loss arising from impairment is recognised in the statement of comprehensive income in finance costs for loans and in other expenses for receivables.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, when the cumulative gain or loss is recognised in the statement of comprehensive income in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to other expenses in the statement of comprehensive income. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the statement of comprehensive income as other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The PRC Company evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the PRC Company is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the PRC Company may elect to reclassify these financial assets. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the PRC Company has the intent and ability to hold these assets for the foreseeable future or to maturity. Reclassification to the held-to-maturity category is permitted only when the PRC Company has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of comprehensive income.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or

- the PRC Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the PRC Company has transferred substantially all the risks and rewards of the asset, or (b) the PRC Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the PRC Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the PRC Company's continuing involvement in the asset. In that case, the PRC Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the PRC Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the PRC Company could be required to repay.

Impairment of financial assets

The PRC Company assesses at the end of the reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred ''loss event'') and that loss event has an impact on the estimated future cash flows of the financial asset or the PRC Company of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the PRC Company first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the PRC Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the impairment loss is recognised in the statement of comprehensive income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the PRC Company.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to other expenses in the statement of comprehensive income.

Available-for-sale financial investments

For available-for-sale financial investments, the PRC Company assesses at each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of comprehensive income, is removed from other comprehensive income and recognised in the statement of comprehensive income.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of comprehensive income — is removed from other comprehensive income and recognised in the statement of comprehensive income. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of comprehensive income; increases in their fair value after impairment are recognised directly in other comprehensive income.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The PRC Company determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value plus, in the case of loans and borrowings, directly attributable transaction costs.

The PRC Company's financial liabilities include trade and other payables, amounts due to fellow subsidiaries, and interest-bearing bank and other borrowings.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of comprehensive income when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of comprehensive income.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of comprehensive income.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and conditions are accounted for as follows:

Raw materials	Purchase cost on the first-in, first-out basis
Work in progress	Cost of direct materials
Finished goods	Cost of direct materials, direct labour and an appropriate proportion of overheads

Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, which are repayable on demand and form an integral part of the PRC Company's cash management.

For the purpose of the statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Employee benefits

Pension schemes

The PRC Company has joined a number of defined contribution pension schemes, including pension schemes, medical insurance, unemployment insurance and housing fund, organised by the relevant principal and municipal social insurance management bodies of the PRC government for those employees who are eligible to participate in the schemes. The PRC Company and the employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salary during the year. The contributions payable are charged as an expense to the statement of comprehensive income as incurred. The assets of the schemes are held separately from those of the PRC Company in independently administered funds.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the PRC Company and the revenue can be reliably measured, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the PRC Company maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) income from the telecommunications system service contracts, recognised only to the extent that the expenses incurred are eligible to be recovered, as further explained in the accounting policy for "Contracts for services" below;

(c) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and

(d) for contracts involving multiple deliverables, where the deliverables are governed by more than one authoritative accounting standard, the PRC Company generally evaluates each deliverable to determine whether it represents a separate unit of accounting based on the following criteria: (i) whether the delivered item has value to the customer on a stand-alone basis, (ii) whether there is objective and reliable evidence of the fair value of the undelivered item(s), and (iii) whether the contract that includes a general right of return relative to the delivered item, delivery or performance of the undelivered item(s) is considered probable and substantially in the control of the PRC Company. If objective and reliable evidence of fair value exists for all units of accounting in the arrangement, revenue is allocated to each unit of accounting or exists for all units of accounting in the arrangement, revenue is allocated to each unit of accounting or element based on the relative fair values. In situations where there is objective and reliable evidence of fair value for all undelivered elements, but not for delivered elements, the residual method is used to allocate the contract consideration. Under the residual method, the amount of revenue allocated to delivered elements equals the total arrangement consideration less the aggregate fair value of any undelivered elements. Each unit of accounting is then accounted for under the applicable revenue recognition guidance. So long as elements otherwise governed by separate authoritative accounting standards cannot be treated as separate units of accounting, the elements are combined into a single unit of accounting for revenue recognition purposes. In this case, revenue allocated to the unit of accounting is deferred until all combined elements have been delivered or, once there is only one remaining element to be delivered, based on the revenue recognition guidance applicable to the last delivered element within the unit of accounting.

Contracts for services

Contract revenue on the rendering of services comprises the agreed contract amount. Costs of rendering services comprise labour and other costs of personnel directly engaged in providing the services and attributable overheads.

Revenue from the rendering of services is recognised based on the percentage of completion of the transaction, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The percentage of completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction. Where the outcome of a contract cannot be measured reliably for fixed price telecommunications system contracts, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to customers for contract works.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of comprehensive income over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of comprehensive income by way of a reduced depreciation charge.

Where the PRC Company receives a non-monetary grant, the asset and the grant are recorded at the fair value of the non-monetary asset and released to the statement of comprehensive income over the expected useful life of the relevant asset by equal annual instalments.

Where the PRC Company receives government loans granted with no or at a below-market rate of interest for the construction of a qualifying asset, the initial carrying amount of the government loans is determined using the effective interest rate method, as further explained in the accounting policy for "Financial liabilities" above. The benefit of the government loans granted with no or at a below-market rate of interest, which is the difference between the initial carrying value of the loans and the proceeds received, is treated as a government grant and released to the statement of comprehensive income over the expected useful life of the relevant asset by equal annual instalments.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the PRC Company operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of each reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Foreign currencies

The Financial Information is presented in RMB, which is the functional and presentation currency of the PRC Company. Transactions in foreign currencies are translated into the functional currency of the Company using the exchange rates prevailing at the dates of the transactions. Exchange differences arising from the settlement of such transactions and from the retranslation at the period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. No foreign currency transaction was occurred during the Relevant Periods except for importing of machinery for self-use purpose.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Financial Information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the PRC Company's accounting policies, management has made the following judgement, apart from those involving estimations, which have the most significant effect on the amounts recognised in the Financial Information:

Revenue recognition

For contracts involving multiple deliverables, where the deliverables are governed by more than one authoritative accounting standard, the PRC Company generally evaluates each deliverable to determine whether it represents a separate unit of accounting based on the following criteria: (i) whether the delivered item has value to the customer on a stand-alone basis, (ii) whether there is objective and reliable evidence of the fair value of the undelivered item(s), and (iii) whether the contract that includes a general right of return relative to the delivered item, delivery or performance of the undelivered item(s) is considered probable and substantially in the control of the PRC Company.

The PRC Company's determination of whether deliverables within a multiple element arrangement can be treated separately for revenue recognition purposes involves significant estimates and judgements, such as whether fair value can be established on undelivered obligations and/or whether delivered elements have stand-alone value to the customer. Changes to the PRC Company's assessment of the accounting units in an arrangement and/or its ability to establish fair values could significantly change the timing of revenue recognition.

If objective and reliable evidence of fair value exists for all units of accounting in the contract, revenue is allocated to each unit of accounting or element based on relative fair values. In situations where there is objective and reliable evidence of fair value for all undelivered elements, but not for delivered elements, the residual method is used to allocate the contract consideration. Under the residual method, the amount of revenue allocated to delivered elements equals the total arrangement consideration less the aggregate fair value of any undelivered elements. Each unit of accounting is then accounted for under the applicable revenue recognition guidance. If sufficient evidence of fair value cannot be established for an undelivered element, revenue related to delivered elements is deferred until the earlier of the time when sufficient fair value is established and when all remaining elements have been delivered. Once there is only one remaining element to be delivered within the unit of accounting, the deferred revenue is recognised based on the revenue recognition guidance applicable to the last delivered element. For instance, where post-contract support is the last delivered element within the unit of accounting, the deferred revenue is recognised ratably over the term of the remaining post-contract support term once post-contract support is the only undelivered element.

The PRC Company's assessment of which revenue recognition guidance is appropriate for accounting for a deliverable also involves significant judgement. This assessment could significantly impact the amount and timing of revenue recognition.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Impairment of receivables

Impairment of receivables is made based on an assessment of the recoverability of receivables. The identification of doubtful debts requires management's judgement and estimates. Provision is made when there is objective evidence that the PRC Company will not be able to collect the debts. Where the actual outcome or further expectation is different from the original estimate, such differences will impact the carrying value of the receivables, doubtful debt expenses and write-back of receivables in the period in which such estimate has been changed. The carrying amount of trade receivables as at 31 December 2009, 2010 and 2011 and 30 June 2012 are RMB49,130,000, RMB100,691,000, RMB132,965,000 and RMB372,907,000, respectively. Further details are disclosed in note 19 to the Financial Information.

Impairment of non-financial assets (other than goodwill)

The PRC Company assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Useful lives and residual values of items of property, plant and equipment

In determining the useful lives and residual values of items of property, plant and equipment, the PRC Company has to consider various factors, such as expected usage of the asset, expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the PRC Company with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from previous estimation. Useful lives and residual values are reviewed at each financial year end date based on changes in circumstances. The carrying amount of property, plant and equipment as at 31 December 2009, 2010 and 2011 and 30 June 2012 are RMB51,571,000, RMB61,556,000, RMB60,030,000 and RMB57,386,000, respectively. Further details are disclosed in note 13 to the Financial Information.

Useful lives of intangible assets

Useful life of an intangible asset is determined by the period over which it is expected to bring economic benefits to the PRC Company. The PRC Company reviews, at least at each year end, useful lives of intangible assets with definite lives and makes adjustment when necessary. The carrying amount of intangible assets as at 31 December 2009, 2010 and 2011 and 30 June 2012 are approximately RMB122,974,000, RMB116,815,000, RMB108,855,000 and RMB105,325,000, respectively. Further details are disclosed in note 15 to the Financial Information.

Net realisable value of inventories

Net realisable value of an inventory is the estimated selling price in the ordinary course of business, less estimated costs to be incurred to completion and disposal. These estimates are based on the current market condition and the historical experience of selling products of similar nature which could change significantly as a result of changes in customer taste or competitor actions in response to severe consumer product industry cycles. Management reassesses these estimates at each reporting date. The carrying amount of inventories as at 31 December 2009, 2010 and 2011 and 30 June 2012 are approximately RMB27,367,000, RMB20,811,000, RMB5,471,000 and RMB292,000, respectively. Further details are disclosed in note 18 to the Financial Information.

Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences, and carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying amount of deferred tax assets as at 31 December 2009, 2010 and 2011 and 30 June 2012 are approximately RMB3,012,000, RMB6,042,000, RMB5,052,000 and RMB4,132,000, respectively. Further details are disclosed in note 17 to the Financial Information.

5. OPERATING SEGMENT INFORMATION

For management purposes, the PRC Company is organised into business units based on their products and services and has two reportable operating segments as follows:

(a) The terminals segment engages in the manufacture and sale of mobile phone handsets, related accessories and data cards for laptop and related software.

(b) The networks (telecommunications system) segment serves for construction of base stations for telecommunications networks including TD-SCDMA and GSM network, trading of telecommunications equipment, such as IPRAN, xPON and core network equipment.

Management monitors the results of its operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax from continuing operations. The adjusted profit before tax from continuing operations is measured consistently with the PRC Company's profit before tax from continuing operations except that interest income and finance costs as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude prepaid land lease payments, available-for-sale investment, deferred tax assets, cash and cash equivalents, pledged deposits, other receivables, other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank and other borrowings, tax payable, other payables and accruals and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Capital expenditure consists of additions to property, plant and equipment and intangible assets.

Segments information for the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2011 and 2012 was as follows:

	Year ended 31 December 2009		
	Terminals	**Networks**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Revenue:			
Revenue from external customers	7,229	125,265	132,494
Segment results	(9,954)	6,492	(3,462)
Bank and other interest income			404
Discounted amount of other borrowings arising from the passage of time			531
Corporate and other unallocated expenses			(8,902)
Finance costs			(1,844)
Loss before tax			**(13,273)**
As at 31 December 2009			
Segment assets	201,933	146,725	348,658
Prepaid land lease payments			43,348
Available-for-sale investment			15,000
Deferred tax assets			3,012
Pledged deposits			18
Cash and cash equivalents			5,861
Corporate and other unallocated assets			20,398
Total assets			**436,295**
Segment liabilities	52,198	68,385	120,583
Interest-bearing bank and other borrowings			59,469
Corporate and other unallocated liabilities			30,975
Total liabilities			**211,027**
Other segment information:			
Impairment losses recognised in statement of comprehensive income	508	—	508
Depreciation and amortisation	8,506	—	8,506
Capital expenditure*	10,185	—	10,185

* *Capital expenditure consists of additions to property, plant and equipment and intangible assets.*

	Year ended 31 December 2010		
	Terminals	Networks	Total
	RMB'000	*RMB'000*	*RMB'000*
Revenue:			
Revenue from external customers	53,572	114,108	167,680
Segment results	(11,493)	12,099	606
Bank and other interest income			42
Discounted amount of other borrowings arising from the passage of time			221
Corporate and other unallocated expenses			(15,102)
Finance costs			(7,558)
Loss before tax			**(21,791)**
As at 31 December 2010			
Segment assets	203,220	198,921	402,141
Prepaid land lease payments			42,427
Available-for-sale investment			15,000
Deferred tax assets			6,042
Pledged deposits			818
Cash and cash equivalents			21,061
Corporate and other unallocated assets			98,494
Total assets			**585,983**
Segment liabilities	86,616	45,185	131,801
Interest-bearing bank and other borrowings			190,000
Corporate and other unallocated liabilities			57,675
Total liabilities			**379,476**
Other segment information:			
Impairment losses recognised in statement of comprehensive income	7,459	—	7,459
Depreciation and amortisation	9,682	162	9,844
Capital expenditure*	12,822	984	13,806

* *Capital expenditure consists of additions to property, plant and equipment and intangible assets.*

	Year ended 31 December 2011		
	Terminals	Networks	Total
	RMB'000	*RMB'000*	*RMB'000*
Revenue:			
Revenue from external customers	231,300	84,587	315,887
Segment results	67,102	16,596	83,698
Bank and other interest income			529
Discounted amount of other borrowings arising from the passage of time			56
Corporate and other unallocated expenses			(21,379)
Finance costs			(14,351)
Profit before tax			**48,553**
As at 31 December 2011			
Segment assets	179,075	146,501	325,576
Prepaid land lease payments			41,506
Available-for-sale investment			15,000
Deferred tax assets			5,052
Pledged deposits			4,218
Cash and cash equivalents			3,961
Corporate and other unallocated assets			217,070
Total assets			**612,383**
Segment liabilities	52,417	59,242	111,659
Interest-bearing bank and other borrowings			229,643
Corporate and other unallocated liabilities			23,961
Total liabilities			**365,263**
Other segment information:			
Impairment losses recognised in statement of comprehensive income	(1,119)	—	(1,119)
Depreciation and amortisation	12,111	259	12,370
Capital expenditure*	2,976	298	3,274

* *Capital expenditure consists of additions to property, plant and equipment.*

	Six months ended 30 June 2011 (unaudited)		
	Terminals	**Networks**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Revenue:			
Revenue from external customers	220,947	52,420	273,367
Segment results	70,069	16,938	87,007
Bank and other interest income			296
Discounted amount of other borrowings arising from the passage of time			57
Corporate and other unallocated expenses			(10,625)
Finance costs			(6,888)
Profit before tax			**69,847**
As at 30 June 2011			
Segment assets	204,182	187,777	391,959
Prepaid land lease payments			41,967
Available-for-sale investment			15,000
Deferred tax assets			4,454
Pledged deposits			2,818
Cash and cash equivalents			11,289
Corporate and other unallocated assets			179,392
Total assets			**646,879**
Segment liabilities	105,120	44,486	149,606
Interest-bearing bank and other borrowings			189,943
Corporate and other unallocated liabilities			41,790
Total liabilities			**381,339**
Other segment information:			
Impairment losses recognised in statement of comprehensive income	(2,022)	—	(2,022)
Depreciation and amortisation	6,252	129	6,381
Capital expenditure*	2,493	298	2,791

* *Capital expenditure consists of additions to property, plant and equipment.*

	Six months ended 30 June 2012		
	Terminals	**Networks**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Revenue:			
Revenue from external customers	49,315	204,685	254,000
Segment results	11,694	47,120	58,814
Bank and other interest income			52
Corporate and other unallocated expenses			(10,849)
Finance costs			(10,760)
Profit before tax			**37,257**
As at 30 June 2012			
Segment assets	190,896	358,876	549,772
Prepaid land lease payments			41,046
Available-for-sale investment			15,000
Deferred tax assets			4,132
Pledged deposits			2,118
Cash and cash equivalents			39,995
Corporate and other unallocated assets			188,515
Total assets			**840,578**
Segment liabilities	45,687	215,904	261,591
Interest-bearing bank and other borrowings			266,196
Corporate and other unallocated liabilities			34,152
Total liabilities			**561,939**
Other segment information:			
Impairment losses recognised in statement of comprehensive income	1,179	—	1,179
Depreciation and amortisation	5,797	145	5,942
Capital expenditure*	35	—	35

* *Capital expenditure consists of additions to property, plant and equipment.*

All of the PRC Company's revenue was attributable to external customers in the PRC. All non-current assets of the PRC Company are located in the PRC.

Information about major customers

The revenue derived from sales to major external customers from whom the revenue individually derived has exceeded 10% of the revenue of the PRC Company is as follows:

		Year ended 31 December			Six months ended 30 June	
		2009	**2010**	**2011**	**2011**	**2012**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000 (unaudited)*	*RMB'000*
Customer	**Segment**					
Customer A	Terminals	774	—	N/A*	N/A*	—
	Networks	108,197	47,805	N/A*	N/A*	28,320
		108,971	47,805	N/A*	N/A*	28,320
Customer B	Networks	N/A*	N/A*	N/A*	N/A*	48,756
Customer C	Networks	N/A*	19,691	37,643	N/A*	107,999
Customer D	Terminals	5,915	N/A*	N/A*	N/A*	N/A*
	Networks	14,418	N/A*	N/A*	N/A*	N/A*
		20,333	N/A*	N/A*	N/A*	N/A*
Customer E	Terminals	N/A*	53,164	161,094	161,567	N/A*
Customer F	Networks	N/A*	29,958	N/A*	N/A*	N/A*
Customer G	Terminals	N/A*	N/A*	34,064	N/A*	N/A*

* *The corresponding revenue did not contribute over 10% of the total revenue of the PRC Company in the respective year/period.*

6. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the PRC Company's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts; an appropriate proportion of contract revenue of construction contracts and the value of services rendered during the Relevant Periods and the six months ended 30 June 2011. Analyses of revenue and other income and gains are as follows:

	Year ended 31 December			Six months ended 30 June	
	2009	**2010**	**2011**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000 (unaudited)*	*RMB'000*
Revenue					
Terminals	7,229	53,572	231,300	220,947	49,315
Networks	125,265	114,108	84,587	52,420	204,685
Total	132,494	167,680	315,887	273,367	254,000

	Year ended 31 December			Six months ended 30 June	
	2009	2010	2011	2011	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Other income and gains					
Bank and other interest income	404	42	529	296	52
Government grants *(note 26)*	—	10,941	3,034	1,271	1,864
Discounted amount of other borrowings arising from the passage of time	531	221	56	57	—
Rental income	—	—	2,000	1,000	—
Others	36	4	74	5	—
Total	971	11,208	5,693	2,629	1,916

7. FINANCE COSTS

An analysis of finance costs is as follows:

	Year ended 31 December			Six months ended 30 June	
	2009	2010	2011	2011	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Interests on bank and other borrowings wholly repayable within five years	1,844	7,181	12,379	5,303	10,760
Finance costs on bills discounted	—	377	1,972	1,585	—
Total	1,844	7,558	14,351	6,888	10,760

8. (LOSS)/PROFIT BEFORE TAX

The PRC Company's (loss)/profit before tax is arrived at after charging/(crediting):

		Year ended 31 December			Six months ended 30 June	
		2009	2010	2011	2011	2012
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Cost of inventories sold		111,284	103,852	171,751	158,796	182,957
Cost of services provided		21,106	67,961	52,614	27,011	9,705
Depreciation	*13*	2,304	3,280	4,933	2,209	2,680
Recognition of prepaid land lease payments	*14*	921	921	921	460	460
Amortisation of intangible assets	*15*	7,055	7,059	7,960	4,430	3,530
Write-down of inventories to net realisable value		—	7,344	2,803	1,901	210
Impairment of trade receivables and prepayments, deposits and other receivables	*19,21*	605	115	1,058	1,057	969
Auditors' remuneration		15	16	76	76	140
Research and development costs		2,659	2,049	9,990	1,206	2,795
Government grants released	*6*	—	(10,941)	(3,034)	(1,271)	(1,864)
Bank and other interest income	*6*	(404)	(42)	(529)	(296)	(52)
Discounted amount of other borrowings arising from the passage of time	*6*	(531)	(221)	(56)	(57)	—
Rental income	*6*	—	—	(2,000)	(1,000)	—
Finance costs	*7*	1,844	7,558	14,351	6,888	10,760
Staff costs						
— Wages and salaries		5,266	10,875	18,924	9,880	7,235
— Staff welfare and other expenses		2,588	5,886	8,241	4,046	3,111

9. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

(a) Directors' remuneration

No remunerations were made to the then directors, Ms. 耿敏華 ("Ms. Geng Minhua"), Mr. Hua Feng and Mr. Suen Cho Hung, during the Relevant Periods. Ms. Geng Minhua, Mr. Hua Feng and Mr. Suen Cho Hung have waived their entitlement to remuneration from the PRC Company during the Relevant Periods. The remuneration for Ms. 董杰 ("Ms. Dong Jie") who was appointed as the director on 21 February 2012, for the six months ended 30 June 2012 was RMB26,000.

(b) Five highest paid employees

Details of the remuneration paid to the non-directors, highest paid employees for the Relevant Periods and the six months ended 30 June 2011 are as follows:

	Year ended 31 December			Six months ended 30 June	
	2009	2010	2011	2011	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (*unaudited*)	*RMB'000*
Salaries, allowances and benefits in kind	300	396	516	261	282
Pension scheme contributions	53	58	174	89	82
Total	353	454	690	350	364

The number of the above non-directors, highest paid employees whose remuneration fell within the following bands is as follows:

	Year ended 31 December			Six months ended 30 June	
	2009	2010	2011	2011 (*unaudited*)	2012
Nil to RMB100,000	4	3	1	4	4
RMB100,000 to RMB150,000	1	2	4	1	1
Total	5	5	5	5	5

10. INCOME TAX

The provision for Mainland China current income tax is based on statutory rate of 25% of the assessable profit of the PRC Company as determined in accordance with the PRC Corporation Income Tax Law which was approved and became effective on 1 January 2008. Meanwhile, the PRC Company was recognised as a high-tech enterprise by the PRC tax authority in 2009 with an effective period of three years from year 2009 to year 2011 and was entitled to a 15% enterprise income tax rate for the years ended 31 December 2009, 2010 and 2011. The PRC Company has renewed its high-tech enterprise accreditation. Therefore, the PRC Company is subject to 15% enterprise income tax rate for the Relevant Periods and 30 June 2011.

The major components of the income tax expense for the Relevant Periods and the six months ended 30 June 2011 are as follows:

	Year ended 31 December			Six months ended 30 June	
	2009	2010	2011	2011	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Current — Mainland China					
— Charge for the year/period	58	—	6,950	9,226	4,818
Deferred	(1,881)	(3,030)	990	1,588	920
Total tax (credited)/charged for the year/period	(1,823)	(3,030)	7,940	10,814	5,738

A reconciliation of the tax expense applicable to profit/(loss) before tax at the statutory rate for the jurisdiction in which the PRC Company is domiciled to the tax expense at the effective tax is as follows:

	Year ended 31 December						Six months ended 30 June			
	2009		2010		2011		2011		2012	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* *(unaudited)*	*%*	*RMB'000*	*%*
(Loss)/profit before tax	(13,273)		(21,791)		48,553		69,847		37,257	
Tax at the applicable tax rate of 25%	(3,318)	25.0	(5,448)	25.0	12,138	25.0	17,462	25.0	9,314	25.0
Tax effect of:										
Lower tax rate enacted by local authority	1,327	(10.0)	2,179	(10.0)	(4,855)	(10.0)	(6,985)	(10.0)	(3,726)	(10.0)
Expenses not deductible for tax	168	(1.3)	239	(1.1)	657	1.4	337	0.5	150	0.4
Tax (credit)/charge at the PRC Company's effective tax rate	(1,823)	13.7	(3,030)	13.9	7,940	16.4	10,814	15.5	5,738	15.4

There was no unrecognised deferred tax asset arose from taxable losses as at 31 December 2009, 2010 and 2011 and 30 June 2012.

11. DIVIDENDS

No dividend has been paid or declared by the PRC Company in the Relevant Periods.

12. EARNINGS/LOSSES PER SHARE ATTRIBUTABLE TO OWNERS OF THE PRC COMPANY

Earnings/losses per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful.

13. PROPERTY, PLANT AND EQUIPMENT ("PP&E")

	Buildings	Plant and machinery	Motor vehicles	Furniture, fixtures, and office equipment	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2009, net of accumulated depreciation	11,769	12,104	682	796	17,277	42,628
Additions	—	792	345	777	9,333	11,247
Transfers	1,961	—	—	—	(1,961)	—
Depreciation provided during the year	(621)	(1,319)	(171)	(193)	—	(2,304)
At 31 December 2009 and 1 January 2010, net of accumulated depreciation	13,109	11,577	856	1,380	24,649	51,571
Additions	—	4,378	230	130	8,527	13,265
Transfers	17,821	2,745	—	—	(20,566)	—
Depreciation provided during the year	(880)	(1,808)	(260)	(332)	—	(3,280)
At 31 December 2010 and 1 January 2011, net of accumulated depreciation	30,050	16,892	826	1,178	12,610	61,556
Additions	—	495	107	25	2,780	3,407
Transfers	15,390	—	—	—	(15,390)	—
Depreciation provided during the year	(1,986)	(2,329)	(281)	(337)	—	(4,933)
At 31 December 2011 and 1 January 2012, net of accumulated depreciation	43,454	15,058	652	866	—	60,030
Additions	—	—	—	1	35	36
Depreciation provided during the year	(1,132)	(1,233)	(146)	(169)	—	(2,680)
At 30 June 2012, net of accumulated depreciation	42,322	13,825	506	698	35	57,386
At 31 December 2009 and 1 January 2010						
Cost	14,014	13,511	1,214	1,875	24,649	55,263
Accumulated depreciation	(905)	(1,934)	(358)	(495)	—	(3,692)
Net carrying amount	13,109	11,577	856	1,380	24,649	51,571
At 31 December 2010 and 1 January 2011						
Cost	31,835	20,634	1,444	2,005	12,610	68,528
Accumulated depreciation	(1,785)	(3,742)	(618)	(827)	—	(6,972)
Net carrying amount	30,050	16,892	826	1,178	12,610	61,556

	Buildings	Plant and machinery	Motor vehicles	Furniture, fixtures, and office equipment	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2011 and 1 January 2012						
Cost	47,225	21,129	1,551	2,030	—	71,935
Accumulated depreciation	(3,771)	(6,071)	(899)	(1,164)	—	(11,905)
Net carrying amount	43,454	15,058	652	866	—	60,030
At 30 June 2012						
Cost	47,225	21,129	1,551	2,031	35	71,971
Accumulated depreciation	(4,903)	(7,304)	(1,045)	(1,333)	—	(14,585)
Net carrying amount	42,322	13,825	506	698	35	57,386

All of the PP&E owned by the PRC Company are located in the Mainland China.

The PRC Company has obtained all certificates of real estate ownership from the relevant PRC government authorities for all the buildings in 2011.

14. PREPAID LAND LEASE PAYMENTS

	Year ended 31 December			Six months ended 30 June
	2009	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Carrying amount at 1 January	45,190	44,269	43,348	42,427
Recognised during the year/period	(921)	(921)	(921)	(460)
Carrying amount at end of the year/period	44,269	43,348	42,427	41,967
Current portion included in prepayments, deposits and other receivables *(note 21)*	(921)	(921)	(921)	(921)
Non-current portion	43,348	42,427	41,506	41,046

The PRC Company's leasehold lands are held under medium lease terms and are situated in Mainland China.

As at 31 December 2009 and 2011, certain land use rights with a aggregate carrying amounts of approximately RMB36,616,000 and RMB35,060,000, respectively, were pledged to secure interest-bearing bank and other borrowings granted to the PRC Company (note 25). No land use rights as at 31 December 2010 and 30 June 2012 were pledged.

15. INTANGIBLE ASSETS

	Technology know-how *RMB'000*	Software *RMB'000*	Patents *RMB'000*	Total *RMB'000*
Cost				
At 1 January 2009	140,350	182	—	140,532
Additions	—	60	—	60
At 31 December 2009 and 1 January 2010	140,350	242	—	140,592
Additions	—	—	900	900
At 31 December 2010 and 1 January 2011	140,350	242	900	141,492
At 31 December 2011 and 1 January 2012	140,350	242	900	141,492
At 30 June 2012	140,350	242	900	141,492
Accumulated amortisation				
At 1 January 2009	(10,527)	(36)	—	(10,563)
Charge for the year	(7,017)	(38)	—	(7,055)
At 31 December 2009 and 1 January 2010	(17,544)	(74)	—	(17,618)
Charge for the year	(7,017)	(42)	—	(7,059)
At 31 December 2010 and 1 January 2011	(24,561)	(116)	—	(24,677)
Charge for the year	(7,018)	(42)	(900)	(7,960)
At 31 December 2011 and 1 January 2012	(31,579)	(158)	(900)	(32,637)
Charge for the period	(3,509)	(21)	—	(3,530)
At 30 June 2012	(35,088)	(179)	(900)	(36,167)
Net book value				
At 31 December 2009	122,806	168	—	122,974
At 31 December 2010	115,789	126	900	116,815
At 31 December 2011	108,771	84	—	108,855
At 30 June 2012	105,262	63	—	105,325

16. AVAILABLE-FOR-SALE INVESTMENT

	31 December			30 June
	2009	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Unlisted equity investment, at cost	15,000	15,000	15,000	15,000

Unlisted equity investment represents the cost of the 10% interest in Shenyang Shenbei Fumin Village and Town Bank Corporation Limited (瀋陽瀋北富民村鎮銀行股份有限公司, "Shenbei Bank") with no fixed maturity date. Shenbei Bank was established in the PRC where it operates. It is a financial entity approved by the China Bank Regulatory Commission in the PRC and a private entity which is not listed on any public exchange.

The above unlisted equity investment was stated at cost less impairment because the range of reasonable fair value estimates is so wide that the Director is of the opinion that its fair value cannot be measured reliably. The PRC Company does not intend to dispose of this unlisted equity investment in the near future.

17. DEFERRED TAX

The movements in deferred tax assets during the Relevant Periods are as follows:

Deferred tax assets

	31 December			30 June
	2009	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January	1,131	3,012	6,042	5,052
Deferred tax credited/(charged) to the statements of comprehensive income during the year/period *(note 10)*	1,881	3,030	(990)	(920)
Gross deferred tax assets at end of year/ period	3,012	6,042	5,052	4,132

Deferred tax assets recognised:

	31 December			30 June
	2009	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Write-down of inventories to net realisable value	271	1,372	1,045	264
Depreciation of PP&E	22	94	174	216
Amortisation of intangible assets	6	8	134	128
Accruals	117	386	1,273	1,354
Discounted amount of other borrowings arising from the passage of time	(80)	(33)	14	37
Unrealised gain on government grants	2,676	2,617	2,412	2,133
Tax losses	—	1,598	—	—
Deferred tax assets at end of year/period	3,012	6,042	5,052	4,132

18. INVENTORIES

	31 December			30 June
	2009	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	516	8,346	2,463	75
Work in progress	—	6,637	686	—
Finished goods	26,851	5,828	2,322	217
	27,367	20,811	5,471	292

19. TRADE RECEIVABLES

	31 December			30 June
	2009	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	49,130	100,797	133,227	373,409
Impairment	—	(106)	(262)	(502)
	49,130	100,691	132,965	372,907

Progress payment for telecommunications system contracts is normally made in accordance with the agreed payment schedule. The PRC Company's trading terms with its major customers are mainly on credit, except for new or individual customers, where payment in advance or upon goods delivery is normally required. The PRC Company does not have a universal credit period granted to the customers. The credit period generally ranges from 15 to 60 days, but longer credit terms will be granted to certain major customers. The PRC Company seeks to maintain strict control over its outstanding receivables and keeps close monitoring on them to minimise credit risk. Overdue balances are reviewed regularly by senior management. The PRC Company does not hold any collateral or other credit enhancements over its trade receivable balances. The PRC Company's credit risk maximum exposure in respect of trade receivables is equal to the carrying amount of the trade receivables.

An aged analysis of the trade receivables as at end of each reporting period, based on the invoice date, is as follows:

	31 December			30 June
	2009	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 month	48,719	6,217	10,171	245,271
1 to 3 months	201	42	545	54
3 to 6 months	210	12	3,841	3,425
6 to 12 months	—	49,169	29,526	6,762
Over 12 months	—	45,251	88,882	117,395
	49,130	100,691	132,965	372,907

Trade receivables are unsecured and non-interest-bearing. The carrying amounts of trade receivables approximate to their fair values.

Movements in the provision for impairment of trade receivables are as follows:

	Year ended 31 December			Six months ended 30 June
	2009	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At beginning of year/period	—	—	106	262
Impairment losses recognised *(note 8)*	—	106	156	240
At end of year/period	—	106	262	502

The above provision for impairment of trade receivables represents full provision made for individually impaired trade receivables with aggregate gross balances of nil, RMB106,000, RMB262,000 and RMB502,000 as at 31 December 2009, 2010 and 2011 and 30 June 2012, respectively. The individually impaired trade receivables related to customers that were in unexpected financial difficulties and those receivables are not expected to be recovered. The PRC Company does not hold any collateral or other credit enhancements over these impaired balances.

The aged analysis of the trade receivables that are not considered to be impaired is as follows:

	31 December			30 June
	2009	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Neither past due nor impaired	48,804	10,048	35,599	227,818
Past due but not impaired:				
— Less than 3 months past due	201	1,583	—	48,000
— 4 to 6 months past due	125	—	1,215	—
— 7 to 12 months past due	—	45,378	8,154	2,315
— Over 1 year past due	—	43,682	87,997	94,774
	49,130	100,691	132,965	372,907

Receivables that were neither past due nor impaired relate to a number of independent customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have good repayment records with the PRC Company. Based on past experience, the Director is of the opinion that no impairment provision is necessary in respect of these balances as the PRC Company maintained a good long-term relationship with these customers. There has not been a significant change in credit quality and the balances are still considered fully recoverable. The PRC Company does not hold any collateral or other credit enhancements over these balances.

Included in trade receivables are amounts of RMB43,095,000, RMB87,213,000, RMB87,213,000 and RMB87,213,000 as at 31 December 2009, 2010 and 2011 and 30 June 2012 respectively that were trade receivables related to the sales of machinery to Guangzhou New Postcom, the then immediate holding company, in 2009 and 2010.

20. AMOUNTS DUE FROM/TO CUSTOMERS FOR CONTRACT WORKS

Telecommunications system contracts

	31 December			30 June
	2009	**2010**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Amounts due from customers for contract works	11,361	10,756	15,340	12,460
Amounts due to customers for contract works	(594)	(2,760)	(5,420)	(4,103)
	10,767	7,996	9,920	8,357
Contract costs incurred plus recognised profits less recognised losses to date	21,250	51,410	53,352	59,912
Less: Progress billings	(10,483)	(43,414)	(43,432)	(51,555)
	10,767	7,996	9,920	8,357

Included in amounts due from customers for contract works are amounts of approximately RMB3,305,000 and RMB7,209,000 as at 31 December 2009 and 31 December 2010 respectively that were related to construction service provided to Guangzhou New Postcom, the then immediate holding company.

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	31 December			30 June
	2009	**2010**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Prepayments	912	6,005	10,860	2,072
Deferred expenses	225	924	1,183	301
Deposits and other receivables *(note 32)*	1,562	11,760	208,537	188,868
Current portion of prepaid land lease payments *(note 14)*	921	921	921	921
Impairment	(605)	(614)	(1,516)	(2,245)
	3,015	18,996	219,985	189,917

Movement of provision

	Year ended 31 December			Six months ended 30 June
	2009	**2010**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At beginning of year/period	—	605	614	1,516
Impairment loss recognised *(note 8)*	605	9	902	729
At end of year/period	605	614	1,516	2,245

Prepayments, deposits and other receivables with carrying amounts of approximately RMB605,000, RMB614,000, RMB1,516,000 and RMB2,245,000 were impaired and fully provided for as at 31 December 2009, 2010 and 2011 and 30 June 2012. Financial assets included in the above balances relate to receivables for which there was no recent history of default.

Included in deposits and other receivables was a deposit amounting to RMB704,000, RMB704,000, RMB704,000 and RMB704,000 as at 31 December 2009, 2010 and 2011 and 30 June 2012 for the PRC Company's contract bidding, which was restricted for use.

Save for the above, the balances of other receivables as at 31 December 2009, 2010 and 2011 and 30 June 2012 were unsecured, interest-free and repayable on demand.

The carrying amounts of the other receivables approximate to their fair values.

22. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	31 December			30 June
	2009	**2010**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash and bank balances	5,861	21,061	3,961	39,995
Time deposit	18	818	4,218	2,118
	5,879	21,879	8,179	42,113
Less:				
Pledged time deposits for banking facilities with original maturity of more than three months when acquired *(note a)*	(18)	(818)	(4,218)	(2,118)
Cash and cash equivalents *(note b)*	5,861	21,061	3,961	39,995

Notes:

(a) The PRC Company's pledged bank deposits were pledged for contract bidding, which were restricted as to use.

(b) At the end of the reporting period, the PRC Company's cash and bank balances and the pledged deposits of the PRC Company were all RMB. The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the PRC Company is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

The carrying amounts of the cash and cash equivalents and the pledged deposits approximate to their fair values.

23. TRADE PAYABLES

An aged analysis of the trade payables as at 31 December 2009, 2010 and 2011 and 30 June 2012, based on the invoice date, is as follows:

	31 December			30 June
	2009	**2010**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Less than 3 months	19,423	69,926	52,102	196,307
4 to 6 months	521	174	14,360	3,961
7 to 12 months	—	1,795	7,295	11,493
Over 1 year	26,758	3,519	9,253	25,391
	46,702	75,414	83,010	237,152

The PRC Company normally obtains credit terms ranging from 1 to 3 months from its suppliers. Trade payables are unsecured and interest-free. The carrying amounts of the trade payables approximate to their fair values.

24. OTHER PAYABLES AND ACCRUALS

	31 December			30 June
	2009	**2010**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current				
Advances from customers	4,540	35,036	5,088	5,122
Accruals	783	398	2,700	1,824
Other payables *(note 32)*	18,576	5,696	13,820	11,072
Payroll payable	892	1,411	1,336	2,323
Other taxes payable	7,543	1,627	1,791	9,798
	32,334	44,168	24,735	30,139
Non-current				
Other payable *(note 32)*	—	2,912	—	—
	32,334	47,080	24,735	30,139

The carrying amounts of other payables approximate to their fair values.

25. INTEREST-BEARING BANK AND OTHER BORROWINGS

	31 December									30 June		
	2009			2010			2011			2012		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current												
Bank loans												
— secured	6.46%	8/5/2010	20,000									
— unsecured				5.35%	3/29/2011	20,000	8.53%	8/15/2012	20,000	8.53%	8/15/2012	20,000
— unsecured				5.84%	7/12/2011	20,000	7.87%	12/4/2012	27,044	7.87%	12/20/2012	5,185
— unsecured							7.87%	12/20/2012	5,185	7.87%	12/8/2012	5,721
— unsecured							7.87%	12/8/2012	7,470	7.87%	1/13/2013	18,862
— unsecured										7.87%	2/16/2013	398
— unsecured										7.87%	3/2/2013	20,000
— unsecured										7.87%	3/2/2013	1,030
Other interest-bearing borrowings												
— secured							6.10%	1/17/2012	19,944			
— unsecured	4.86%	6/14/2010	39,469	4.75%	7/12/2011	100,000	8.50%	7/20/2012	100,000	8.00%	1/1/2013	50,000
— unsecured			—			—			—	8.50%	7/20/2012	100,000
— unsecured			—			—			—	6.10%	8/14/2012	45,000
			59,469			140,000			179,643			266,196
Non-current												
Other interest-bearing borrowings												
— unsecured			—	8%	1/1/2013	50,000	8%	1/1/2013	50,000			—
			59,469			190,000			229,643			266,196

The carrying amounts of the PRC Company's current loans approximate to their fair values.

	31 December			30 June
	2009	**2010**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Analysed into:				
Bank loans repayable:				
Within one year or on demand	20,000	40,000	59,699	71,196
	20,000	40,000	59,699	71,196
Other borrowings repayable:				
Within one year or on demand	39,469	100,000	119,944	195,000
In the second year	—	—	50,000	—
Beyond three years	—	50,000	—	—
	39,469	150,000	169,944	195,000
	59,469	190,000	229,643	266,196

Notes:

(a) The PRC Company's bank and other borrowings are secured by the pledge of the following:

(i) pledge of the PRC Company's assets:

	31 December			30 June
	2009	**2010**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Land use rights *(note 14)*	36,616	—	35,060	—

(ii) guarantees executed by the then immediate holding company:

	31 December			30 June
	2009	**2010**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Guangzhou New Postcom*	—	50,000	—	—

(iii) guarantees executed by independent third parties:

	31 December			30 June
	2009	**2010**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Guangzhou New Postcom*	—	—	89,699	101,196
瀋陽融信達中小企業擔保有限公司	—	40,000	20,000	20,000
瀋陽萬邦投資擔保有限公司	—	100,000	100,000	—
	—	140,000	209,699	121,196

* *Guangzhou New Postcom became an independent third party since the PRC Company was substantially controlled by New Postcom Technology Company Limited on 12 October 2011.*

26. GOVERNMENT GRANTS

	31 December			30 June
	2009	**2010**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At beginning of year/period	5,200	17,840	17,446	16,082
Received during the year/period	12,640	10,547	1,670	—
Released to the statements of comprehensive income during the year/period *(note 6)*	—	(10,941)	(3,034)	(1,864)
At end of year/period	17,840	17,446	16,082	14,218
Non-current	17,840	17,446	16,082	14,218

Various government subsidies have been granted to the PRC Company by the local governments as incentives for technology research and development and compensations for purchase of a machinery used in manufacturing of terminals.

There are no unfulfilled conditions or contingencies attached to these grants for those released to the statement of comprehensive income. The remaining grants are special funds subject to verification by the local government or will be amortised over the useful lives of those assets it compensated.

27. CAPITAL

The registered capital during the Relevant Periods is as follows:

	31 December			30 June
	2009	**2010**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Registered capital fully paid:				
At beginning and end of year/period	233,000	233,000	233,000	233,000

28. CONTRIBUTED SURPLUS

The balance is comprised of mainly contributed surplus of RMB350,000 which is the surplus of paid in capital injected by Guangzhou New Postcom over the registered capital of the PRC Company on 16 July 2007.

29. RESERVES

The amounts of the PRC Company's reserves and the movements therein for the Relevant Periods are presented in the statements of changes in equity of the PRC Company.

Pursuant to the relevant PRC laws and regulations, each wholly-owned foreign enterprise registered in the PRC is required to transfer not less than 10% of its profit after tax, as determined in accordance with generally accepted accounting principles in the PRC, to its reserve fund, until the balance of the fund reaches 50% of the registered capital of that company. The fund is restricted as to use.

30. COMMITMENTS

The PRC Company did not have any operating lease commitments at the end of each reporting period. However, the PRC Company had the following capital commitments as at the end of each of the reporting period:

	31 December			30 June
	2009	**2010**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Contracted, but not provided for:				
Plant and machinery	3,199	2,784	728	92

31. RELATED PARTY DISCLOSURES

(a) In addition to the transactions detailed elsewhere in this Financial Information, the PRC Company had the following transactions with related parties during the Relevant Periods:

		Year ended 31 December			Six months ended 30 June	
		2009	**2010**	**2011**	**2011**	**2012**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Sales of machinery:						
Guangzhou New Postcom	*(i)*	105,850	44,118	—	—	—
Rental income from:						
Guangzhou New Postcom	*(i)*	—	—	1,667	1,000	—
Construction service provided:						
Guangzhou New Postcom	*(i)*	3,122	3,687	—	—	—
Licensing of software:						
Guangzhou New Postcom	*(i)*	—	—	16,992	16,992	—
Sales of other financial assets:						
Beijing New Postcom Co., Ltd. ("Beijing New Postcom")	*(ii)*	5,001	—	—	—	—
Purchases of goods:						
Guangzhou New Postcom	*(i)*	75,587	—	—	—	—
Xi'an New Postcom Co., Ltd.	*(iii)*	42,877	—	—	—	—
Shanghai New Postcom Co., Ltd.	*(iv)*	1,036	—	—	—	—
Yangzhou New Postcom Co., Ltd.	*(v)*	—	—	31,739	31,739	—
		119,500	—	31,739	31,739	—
Guarantee granted by the immediate holding company:						
Guangzhou New Postcom	*(vi)*	—	50,000	50,000	50,000	—
Loans to a director:						
Loans to a director, disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance, are as follows:						
Ms. Geng Minhua*	*(vii)*	3,298	—	—	—	—

* *Ms. Geng Minhua was the sole director of the PRC Company from 1 January 2009 to 8 October 2010. Pursuant to a shareholders' resolution on 8 October 2010, Ms. Geng Minhua sold her 6.37% shares to Mr. Hua Feng and ceased to be the director of the PRC Company. Mr. Hua Feng was appointed as the sole director of the PRC Company from 8 October 2010 to 22 December 2010. Then Mr. Suen Cho Hung was appointed as the sole director of the PRC Company from 23 December 2010 to 20 February 2012. And then Ms. Dong Jie was appointed as the sole director of the PRC Company from 21 February 2012 to 30 June 2012.*

Notes:

(i) Guangzhou New Postcom was the immediate holding company of the PRC Company before 12 October 2011, thereafter the control of the PRC Company was transferred to New Postcom Technology on 12 October 2011.

(ii) Beijing New Postcom was a wholly-owned subsidiary of Guangzhou New Postcom. The PRC Company sold some collector's items to Beijing New Postcom at cost in 2009. Beijing New Postcom ceased to be a related party of the PRC Company since 12 October 2011.

(iii) Xi'an New Postcom Co., Ltd. ("Xi'an New Postcom") was a fellow subsidiary which was controlled by Guangzhou New Postcom, during 2009, 2010 and 2011. Xi'an New Postcom ceased to be a related party of the PRC Company since 12 October 2011.

(iv) Shanghai New Postcom Co., Ltd. ("Shanghai New Postcom") was a fellow subsidiary which was controlled by Guangzhou New Postcom, during 2009, 2010 and 2011. Shanghai New Postcom ceased to be a related party of the PRC Company since 12 October 2011.

(v) Yangzhou New Postcom Co., Ltd. ("Yangzhou New Postcom"), founded on 27 December 2010, was a fellow subsidiary which was controlled by Guangzhou New Postcom, during 2011. Yangzhou New Postcom ceased to be a related party of the PRC Company since 12 October 2011.

(vi) The other borrowing of RMB50,000,000, RMB50,000,000 and RMB50,000,000 for years ended 31 December 2010 and 2011 and the six months ended 30 June 2011 were guaranteed by Guangzhou New Postcom for free of charge, respectively.

(vii) Loans to a director and amount due from a director related to loans made to Ms. Geng Minhua, the sole director of the PRC Company during 2009 and 2010. The loans were interest free and repayable on demand.

The related party transactions were conducted at prices mutually agreed by both parties. In the opinion of the Director, the related party transactions were conducted on normal commercial terms and in the ordinary course of the PRC Company's business.

The sales to Guangzhou New Postcom were made according to the published prices and conditions offered to the major customers of the PRC Company, except that a longer credit period is granted.

The purchases from the fellow subsidiaries were made according to the published prices and conditions offered by the fellow subsidiaries to their major customers.

(b) Outstanding balances with related parties:

		31 December			30 June
		2009	2010	2011	2012
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Amount due from the immediate holding company:					
Guangzhou New Postcom	*(i)*	62,905	115,500	—	—
Trade receivables					
Guangzhou New Postcom	*(i)*	43,095	87,213	87,213	87,213
Amount due from the ultimate holding company:					
Beijing Hongji Lianxing	*(iii)*	5,883	28	—	—
Amount due from a fellow subsidiary:					
Beijing New Postcom	*(iii)*	31,552	55,482	—	—
Amounts due to fellow subsidiaries:					
Xi'an New Postcom	*(iv)*	49,663	44,833	—	—
Shanghai New Postcom	*(iv)*	1,209	512	—	—
Chengdu New Postcom	*(ii)*	153	81	—	—
		51,025	45,426	—	—
Amount due from a director:					
Ms. Geng Minhua	*(v)*	3,298	—	—	—

Notes:

(i) Amount due from Guangzhou New Postcom mainly related to current borrowings which are unsecured, interest-free and repayable on demand. Except the amount due from Guangzhou New Postcom as mentioned above, amounts of approximately RMB43,095,000, RMB87,213,000, RMB87,213,000 and RMB87,213,000 as at 31 December 2009, 2010 and 2011 and 30 June 2012 were recorded as trade receivables (note 19) due to sales of machinery to Guangzhou New Postcom in 2009 and 2010.

(ii) Amounts represented advances to the ultimate holding company and a fellow subsidiary. The balances are unsecured, interest free and repayable on demand.

(iii) Included in the amount due from Beijing New Postcom, balance of approximately RMB5,001,000 and RMB5,001,000 as at 31 December 2009 and 31 December 2010 respectively represented outstanding receivable balance for sales of other financial assets. The remaining balance of approximately RMB26,551,000 and RMB50,481,000, respectively as at 31 December 2009 and 2010 represented advances to Beijing New Postcom. The amounts are unsecured, interest free and repayable on demand.

(iv) Amounts due to the fellow subsidiaries are of trade nature, unsecured, interest-free and repayable on demand.

(v) Amount due from a director related to advances made to Ms. Geng Minhua, a director of the PRC Company, who resigned as a director on 8 October 2010.

The loan was interest free with repayable on demand. The balance as at 31 December 2009, 2010 and 2011 approximated to the maximum amount outstanding during the Relevant Periods. The balance is of non-trade nature, unsecured, interest free and repayable on demand.

(c) Compensation of key management personnel of the PRC Company:

	31 December			30 June
	2009	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Short term employee benefits	—	—	257	308

Further details of directors' emoluments are set out in note 9(a) of the Financial Information.

32. FINANCIAL INSTRUMENTS

The carrying amounts of each of the categories of financial instruments as at the end of each of the reporting period are as follows:

Available-for-sale financial asset

	31 December			30 June
	2009	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Unlisted equity investment, at cost	15,000	15,000	15,000	15,000

Financial assets — loans and receivables

	31 December			30 June
	2009	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables *(note 19)*	49,130	100,691	132,965	372,907
Financial assets included in prepayments, deposits and other receivables *(note 21)*	1,562	11,760	208,537	188,868
Amount due from a director *(note 31)*	3,298	—	—	—
Amount due from the immediate holding company *(note 31)*	62,905	115,500	—	—
Amount due from the ultimate holding company *(note 31)*	5,883	28	—	—
Amount due from a fellow subsidiary *(note 31)*	31,552	55,482	—	—
Pledged deposits *(note 22)*	18	818	4,218	2,118
Cash and cash equivalents *(note 22)*	5,861	21,061	3,961	39,995
	160,209	305,340	349,681	603,888

Financial liabilities at amortised cost

	31 December 2009	31 December 2010	31 December 2011	30 June 2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables *(note 23)*	46,702	75,414	83,010	237,152
Financial liabilities included in other payables and accruals *(note 24)*	18,576	8,608	13,820	11,072
Interest-bearing bank and other borrowings *(note 25)*	59,469	190,000	229,643	266,196
Amounts due to fellow subsidiaries *(note 31)*	51,025	45,426	—	—
	175,772	319,448	326,473	514,420

The carrying amounts and fair values of the PRC Company's financial instruments are as follows:

	Carrying amounts				Fair values			
	31 December			30 June	31 December			30 June
	2009	2010	2011	2012	2009	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Financial assets								
Trade receivables	49,130	100,691	132,965	372,907	49,130	100,691	132,965	372,907
Financial assets included in prepayments, deposits and other receivables	1,562	11,760	208,537	188,868	1,562	11,760	208,537	188,868
Amount due from a director	3,298	—	—	—	3,298	—	—	—
Amount due from the immediate holding company	62,905	115,500	—	—	62,905	115,500	—	—
Amount due from the ultimate holding company	5,883	28	—	—	5,883	28	—	—
Amount due from a fellow subsidiary	31,552	55,482	—	—	31,552	55,482	—	—
Pledged deposits	18	818	4,218	2,118	18	818	4,218	2,118
Cash and cash equivalents	5,861	21,061	3,961	39,995	5,861	21,061	3,961	39,995
	160,209	305,340	349,681	603,888	160,209	305,340	349,681	603,888
Financial liabilities								
Trade payables	46,702	75,414	83,010	237,152	46,702	75,414	83,010	237,152
Financial liabilities included in other payables and accruals	18,576	8,608	13,820	11,072	18,576	8,608	13,820	11,072
Interest-bearing bank and other borrowings	59,469	190,000	229,643	266,196	59,469	190,000	229,643	266,196
Amounts due to fellow subsidiaries	51,025	45,426	—	—	51,025	45,426	—	—
	175,772	319,448	326,473	514,420	175,772	319,448	326,473	514,420

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair value of cash and cash equivalents, pledged deposits, trade receivables, financial assets included in prepayments, deposits and other receivables, amount due from a director, amount due from the immediate holding company, amount due from a fellow subsidiary, financial liabilities included in other payables and accruals, trade payables, current portion of interest-bearing bank and other borrowings and amounts due to fellow subsidiaries approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the non-current portion of interest-bearing bank, other borrowings and other payables have been calculated by discounting the expected future cash flows using rates currently available for instruments on similar terms, credit risk and remaining maturities.

The PRC Company did not have any financial assets and financial liabilities measured at fair value during the Relevant Periods.

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The PRC Company's principal financial instruments, other than derivatives, comprise bank loans and overdrafts, other interest-bearing borrowings, and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the PRC Company's operations. The PRC Company has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the PRC Company's financial instruments are business risk, interest rate risk, foreign currency risk, credit risk and liquidity risk. The PRC Company does not have any written risk management policies and guidelines. Generally, the PRC Company introduces prudent strategies on its risk management. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Business risk

The PRC Company conducts its operations in Mainland China, and accordingly, it is subject to special considerations and significant risks. These include risks associated with, among others, the political, economic and legal environment, the influence of national authorities over pricing and the financing regulations in the telecommunications industry.

Interest rate risk

Management does not anticipate any significant impact resulting from the changes in interest rates because most of the PRC Company's loans as at the end of each of the reporting periods were at fixed interest rates which have no significant impact on cash flow interest rate risk.

Foreign currency risk

The PRC Company's businesses are located in Mainland China and most of the transactions are conducted in RMB. Most of the PRC Company's assets and liabilities are denominated in RMB. Fluctuations of the exchange rates of RMB against foreign currencies do not have significant effects on the PRC Company's results. The PRC Company has not hedged its foreign exchange rate risk.

A reasonably possible change of 5% in the exchange rate between the Hong Kong dollar and RMB would have no material impact on the PRC Company's profit or loss during the Relevant Periods and there would have been no material impact on the PRC Company's equity.

Credit risk

The PRC Company trades only with recognised and creditworthy third parties. It is the PRC Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the PRC Company's exposure to bad debts is not significant.

The credit risk of the PRC Company's other financial assets, which comprise cash and cash equivalents, prepayments, deposits and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the PRC Company trades only with recognised and creditworthy third parties, there is no requirement for collateral. There is no significant concentration of credit risk within the PRC Company.

Liquidity risk

The PRC Company monitors its risk of a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of the PRC Company's financial assets (e.g. trade receivables, other financial assets) and projected cash flows from operations.

The maturity profile of the PRC Company's financial liabilities at the end of each of the reporting period, based on the contracted undiscounted payments, is as follows:

	31 December 2009					
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	27,279	19,423	—	—	—	46,702
Financial liabilities included in other payables and accruals	18,576	—	—	—	—	18,576
Interest-bearing bank and other borrowings	—	613	60,167	—	—	60,780
Amounts due to fellow subsidiaries	51,025	—	—	—	—	51,025
	96,880	20,036	60,167	—	—	177,083

	31 December 2010					
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	5,488	69,926	—	—	—	75,414
Financial liabilities included in other payables and accruals	5,696	—	—	2,912	—	8,608
Interest-bearing bank and other borrowings	—	22,747	124,632	54,133	—	201,512
Amounts due to fellow subsidiaries	45,426	—	—	—	—	45,426
	56,610	92,673	124,632	57,045	—	330,960

	31 December 2011					
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	30,908	52,102	—	—	—	83,010
Financial liabilities included in other payables and accruals	13,820	—	—	—	—	13,820
Interest-bearing bank and other borrowings	—	24,321	168,082	50,078	—	242,481
	44,728	76,423	168,082	50,078	—	339,311

	30 June 2012					
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	40,845	196,307	—	—	—	237,152
Financial liabilities included in other payables and accruals	11,072	—	—	—	—	11,072
Interest-bearing bank and other borrowings	—	168,041	103,601	—	—	271,642
	51,917	364,348	103,601	—	—	519,866

Capital management

The primary objectives of the PRC Company's capital management are to safeguard the PRC Company's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The PRC Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the PRC Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

The PRC Company monitors capital using a gearing ratio, which is total short-term borrowings divided by the total assets. The gearing ratios at the end of each of the Relevant Periods were as follows:

	31 December			30 June
	2009	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Total short-term borrowings	59,469	140,000	179,643	266,196
Total assets	436,295	585,983	612,383	840,578
Gearing ratio	14%	24%	29%	32%

III SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the PRC Company in respect of any period subsequent to 30 June 2012.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

MANAGEMENT DISCUSSION AND ANALYSIS OF THE TARGET GROUP

Set out below is the management discussion and analysis of the Target Group for the period from 8 February 2012 (date of incorporation of the Target Company) to 30 June 2012. The following financial information are based on the financial information of the Target Group as set out in Appendix II to this circular.

Business and financial review

For the period from 8 February 2012 to 30 June 2012, the Target Company was an investment holding company. The major assets of the Target Company is the entire issued share capital of the HK Company which in turn holds the entire registered capital of the PRC Company. Business of the Target Group is solely conducted by the PRC Company.

Liquidity and financial resources

As at 30 June 2012, the audited consolidated net assets value of the Target Group was approximately RMB334.4 million and the Target Group had short term bank and other borrowings of approximately RMB266.2 million (which was incurred by the PRC Company). The gearing ratio (total short-term borrowings to total assets) as at 30 June 2012 was 29.1%.

Capital structure

As at 30 June 2012, the issued share capital of the Target Group was US$2 (equivalent to approximately RMB13.0), comprised 2 issued and fully paid ordinary share of US$1 each.

Foreign exchange management

The Target Company is an investment holding company and most of its monetary assets and liabilities were denominated in HK$ whilst incomes and expenses of the PRC Company were denominated in RMB. The Target Group did not use any derivative financial instruments for hedging purposes.

Capital commitment

As at 30 June 2012, the Target Group had a capital commitment contracted but not provided for of approximately RMB92,000 (which was incurred by the PRC Company).

Significant investment, material acquisition and disposals

Other than the investment in the HK Company on 24 February 2012, the Target Group did not have any significant investments, material acquisition or disposal for the period from 8 February 2012 (date of incorporation of the Target Company) to 30 June 2012

Contingent liabilities

As at 30 June 2012, the Target Group did not have any significant contingent liabilities.

Pledge of assets

As at 30 June 2012, the Target Group had pledged the deposits of approximately RMB2.1 million for the PRC Company's contract bidding, which was restricted for use.

Employee information

As at 30 June 2012, the Target Group had 403 employees and remuneration expenses incurred for the period from 8 February 2012 (date of incorporation of the Target Company) to 30 June 2012 was approximately RMB7.4 million (which was mainly due to the employees of the PRC Company).

MANAGEMENT DISCUSSION AND ANALYSIS OF THE PRC COMPANY

Set out below is the management discussion and analysis of the PRC Company for the three years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2011 and 30 June 2012. The PRC Company was incorporated on 14 February 2001. The following financial information are based on the audited financial information of the PRC Company as set out in Appendix III to this circular.

	For the year ended 31 December			**For the six months ended 30 June**	
	2009	**2010**	**2011**	**2011**	**2012**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Revenue	132,494	167,680	315,887	273,367	254,000
Gross profit	104	(4,133)	91,522	87,560	61,338
Net (Loss)/profit for the year/period	(11,450)	(18,761)	40,613	59,033	31,519

	As at 31 December			**As at 30 June**
	2009	**2010**	**2011**	**2012**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Total assets	436,295	585,983	612,383	840,578
Total liabilities	211,027	379,476	365,263	561,939
Net assets value	225,268	206,507	247,120	278,639

Business review and financial review

Comparison of the six months ended 30 June 2012 to the six months ended 30 June 2011

The PRC Company has been principally engaged in (i) the research and development, manufacture and sale of cell phones, which can run on 2G and/or 3G networks such as GSM, IS-95, CDMA2000 and TD-SCDMA in the PRC; (ii) the sale of network equipment (which are produced on an OEM subcontracting basis) to the top three telecommunication services providers in the PRC such as core network equipment, IPRAN and xPON; and (iii) the provision of services to major telecommunication services providers in the PRC, such as the installation, maintenance and upgrade of the network equipment and/or wireless network optimization in the their existing network systems. The above products of the PRC Company are under the brand name "POSTCOM". Such trademark is owned by the previous immediate holding company of the PRC Company and the PRC Company has been authorized to use such trademark without definitive period is not required to pay any fee.

For the six months ended 30 June 2012, the PRC Company recorded a revenue of approximately RMB254.0 million, representing a decrease of approximately 7.1% as compared with approximately RMB273.4 million for the six months ended 30 June 2011. Such decrease was primarily due to the decrease in sales of cell phones from approximately RMB168.6 million in the first half of 2011 to approximately RMB38.0 million in the first half of 2012 as a main customer delayed its group purchase to the second half of 2012.

During the six months ended 30 June 2012, the PRC Company has explored its new business of supplying mobile IP bearer network equipment (such as IPRAN) and optical access products (such as xPON) to major telecommunication network operators in the PRC. Revenue generated from the sale of network equipment including the abovementioned new products accounted for approximately RMB167.2 million, representing approximately 65.8% of the total revenue of the PRC Company during the period. As at 30 June 2012, IPRAN equipment and facilities of the PRC Company have already been installed and in use in 7 provinces in the PRC including Zhejiang, Jiangsu, Fujian, Liaoning, Hebei, Henan and Heilongjiang whilst the xPON equipment and facilities of the PRC Company have already been installed and in use in 2 provinces in the PRC including Guangdong and Jiangsu.

The net profit after taxation of the PRC Company for the six months ended 30 June 2012 was approximately RMB31.5 million, representing a decrease of approximately 46.6% as compared with the approximately RMB59.0 million for the six months ended 30 June 2011. Such decrease was primarily due to the fact that (i) gross profit decreased from approximately RMB87.6 million for the six months ended 30 June 2011 to approximately RMB61.3 million for the six months ended 30 June 2012 which was mainly attributable to the decrease of revenue; and (ii) finance costs increased from approximately RMB6.9 million for the six months ended 30 June 2011 to approximately RMB10.8 million for the six months ended 30 June 2012 as interest-bearing bank and other borrowings increased to maintain the working capital required for the expansion of business.

Year ended 31 December 2011 compared with year ended 31 December 2010

During the year ended 31 December 2011, the PRC Company was principally engaged in (i) the research and development, manufacture and sale of cell phones which can run on 2G and/or 3G networks such as GSM, IS-95, CDMA2000 and TD-SCDMA in the PRC; (ii) the sale of network equipment (which are produced on an OEM subcontracting basis) to the top three telecommunication services providers in the PRC; and (iii) the provision of services to major telecommunication services providers in the PRC, such as the installation, maintenance and upgrade of the network equipment and/or wireless network optimization in the their existing network systems. The above products of the PRC Company are under the brand name

"POSTCOM". Such trademark is owned by the previous immediate holding company of the PRC Company and the PRC Company has been authorized to use such trademark without definitive period is not required to pay any fee.

For the year ended 31 December 2011, the PRC Company recorded a revenue of approximately RMB315.9 million, representing an increase of approximately 88.4% as compared with approximately RMB167.7 million for the year ended 31 December 2010. Such increase was primarily due to (i) the increase in sales of cell phones and other terminals from approximately RMB53.6 million for the year ended 31 December 2010 to approximately RMB168.4 million for the year ended 31 December 2011 as the PRC Company obtained new purchase orders through their competitiveness in research and development and cost advantages; and (ii) the PRC Company expanded its product range during 2011 and began to sell network equipment (which are produced on an OEM subcontracting basis) to the top three telecommunication services providers in the PRC. Revenue generated from this new business during 2011 accounted for approximately RMB6.6 million, representing approximately 2.1% of the total revenue of the PRC Company during the year.

Notwithstanding that the PRC Company (i) increased its investment in research and development from approximately RMB2.0 million for the year ended 31 December 2010 to approximately RMB10.0 million for the year ended 31 December 2011 mainly due to the research and development on cell phones, core network and other network equipment to develop new products; and (ii) increased the usage of short term interest-bearing bank and other borrowings to maintain the working capital requirement for the expansion of business which resulted in the increase in finance costs from approximately RMB7.6 million for the year ended 31 December 2010 to approximately RMB14.4 million for the year ended 31 December 2011, the PRC Company was able to recorded a net profit after taxation for the year ended 31 December 2011 in contrast to the net loss recorded during the year ended 31 December 2010. The net profit after taxation of the PRC Company for the year ended 31 December 2011 was approximately RMB40.6 million, representing an increase as compared with the net loss after taxation of approximately RMB18.8 million for the year ended 31 December 2010. Such increase was primarily due to the fact that the PRC Company recorded a gross profit of approximately RMB91.5 million as compared with the gross loss of RMB4.1 million recorded during the year ended 31 December 2010 due to the achievement of economies of scale.

During the year ended 31 December 2011, most of the revenue of the PRC Company was recorded during the first half of 2011 mainly due to (i) the completion of bulk purchase order of cell phones with significant amount by a PRC major telecommunication services provider; and (ii) PRC telecommunication services providers reduced their purchase during the second half of 2011. Therefore, the PRC Company incurred a net loss of approximately RMB18.4 million during the second half of 2011 as compared with the net profit of approximately RMB59.0 million during the first half 2011.

Year ended 31 December 2010 compared with year ended 31 December 2009

During the year ended 31 December 2010, the PRC Company was principally engaged in (i) the research and development, manufacture and sale of cell phones under the brand name "POSTCOM", which can run on 2G and/or 3G networks such as GSM, IS-95, CDMA2000 and TD-SCDMA in the PRC; and (ii) the provision of services to major telecommunication services providers in the PRC, such as the installation, maintenance and upgrade of the network equipment and/or wireless network optimization in the their existing network systems.

For the year ended 31 December 2010, the PRC Company recorded a revenue of approximately RMB167.7 million, representing an increase of approximately 26.6% as compared with RMB132.5 million for the year ended 31 December 2009. Such increase was primarily due to (i) revenue in respect of the sales of terminal products increased to approximately RMB53.6 million for the year ended 31 December 2010 from approximately RMB7.2 million for the year ended 31 December 2009 as the PRC Company increased their investment in the marketing activities of cell phones which in turn brought more purchase orders; and (ii) revenue from provision of base station service increased to approximately RMB61.5 million for the year ended 31 December 2010 from approximately RMB20.2 million for the year ended 31 December 2009 due to the increase of marketing activities.

The net loss after taxation of the PRC Company for the year ended 31 December 2010 was approximately RMB18.8 million as compared with the net loss after taxation of approximately RMB11.5 million for the year ended 31 December 2009. Such change was primarily due to the fact that (i) the PRC Company expanded its production capacity and improved its services by increasing its capital expenditure and recruiting more service staff which caused the increase of the cost of sales and the gross loss of approximately RMB4.1 million recorded; (ii) selling and distribution costs increased from approximately RMB1.0 million for the year ended 31 December 2009 to approximately RMB5.3 million for the year ended 31 December 2010 as the PRC Company increased its marketing activities to expand the customer base and market shares; (iii) administrative expenses increased from approximately RMB7.7 million for the year ended 31 December 2009 to approximately RMB13.0 million for the year ended 31 December 2010 as the PRC Company improved its administration by increasing employment investment in recruiting professional parties and purchasing fixed assets in relation to administration; and (iv) finance costs increased from approximately RMB1.8 million for the year ended 31 December 2009 to approximately RMB7.6 million for the year ended 31 December 2010 due to the increase of short term interest-bearing bank and other borrowings so as to maintain the working capital requirement for the expansion of business.

For the year ended 31 December 2009

During the year ended 31 December 2009, the PRC Company was principally engaged in (i) the research and development, manufacture and sale of cell phones under the brand name "POSTCOM", which can run on 2G and/or 3G networks such as GSM and TD-SCDMA in the PRC; and (ii) the provision of services to major telecommunication services providers in the PRC, such as the installation, maintenance and upgrade of the network equipment and wireless network optimization in the their existing network systems.

For the year ended 31 December 2009, the PRC Company recorded revenue of approximately RMB132.5 million primarily due to the revenue generated by the provision of service to customers such as the installation, maintenance and upgrade of the network equipment and/or wireless network optimization in the their existing network systems of approximately RMB105.1 million and the sales of the cell phones and other terminals decreased due to the lingering negative influence of the global economic crisis.

The net loss after taxation of the PRC Company for the year ended 31 December 2009 was approximately RMB11.5 million which primarily due to the fact that (i) The PRC Company has not yet achieved the economies of scale for its sale of cell phones and other terminal products to cover the fixed cost; (ii) sales of network equipment represented a significant portion of the total sale of the PRC Company for the year ended 31 December 2009 but the gross profit margin of which is relatively low; and (iii) expenses in the research and development increased as the PRC Company tried to maintain its technology edge.

Liquidity and financial resource

As at 31 December 2009, 2010 and 2011 and 30 June 2012, the PRC Company had (a) trade and other payables and accruals of approximately RMB79.0 million, RMB119.6 million, RMB107.7 million, and RMB267.3 million respectively; (b) short term bank and other borrowings amounting to approximately RMB59.5 million, RMB140.0 million, RMB179.6 million and RMB266.2 million respectively. During the six months ended 30 June 2012, the effective interest rate was between 6.10% and 8.53% per annum.

As at 31 December 2009, 2010 and 2011 and 30 June 2012, the PRC Company had (a) trade receivables of approximately RMB49.1 million, RMB100.7 million, RMB133.0 million, and RMB372.9 million respectively; (b) cash and bank balances of approximately RMB5.9 million, RMB21.1 million, RMB4.0 million and RMB40.0 million respectively.

Set out below is the summary of liquidity ratio of the PRC Company as at 30 June 2012, 31 December 2011, 31 December 2010 and 31 December 2009:

	As at 31 December			**As at 30 June**
	2009	**2010**	**2011**	**2012**
Current ratio *(Note 1)*	1.04 times	1.11 times	1.28 times	1.13 times
Quick ratio *(Note 2)*	0.88 times	0.98 times	0.51 times	0.78 times
Debtors' turnover days *(Note 3)*	102 days	163 days	135 days	182 days
Creditors' turnover days *(Note 4)*	222 days	130 days	129 days	152 days
Inventory turnover days *(Note 5)*	38 days	51 days	21 days	3 days

Note:

1. Current ratio is calculated as current assets divided by current liabilities.

2. Quick ratio is calculated as current assets (less inventories, prepayment, deposits and other receivables and pledged deposits) divided by current liabilities.

3. Debtors' turnover days is calculated as average balance of trade receivables divided by the revenue during the respective year/period and multiplied by the number of days during the respective year/period.

4. Creditors' turnover days is calculated as average balance of trade payables divided by the cost of sales during the respective year/period and multiplied by the number of days during the respective year/period.

5. Inventory turnover days is calculated as average balance of inventories divided by the cost of sales during the respective year/period and multiplied by the number of days during the respective year/period.

Capital structure

Set out below is the key ratio in respect of the capital structure of the PRC Company as at 31 December 2009, 2010 and 2011 and 30 June 2012:

	As at 31 December			As at 30 June
	2009	**2010**	**2011**	**2012**
Shareholders' equity ratio *(Note 6)*	0.52 times	0.35 times	0.40 times	0.33 times
Gearing ratio *(Note 7)*	0.14 times	0.24 times	0.29 times	0.32 times

Note:

6. Shareholders' equity ratio is calculated as total equity divided by total assets.

7. gearing ratio is calculated as total short-term borrowings divided by total assets.

Foreign exchange management

As the incomes and expenses of the PRC Company were denominated in RMB, the management expected there were not any significant currency risk arising from the operating activities of the Target Group.

Capital commitment

As at 31 December 2009, 2010 and 2011 and 30 June 2012, the PRC Company had capital commitments contracted and not provided for of approximately RMB3.2 million, RMB2.8 million, RMB0.7 million and RMB92,000 respectively.

Significant investments, material acquisitions and disposals

As at 31 December 2009, 2010 and 2011 and 30 June 2012, the PRC Company (i) neither had any other significant investments nor any future plans for material investments or capital assets; and (ii) had not entered into any material acquisitions and/or disposals of any of its subsidiaries and associated companies.

Contingent liabilities

As at 31 December 2009, 2010 and 2011 and 30 June 2012, the PRC Company did not have any significant contingent liabilities.

Pledge of assets

As at 31 December 2009 and 2011, certain land use rights of the PRC Company with an aggregate amount of approximately RMB36.6 million and RMB35.1 million respectively was pledged to secure interest-bearing and other borrowings. As at 30 June 2012, the PRC Company had pledged time deposits of approximately RMB2.1 million for contract bidding, which was restricted as to use.

Employee information

Given that the PRC Company's principal business of research and development and manufacture and sales of the cell phones and network equipment and the provision of relevant services requires intensive staff, staff cost also accounted for a significant percentage of the total cost and expenses of PRC Company. The total amount of the staff cost included, but not limited to, salary, basic medical insurance, basic pension scheme and housing funds for the years ended 31 December 2009, 2010 and 2011 and for the six months ended 30 June 2012 were approximately RMB7.9 million, RMB16.8 million, RMB27.2 million and RMB10.3 million respectively, which accounted for approximately 5.4%, 8.4%, 9.9% and 4.7% of the total cost and expenses, respectively.

The average number of employees of the PRC Company is as follows:

	For the year ended 31 December			For the six months ended 30 June
	2009	**2010**	**2011**	**2012**
Research and development	13	15	41	43
Production	189	362	449	248
Sales and marketing	8	20	20	17
Management and Administration	43	77	97	93
Total	253	474	607	401

(C) FINANCIAL AND TRADING PROSPECTS OF THE TARGET GROUP

The PRC Company has been principally engaged in (i) the research and development, manufacture and sale of cell phones under its own brand name, which can run on 2G and/or 3G networks such as GSM, IS-95, CDMA2000 and TD-SCDMA in the PRC; (ii) the sale of network equipment to the top three telecommunication services providers in the PRC under its own brand name, such as core network equipment, IPRAN and xPON; and (iii) the provision of services to major telecommunication services providers in the PRC, such as the installation, maintenance and upgrade of the network equipment and/or wireless network optimization in the their existing network systems.

For the six months ended 30 June 2012, the PRC Company recorded a revenue of approximately RMB254.0 million, representing a decrease of approximately 7.1% as compared with approximately RMB273.4 million for the six months ended 30 June 2011. The net profit after taxation of the PRC Company for the six months ended 30 June 2012 was approximately RMB31.5 million, representing a decrease of approximately 46.6% as compared with the approximately RMB59.0 million for the six months ended 30 June 2011. Although the PRC Company was adversely affected by the decrease in sales of its cell phones, the PRC Company has explored its new business of supply of mobile IP bearer network facilities (such as IPRAN) and optical access products (such as xPON) to major telecommunication network operators in the PRC.

In view of that the PRC has experienced significant growth in the telecommunication industry over the past few years and the Twelfth Five Year Plan of the PRC also set out the milestone of advancement in the PRC information technology from 2015 to 2020 such as the upgrade in information network for broadband (fixed-line or mobile) and transition to 4G telecommunication technology (i.e. FDD-LTE and TDD-LTE), the management of the PRC Company considers the aforesaid may facilitate the growth in the PRC information technology industry.

The PRC Company plans to intensify its investment in the sales and research and development in the area of communication, such as research and development and manufacture of wireless communication system devices and wireless terminal devices, and kept improving the services for wireless network planning and upgrading to maintain its technology and market advantages.

A. THE UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGE GROUP

The following unaudited pro forma statement of assets and liabilities of the Enlarged Group (the "Unaudited Pro Forma Statement of Assets and Liabilities") has been prepared in accordance with paragraph 29 of Chapter 4 of the Listing Rules for the purpose of illustrating the effect of the proposed acquisition of the entire issued share capital of Rosy Sun Investments Limited (the "Acquisition") on the Group as if the Acquisition had been completed on 30 June 2012.

The preparation of the Unaudited Pro Forma Statement of Assets and Liabilities is based on (1) the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2012 which has been extracted from the published interim report of the Group for the six months ended 30 June 2012 and (2) the audited consolidated statement of financial position of Rosy Sun Investments Limited ("Target Company") and its subsidiaries (hereinafter collectively referred to as the "Target Group") as set out in Appendix II to this circular after making pro forma adjustments that are (i) directly attributable to the Acquisition and (ii) factually supportable, as summarised in the accompanying notes.

The Target Company proposed to be acquired by the Group is currently wholly owned by Mr. Chi Shaolin ("Mr. Chi"), the controlling shareholder of the Company, who acquired the entire shareholding in, and a shareholder's loan to, the Target Company from an independent third party (the "Vendor") on 13 June 2012 and has obtained control in the Target Company since 13 June 2012. As a result, if the Acquisition of the Target Company by the Group from Mr. Chi were to be completed as at 30 June 2012, the Directors of the Company consider that it would be a business combination under common control as at that time and before and after the Acquisition, both the Company and the Target Company were continued to be ultimately controlled by Mr. Chi.

Since business combination under common control is outside the scope of International Financial Reporting Standard ("IFRS") 3 Business Combinations, the Group has developed its accounting policy for business combination under common control in accordance with International Accounting Standard ("IAS") 8 Accounting Policies, Changes in Accounting Estimates and Errors and applied the principle of merger accounting, which was adopted since the preparation of its listing document issued in 2010. The Directors of the Company believe it appropriate to consistently apply merger accounting for the Acquisition which is under common control.

In applying merger accounting, the financial information incorporates the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party. The net assets of the combining entities or businesses are combined using the existing book values from the controlling party's perspective.

The statement of comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

As a result, in preparation of the Unaudited Pro Forma Financial Statement of Assets and Liabilities assuming the application of merger accounting for the Acquisition, the deemed acquisition date as at 30 June 2012 is ignored. Instead, unaudited pro forma adjustments for the combination of the Target Group have been prepared by restating the Group's financial information as if the Target Company has been acquired by the Group on 13 June 2012, the date when Mr. Chi obtained control over the Target Company, and combining the net assets of the Target Group using the fair value as allocated by Mr. Chi on 13 June 2012 from Mr. Chi's perspective.

The actual accounting treatment and the resulting financial impact for the Acquisition when it is completed, if at all, may differ significantly from presently presented as it depends on, among other things, whether the Group and the Target Group are continued to be ultimately controlled by Mr. Chi before and after the Acquisition, which are beyond the Group's control. Should acquisition method under IFRS 3 be applied instead of merger accounting, the acquisition date will be based on the actual date when the Group obtains control over the Target Company, and the net assets of the Target Group would be consolidated by the Group from that date based on the fair value of the net assets of the Target Group as at that day, the financial impact of which cannot be reasonably estimated as at the date of issue of this circular.

The Unaudited Pro Forma Statement of Assets and Liabilities has been prepared by the directors of the Company for illustrative purpose and is based on a number of assumptions, estimates and uncertainties. Given its hypothetical nature, it may not give a true picture of the financial position of the Group or purport to describe the actual financial position of the Enlarged Group that would have been attained had the Acquisition been completed at 30 June 2012, nor does it purport to predict the financial position of the Enlarged Group at any future date.

The Unaudited Pro Forma Statement of Assets and Liabilities should be read in conjunction with the historical financial information of the Group as set out in the published interim report of the Group for the six months ended 30 June 2012 and other financial information included elsewhere in this circular.

The unaudited pro forma statement of assets and liabilities of the Enlarged Group

	The Group as at 30 June 2012	The Target Group as at 30 June 2012	Reclassification adjustment of the Target Group	Fair value and deferred tax adjustments on net assets of the Target Group	Adjustment for goodwill and the consideration payable for the Acquisition	Adjustment for transaction costs	Adjustment for depreciation/ amortisation on the fair value adjustment of identifiable assets and liabilities of the Target Group	Pro forma statement of assets and liabilities of the Enlarged Group
	Note 1	*Note 2*	*Note 4*	*Note 5*	*Note 6*	*Note 7*	*Note 8*	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(unaudited)	(audited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Non-current Assets								
Property, plant and equipment	723,530	58,057	—	1,534	—	—	(5)	783,116
Prepaid lease payments	47,032	44,170	—	888	—	—	(1)	92,089
Intangible assets	29,061	168,168	—	62,724	—	—	(14,054)	245,899
Goodwill	5,923	—	—	—	48,993	—	—	54,916
Deferred tax assets	12,914	4,132	—	—	—	—	—	17,046
Available-for-sale investment	—	15,000	—	—	—	—	—	15,000
	818,460	289,527	—	65,146	48,993	—	(14,060)	1,208,066
Current Assets								
Inventories	305,981	292	—	—	—	—	—	306,273
Trade and other receivables	1,079,214	—	562,154	—	—	—	—	1,641,368
Trade receivables	—	372,907	(372,907)	—	—	—	—	—
Amounts due from customers for contract works	—	12,460	—	—	—	—	—	12,460
Prepayments, deposits and other receivables	—	190,238	(190,238)	—	—	—	—	—
Prepaid lease payments	1,014	—	991	—	—	—	—	2,005
Pledged bank deposits	30,713	2,118	—	—	—	—	—	32,831
Other financial assets	17,002	—	—	—	—	—	—	17,002
Bank balances and cash	105,093	48,429	—	—	—	—	—	153,522
	1,539,017	626,444	—	—	—	—	—	2,165,461
Current Liabilities								
Trade and other payables	421,642	—	276,896	—	—	5,560	—	704,098
Trade payables	—	237,152	(237,152)	—	—	—	—	—
Amounts due to customers for contract works	—	4,103	—	—	—	—	—	4,103
Other payables and accruals	—	30,286	(30,286)	—	—	—	—	—
Amount due to a shareholder	—	9,458	(9,458)	—	—	—	—	—
Other financial liabilities	4,699	—	—	—	—	—	—	4,699
Income tax liabilities	9,110	10,133	—	—	—	—	—	19,243
Bank and other borrowings	790,667	266,196	—	—	—	—	—	1,056,863
	1,226,118	557,328	—	—	—	5,560	—	1,789,006
Net Current Assets	312,899	69,116	—	—	—	(5,560)	—	376,455
Total Assets less Current Liabilities	1,131,359	358,643	—	65,146	48,993	(5,560)	(14,060)	1,584,521
Non-current Liabilities								
Deferred tax liabilities	9,315	9,994	—	9,772	—	—	(2,109)	26,972
Government grants	—	14,218	—	—	—	—	—	14,218
Other financial liability	—	—	—	—	428,903	—	—	428,903
	9,315	24,212	—	9,772	428,903	—	(2,109)	470,093
Net assets	1,122,044	334,431	—	55,374	(379,910)	(5,560)	(11,951)	1,114,428

Notes to the unaudited pro forma statement of assets and liabilities of the Enlarged Group

1. The carrying amounts of the assets and liabilities of the Group are extracted from the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2012 set out in the published interim report of the Group for the six months ended 30 June 2012.

2. The carrying amounts of the assets and liabilities of the Target Group are extracted from the Accountants' Report of the Target Group as set out in Appendix II of this circular.

3. The Acquisition deemed as completed on 30 June 2012 is considered as a business combination under common control because the Company and the Target Company were continued to be ultimately controlled by Mr. Chi before and after the transaction. Accordingly, the Directors of the Company believe it appropriate to account for the Acquisition using the principle of merger accounting that is consistent with the Group's current accounting policy for business combination under common control.

4. The adjustment represents the reclassification of the Target Group accounts to conform with the presentation format of the Group.

5. The Target Group was acquired by Mr. Chi from the Vendor on 13 June 2012. Thus, the assets and liabilities of the Target Group are included in the Unaudited Pro Forma Statement of Assets and Liabilities from the date when the Target Group first came under the control of Mr. Chi on 13 June 2012 using the acquisition values recognised by Mr. Chi on that date. The fair values of the identifiable assets and liabilities as at 13 June 2012, were determined on a provisional basis by making reference to a valuation carried out on that date by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent professional qualified valuer not connected to the Group.

	RMB'000
Carrying amount of net asset value of the Target Group as at 13 June 2012	61,212
Add:	
Fair value adjustments on:	
Property, plant and equipment	1,534
Intangible assets *(note (a) below)*	62,724
Prepaid lease payments	888
Adjustment for deferred tax liabilities	(9,772)
Fair value of net assets acquired in the Acquisition	116,586

Note (a):

Adjustment for intangible assets comprises:

Technology know-how	84
Patents	167
Right to use trademarks	1,268
Customer contracts	29,793
Customer relationship	31,412
	62,724

6. Goodwill is determined from Mr. Chi's perspective as at 13 June 2012 when Mr. Chi obtained control over the Target Company, calculated as the difference between the item (a) and item (b) below which are also determined as at 13 June 2012:

(a) The fair value of consideration payable which comprises:

(i) Non-interest bearing promissory notes issued by Mr. Chi with aggregate principal value of HK$650,000,000 which is repayable to the Vendor in accordance with a repayment schedule that requires full repayment in five years from the date of issuance of the promissory notes; and

(ii) Profit guarantees by the Vendor for each of the year ending 31 December 2012 and 2013.

(b) The aggregate amount of the business and assets being acquired which comprises:

(i) The fair value of the net assets of the Target Group (as calculated in note 5 above); and

(ii) The fair value of shareholder's loan due to the Vendor by the Target Company of approximately RMB263,324,000, which the Directors of the Company consider approximate to its carrying amount and principal amount as at 13 June 2013.

The fair value of item (a)(i) above is estimated by the Directors of the Company based on a repayment schedule agreed between Mr. Chi and the Vendor which requires repayment of HK$400,000,000, HK$150,000,000 and HK$100,000,000 in June 2015, 2016 and 2017, respectively. The fair value of such promissory notes have been determined by discounting the aggregate principal amount using an effective interest rate and estimated to be HK$525,900,000 (equivalent to approximately RMB428,903,000). The fair value of item (a)(ii) above is considered to be insignificant by the Directors of the Company after making reference to valuation report by Jones Lang LaSalle Corporate Appraisal and Advisory Limited.

For the Acquisition of the Target Company from Mr. Chi by the Group, the consideration is similar to those payable by Mr. Chi to the Vendor as discussed in item (a) above except that there is no fixed repayment schedule for the HK$650,000,000 promissory notes to be issued by the Company to Mr. Chi before maturity of the promissory notes in five years from date of issuance, and that there is no profit guarantee required in respect of the year ending 31 December 2012. As the Directors of the Company expect to repay promissory notes to Mr. Chi by installments in a manner that corresponds to the repayment schedule agreed between the Vendor and Mr. Chi as discussed above, and that the fair value of the profit guarantee is considered insignificant, the Directors of the Company considered that Acquisition would be transacted at terms similar to those between Mr. Chi and the Vendor and that no deemed distribution or deemed contribution would be resulted from the Acquisition.

Therefore, goodwill arising from the acquisition of the Target Company and the shareholder's loan by Mr. Chi, recognised by the Group upon completion of the Acquisition, is calculated as follows:

	RMB'000
Consideration transferred	428,903
Less:	
Shareholder's loan acquired (capitalised as equity of the Target Group on 18 June 2012)	263,324
Fair value of net assets acquired	116,586
Goodwill	48,993

The Directors of the Company estimated that the carrying amount of the promissory note included in non-current other financial liability as at 30 June 2012 approximate to that as at 13 June 2012 as the impact of the interest accretion for the period between 13 June 2012 to 30 June 2012 using the effective interest rate is considered insignificant.

The actual fair value of the consideration payable by the Group to Mr. Chi when the Acquisition is completed, if at all, may differ significantly from presently presented as it depends on, among other things, the effective interest rate at the time and the remaining dates from date of completion to the respective expected repayment dates of the promissory note as detailed above. In addition, the Company can repay promissory note to Mr. Chi at its discretion during the period from date of issuance to maturity which is in five years from the date of issuance. As a result, if the Group decides to repay promissory note to Mr. Chi earlier or later than presently estimated by the Directors of the Company which corresponds with the repayment by Mr. Chi to the Vendor, it may have the effect of changing the carrying amount of the Group's obligation to Mr. Chi and resulting in deemed distribution or deemed contribution. The actual financial impact of the above cannot be reasonably estimated at the date of issue of this circular.

Also, the Directors of the Company have assessed impairment of goodwill in accordance with the Group's accounting policy that complies with IAS 36 Impairment of assets. The Directors of the Company have allocated goodwill arising from the Acquisition to the Target Group which is considered to be a cash generating unit for the purpose of goodwill impairment assessment. The recoverable amount of the Target Group is based on fair value less cost to sell as estimated by the Directors of the Company and the Directors of the Company consider that no impairment of the goodwill as at 30 June 2012 is necessary.

7. The adjustment represents the payment of estimated Acquisition-related costs including advisory, legal, accounting, valuation and other professional fees directly attributable to the Acquisition of approximately RMB5,560,000.

8. The adjustments represent additional depreciation or amortisation of the assets and related adjustment in deferred tax liabilities recognised for the period from 13 June 2012 to 30 June 2012 as a result of fair value adjustments recognised in note 5 above.

9. No adjustments have been made to reflect any results or transactions of the Group and the Target Group entered into subsequent to 30 June 2012.

B. REPORT ON THE UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

The following is the text of a report received from the Company's reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

Deloitte.
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ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

TO THE DIRECTORS OF HL TECHNOLOGY GROUP LIMITED

We report on the unaudited pro forma financial information of HL Technology Group Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the proposed acquisition of the entire issued share capital of Rosy Sun Investments Limited might have affected the unaudited pro forma statement of assets and liabilities presented, for inclusion in section A of Appendix V of the circular dated 31 December 2012 (the "Circular"). The basis of preparation of the unaudited pro forma statement of assets and liabilities is set out in section A of Appendix V to the Circular.

Respective responsibilities of directors of the Company and reporting accountants

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma statement of assets and liabilities in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the unaudited pro forma statement of assets and liabilities and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma statement of assets and liabilities beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma statement of assets and liabilities with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma statement of assets and liabilities has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the unaudited pro forma statement of assets and liabilities as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The unaudited pro forma statement of assets and liabilities is for illustrative purpose only, based on the judgments and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in future and may not be indicative of the financial position of the Group as at 30 June 2012 or any future date.

Opinion

In our opinion:

(a) the unaudited pro forma statement of assets and liabilities has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma statement of assets and liabilities as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

31 December 2012

The following is the text of a letter prepared for inclusion in this circular, received from Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent business valuer, in connection with the valuation as at 26 October 2012 of the fair value of 100% equity interest in Shenyang New Postcom Co., Ltd. (the "PRC Company").

JONES LANG LASALLE 仲量聯行

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31 December 2012

Dear Sirs,

In accordance with the instructions received from HL Technology Group Limited ("HL Technology" or the "Company"), we have undertaken a valuation exercise which requires Jones Lang LaSalle Corporate Appraisal and Advisory Limited to express an independent opinion on the fair value of 100 per cent Equity Interest in Shenyang New Postcom Co., Ltd (the "PRC Company") as at 26 October 2012 (the "Valuation Date"). This letter summarizes the principal conclusions stated in our valuation report dated 31 December 2012.

The purpose of this valuation is to express an independent opinion of the fair value of the equity interest in the PRC Company as at 26 October 2012 for acquisition reference, which does not include the fair value of the loan portion (if any) of the total investment of the PRC Company.

Our valuation was carried out on a fair value basis. Fair value is defined as "*the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction*".

INTRODUCTION

Shenyang New Postcom Co., Ltd. was founded in 2001. It is an equipment producer and service provider in telecommunication industry, and is currently one of the major services providers in the PRC. The company is principally engaged in the research, development, manufacture and sale of cell phones under its own brand name through the top three telecommunication services providers; the sale of network equipment to some channel distributors; and the provision of customized services to major telecommunication operators in PRC. It has a research and development centre in Shenyang, the PRC for the in-house research, design and development of telecommunication products.

On 28 October 2012, the Company entered into the S&P Agreement with the Vendor. Pursuant to the S&P Agreement (as supplemented by the Supplemental Agreement entered into by the Company and the Vendor dated 28 December 2012), the Vendor has conditionally agreed to sell and the Company has conditionally agreed to purchase the Sale Shares and the Shareholder's Loan (if any) at a consideration of HK$650 million — same amount of consideration the Vendor paid to acquire the entire equity interest in the Target Company on 13 June 2012. The Consideration shall be satisfied at Completion by the Company issuing to the Vendor (or such other person as the Vendor may nominate in writing) the Promissory Note.

VALUATION METHODOLOGY

Given the unique characteristics of the asset, there are substantial limitations for the income approach and the cost approach for valuing the underlying asset. Firstly, the income approach requires subjective assumptions to which the valuation is highly sensitive. Detailed operational information and long-term financial projections are also needed to arrive at an indication of value but such information is not available as at the Valuation Date. Secondly, the cost approach does not directly incorporate information about the economic benefits contributed by the subject business.

In view of the above, we have adopted the market approach for the valuation. The Market Approach considers prices recently paid for similar assets, with adjustments made to market prices to reflect condition and utility of the appraised assets relative to the market comparative. Assets for which there is an established secondary market may be valued by this approach. Benefits of using this approach include its simplicity, clarity, speed and the need for few or no assumptions. It also introduces objectivity in application as publicly available inputs are used.

In this valuation exercise, the fair value of the 100% equity interest of the PRC Company was developed through the application of the market approach technique known as the guideline public company method. This method requires the research of comparable companies' benchmark multiples and proper selection of a suitable multiple to derive the fair value of the Target. In order to reflect the PRC Company's latest financial performance and given the availability of operational details for projecting the forecasted net profit attributable to owners in 2012, it is considered that the suitable multiple in this valuation is the 2012 forecast price to earnings ratio ("2012 Forecast P/E Ratio"), which is defined as the current market price to forecasted net profit attributable to owners of the PRC Company in 2012 in this case.

BASIS OF OPINION

We have conducted our valuation in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board and with reference to the International Valuation Standards issued by the International Valuation Standards Council. The valuation procedures employed include a review of legal status and economic condition of the PRC Company and an assessment of key assumptions, estimates, and representations made by the proprietor. All matters essential to the proper understanding of the valuation are disclosed in this valuation report.

The following factors form an integral part of our basis of opinion:

- The economic outlook in general;
- The nature of business and history of the operation concerned;
- The financial condition and projected financial performance of the PRC Company;
- Market-driven investment returns of companies engaged in similar lines of business;

- Financial and business risk of the business including continuity of income and the projected future results;

- Consideration and analysis on the micro and macro economy affecting the subject asset;

- Analysis on tactical planning, management standard and synergy of the subject asset; and

- Assessment of the leverage and liquidity of the subject asset.

We planned and performed our valuation so as to obtain all the information and explanations that we considered necessary in order to provide us with sufficient evidence to express our opinion on the PRC Company.

VALUATION ASSUMPTIONS

In determining the value of the equity interest in the PRC Company, we make the following key assumptions:

- We have assumed that the projected business can be achieved with the effort of the management of the PRC Company and the Company;

- In order to realize the growth potential of the business and maintain a competitive edge, additional manpower, equipment and facilities are necessary to be employed. For this valuation exercise, we have assumed that the facilities and systems proposed are sufficient for future expansion;

- We have assumed that there will be no material change in the existing political, legal, technological, fiscal or economic conditions, which might adversely affect the business of the Target;

- We have assumed that the operational and contractual terms stipulated in the relevant contracts and agreements will be honored;

- We have been provided with copies of the operating licenses and company incorporation documents. We have assumed such information to be reliable and legitimate. We have relied to a considerable extent on such information provided in arriving at our opinion of value;

- We have assumed the accuracy of the financial and operational information provided to us by the PRC Company and the Company and relied to a considerable extent on such information in arriving at our opinion of value;

- We have assumed the capital structure of the PRC Company will not change; and

- We have assumed that there are no hidden or unexpected conditions associated with the asset valued that might adversely affect the reported value. Further, we assume no responsibility for changes in market conditions after the Valuation Date.

Major Assumptions

Assumptions which have significant effect on the calculation of the fair value of the 100 per cent equity interest in the PRC Company under the market approach are listed as follows:

Forecast Period and Projection Period

Following our discussion with the management of the Target and the Company, a forecast period covering 1 January 2012 to 31 December 2012 is adopted as the forecast period (the "Forecast Period").

Forecasted Turnover

Based on management's forecast, the forecasted revenue of the PRC Company for the Forecast Period is estimated at RMB658 million. The revenue is generated from the manufacturing and sales of cell phones and network equipment and related software; and the provision of services to telecommunication services providers in the PRC.

Forecasted Gross Profit

Based on management's forecast, the gross profit for the Forecast Period is estimated at RMB138 million.

Forecasted Net Profit attributable to Owners of the PRC Company

Based on the historical financials and above assumptions, the forecasted net profit attributable to owners of the PRC Company for the Forecast Period is estimated at RMB66 million.

Exchange Rate

As at the Date of Valuation, the exchange rate between Renminbi and Hong Kong Dollar is 1.2402 HKD/RMB.

MARKET MULTIPLE

In determining the financial multiple, a list of comparable companies was identified. The selection criteria include the followings:

The companies derive most, if not all, of their revenues from the same industry of the PRC Company, i.e., manufacturing and sales of cell phones and network equipment, and the provision of services to telecommunication services providers in the PRC;

The comparable companies are searchable in Bloomberg;

The comparable companies are publicly listed; and

Sufficient data, including estimated 2012 P/E, on the companies are available.

The comparable companies satisfying the above criteria are:

Ticker	Name	Forecast 2012 P/E Ratio
763 HK	ZTE Corporation	92.08
2342 HK	Comba Telecom Systems	18.86
2369 HK	China Wireless Technologies Limited	13.83
1155 HK	Centron Telecom International Holdg Ltd.	2.33
552 HK	China Communications Services Corp. Ltd.	10.40
600498 CH	Fiberhome Telecommunication Tech. Co. Ltd	18.79
ERIC US	Ericsson	16.80

The forecast P/E ratio of ZTE Corporation (763 HK) is considered to be an outlier compared to the other companies and is therefore excluded from the calculation. The 2012 forecast P/E ratios of Fiberhome (600498 CH) and Ericsson (ERIC US) are also excluded as they are not listed in Hong Kong. The mean of the 2012 forecast P/E ratio is then calculated at 11.35 and adopted as the 2012 Forecast P/E Ratio for the PRC Company.

ADDITIONAL CONSIDERATION

Discount for Lack of Marketability (DLOM)

The concept of marketability deals with the liquidity of an ownership interest, that is how quickly and easily it can be converted to cash if the owner chooses to sell. The lack of marketability discount reflects the fact that there is no ready market for shares in privately held companies which are typically not readily marketable compared to similar interest in public companies. Therefore, a share of stock in a privately held company is usually worth less than an otherwise comparable share in a publicly held company.

We have assessed the DLOM of this investment using put option method. The concept is that when comparing a public share and a private share, holder of a public share has the ability to sell the shares (i.e. a put option) to the stock market right away. As the time to a liquidity event getting shorter, the degree of the DLOM becomes smaller.

We have adopted Black Scholes Option Pricing Model with the following parameters to estimate the Discount for Lack of Marketability.

Parameters	26 October 2012	Remarks
Option Type	European Put	
Spot Price	1.00	
Exercise Price	1.00	
Risk Free Rate	3.03%	*Yield Rate on 2-Year CNY China Government BFV Curve*
Volatility	51.29%	*With reference to comparable companies*
Maturity	2 Years	
Implied DLOM	**24.64%**	

Applying the DLOM at 24.64% to the 2012 Forecast P/E Ratio at 11.35 results in an effective forecast P/E ratio at 8.5534 (the "Effective Forecast P/E Ratio").

The 100% equity value of the PRC Company is then produced based on the Forecasted Net Profit attributable to Owners of the PRC Company and the Effective Forecast P/E Ratio. The result is as follow:

Forecasted Net Profit attributable to Owners of the PRC Company	RMB66,000,000
Effective 2012 Forecast P/E Ratio	8.5534
100% Equity Value	RMB564.5 million Or HKD700.1 million

LIMITING CONDITIONS

The conclusion of value is based on accepted valuation procedures and practices that rely substantially on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained. Further, while the assumptions and other relevant factors are considered by us to be reasonable, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the PRC Company, the Company and Jones Lang LaSalle Corporate Appraisal and Advisory Limited.

We do not intend to express any opinion on matters which require legal or other specialized expertise or knowledge, beyond what is customarily employed by valuers. Our conclusions assume continuation of prudent management of the PRC Company over whatever period of time that is reasonable and necessary to maintain the character and integrity of the assets valued.

Based on the results of our investigations and analyses, we are of the opinion that as at 26 October 2012 the fair value of 100% equity interest in the PRC Company is reasonably stated at the amount of **HK$700,000,000** (**HONG KONG DOLLAR SEVEN HUNDRED MILLION**).

Yours faithfully,
For and on behalf of
Jones Lang LaSalle
Corporate Appraisal and Advisory Limited
Simon M.K. Chan
Regional Director

Note: Simon M.K. Chan is a CPA Fellow member of the Hong Kong Institute of Certified Public Accountants, a CPA Fellow member of CPA Australia and a Certified Valuation Analyst, who has extensive experience in valuation and corporate advisory business. He has provided a wide range of valuation services to numerous listed and private companies in different industries, including telecommunication-related companies, in Mainland China and Hong Kong for over 10 years.

The following is the text of the report received by the Directors from the PRC Company's reporting accountants, EY, prepared for the purpose of incorporation in this circular in connection with the profit forecast.

ERNST & YOUNG
安 永

31 December 2012

The directors
HL Technology Group Limited
33rd Floor, Shui On Centre
6–8 Harbour Road, Wanchai
Hong Kong

Dear Sirs,

We have reviewed the calculations of and the accounting policies adopted in arriving at the forecast of the net profit attributable to owners of Shenyang New Postcom Co., Ltd. (沈陽新郵通信設備有限公司) (the "PRC Company") for the year ending 31 December 2012 (the "Profit Forecast") as set out in Appendix VI in the circular of HL Technology Group Limited (the "Company") dated 31 December 2012 in connection with a major and connected transaction in relation to the acquisition of the entire issued share capital of Rosy Sun Investments Limited (the "Circular") for which the directors of the Company and the PRC Company (the "Directors") are solely responsible.

We conducted our work with reference to Auditing Guideline 3.341 *Accountants' Report on Profit Forecasts* issued by the Hong Kong Institute of Certified Public Accountants.

The Profit Forecast has been prepared by the Directors based on the unaudited results of the PRC Company for the nine months ended 30 September 2012 and a forecast of the results of the PRC Company for the three months ending 31 December 2012.

In our opinion, so far as the accounting policies and calculations are concerned, the Profit Forecast has been properly compiled in accordance with the bases and assumptions made by the Directors, and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the PRC Company as set out in our accountants' report dated 31 December 2012, the text of which is set out in Appendix III to the Circular.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

The following is the text of the report received by the Directors from Octal Capital Limited, the financial adviser to Company, prepared for the purpose of incorporation in this circular in connection with the profit forecast.

八方金融有限公司
OCTAL Capital Limited

31 December 2012

The directors
HL Technology Group Limited
33rd Floor, Shui On Centre
6–8 Harbour Road, Wanchai
Hong Kong

Dear Sirs,

Forecast of net profit attributable to owners of Shenyang New Postcom Co., Ltd. (沈陽新郵通信設備有限公司) (the "PRC Company"), for the year ending 31 December 2012 (the "Profit Forecast")

We refer to the Profit Forecast, which has been made by the directors of the PRC Company and the Company (the "Directors") for which the Directors are solely responsible, adopted in the business valuation of the PRC Company for the year ending 31 December 2012 by Jones Lang LaSalle Corporate Appraisal and Advisory Limited and set out in Appendix VI to the circular of the Company dated 31 December 2012 (the "Circular"). Unless otherwise defined herein, terms used in this letter shall have the same meanings as defined in the Circular.

The Profit Forecast has been prepared based on the unaudited results of the PRC Company for the nine months ended 30 September 2012 and a forecast of the results of the PRC Company for the three months ending 31 December 2012.

We have discussed with the Directors the bases and assumptions, as set out in Appendix VI of the Circular, upon which the Profit Forecast has been made. We have also considered (i) the letter from Ernst & Young ("EY"), the reporting accountants of the PRC Company in respect of the audit on the PRC Company, dated 31 December 2012 addressed to the Company regarding their opinion on whether the Profit Forecast has been properly compiled in accordance with the accounting policies, calculations, assumptions and bases set out therein; and (ii) whether the Profit Forecast was made by the Directors after due and careful enquiry.

On the basis of the foregoing, the bases and assumptions of the Profit Forecast made by the Directors and taking into account the opinion of EY, we are satisfied that the Profit Forecast, for which the Directors are solely responsible, has been made after due and careful enquiry.

Yours faithfully,
For and on behalf of
Octal Capital Limited

Alan Fung
Managing Director

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS

Interest of Directors and Chief Executive in the Company

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

Long position in Shares

Name	Capacity	Number of Shares held	Percentage of shareholding
Mr. Chi Shaolin	Interest of controlled corporation *(Note 1)*	294,283,839	40.87%
Ms. Xu Yiming	Others *(Note 2)*	17,126,918	2.38%
Mr. Jiang Taike	Beneficial owner *(Note 3)*	16,248,857	2.26%
Mr. Li Jianming	Beneficial owner *(Note 4)*	1,030,431	0.14%

Notes:

1. Mr. Chi Shaolin is deemed to be interested in 294,283,839 Shares held by Chenlin International Joint Stock Company Limited by virtue of it being wholly-owned by Mr. Chi Shaolin.

2. Ms. Xu Yiming is interested in 28.10% of Spenlendor Sun Group Limited, which held 60,945,383 Shares.

3. Yongchang Joint Stock Company Limited held a total of 72,903,711 Shares in trust for 37 minority shareholders, including Mr. Jiang Taike who is interested in 16,248,857 Shares.

4. Hongxin Joint Stock Company Limited held a total of 36,791,039 Shares in trust for each of the 136 employees, including Mr. Li Jianming who is interested in 1,030,431 Shares.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests which they were taken or deemed to have under such provisions of the SFO), or were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules to notified to the Company and the Stock Exchange.

Interests of substantial shareholders

So far as is known to the Directors, as at the Latest Practicable Date, the persons other than a Director or chief executive of the Company who has an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provision of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Enlarged Group or had any options in respect of such capital, were as follow:

Name of Shareholder	**Capacity**	**Number of Shares**	**Percentage of shareholding**
Chenlin International Joint Stock Company Limited	Security interest in shares of the corporation *(Note 1)*	294,283,839	40.87%
Yongchang Joint Stock Company Limited	Security interest in shares of the corporation *(Note 2)*	72,903,711	10.13%
Splendor Sun Group Limited	Beneficial owner *(Note 3)*	60,945,383	8.46%
Chi Rongjie	Interest of controlled corporation *(Note 3)*	60,945,383	8.46%
Hongxin Joint Stock Company Limited	Security interest in shares of the corporation *(Note 4)*	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 a total of 72,903,711 Shares in trust for 37 minority shareholders, including Mr. Jiang Taike who is interested in 16,248,857 Shares.

3. Splendor Sun Group Limited is owned as to 65.87% by Mr. Chi Rongjie. Mr. Chi Rongjie is deemed to be interested in the 60,945,383 Shares held by Splendor Sun Group Limited for the purpose of the SFO.

4. Hongxin Joint Stock Company Limited held 5.11% interest in our Company in trust for 136 employee shareholders, including a Director, namely Mr. Li Jianming who is interested in 1,030,431 Shares.

Save as disclosed above, the Directors and the chief executive of the Company were not aware that there was any person (other than a Director or chief executive of the Company) who, as at the Latest Practicable Date, had an interest of short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provision of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other member of the Enlarged Group or had any options in respect of such capital.

Service Contracts

There is no existing or proposed service contract between any of the Directors and any member of the Enlarged Group (excluding contracts expiring or determinable by the Enlarged Group within one year without payment of compensation (other than statutory compensations)).

Interests in other competing business

Each of the Directors has confirmed that so far as they are aware, the Directors and their respective associates do not have any interests in a business apart from the Enlarged Group's business which competes or likely to compete with the Enlarged Group.

Interests in assets

On 20 November 2012, Weihai Honglin Electronic Co., Ltd (威海市泓淋電子有限公司) ("Weihai Electronic"), a wholly-owned subsidiary of the Company, entered into (i) an agreement (as supplemented by a supplemental agreement dated 19 December 2012 entered into between Weihai Electronic and Wang Xiang) for the disposal of the 55% equity interest in Tianjin Rituo Automotive Electronics Co., Ltd.* (天津日拓汽車電裝有限公司) ("Rituo Automotive") to Wang Xiang (王祥) by Weihai Electronic at the consideration of RMB58.6 million; and (ii) an agreement (as supplemented by a supplemental agreement dated 19 December 2012 entered into between Weihai Electronic and Rituo Automotive) for the acquisition of the 100% equity interest in Tianjin Rituo High Technology Co., Ltd.* (天津市日拓高科技有限公司) ("Rituo Technology") (a wholly-owned subsidiary of Rituo Automotive) by Weihai Electronic from Rituo

Automotive at the consideration of RMB15.0 million. Wang Xiang holds more than 30% of the registered capital of Rituo Automotive and is a director of Rituo Automotive before and after the said disposal.

Save for the above, and the Acquisition as disclosed in this circular, as at the Latest Practicable Date, none of the Directors has any direct or indirect interest in any assets have been acquired or disposed of by or leased to any member of the Enlarged Group since 31 December 2011, being the date to which the latest published audited accounts of the Company were made up or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

Interests in contract or arrangement

As at the Latest Practicable Date, none of the Directors is materially interested in contract or arrangement subsisting which is significant in relation to the business of the Enlarged Group.

3. LITIGATION

As at the Latest Practicable Date, no member of the Enlarged Group is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against any member of the Enlarged Group.

4. EXPERTS AND CONSENTS

The qualifications of the experts who have given opinions and advice in this circular are as follows:

Name	Qualification
Octal Capital Limited	a licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities as defined under the SFO
GF Capital	a licensed corporation to carry out type 6 (advising on corporate finance) regulated activity as defined under the SFO
Deloitte	Certified Public Accountants
EY	Certified Public Accountants
Jones Lang LaSalle	Professional valuers

As at the Latest Practicable Date, each of Octal Capital Limited, GF Capital, Deloitte, EY and Jones Lang LaSalle has no shareholding in any member of the Enlarged Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Enlarged Group and has no direct or indirect interest in any assets which have been acquired or disposed of by or leased to any member of the Enlarged Group since 31 December 2011, being the date to which the latest published audited accounts of the Company were made up or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

Each of Octal Capital Limited, GF Capital, Deloitte, EY and Jones Lang LaSalle has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter, report, advice and/or references to its name, in the form and context in which they respectively appear.

5. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of the Enlarged Group within two years immediately preceding the date of this circular which are or may be material:

(a) the Supplemental Agreement;

(b) a supplemental agreement to the equity transfer agreement as set out in paragraph (d) below dated 19 December 2012 entered into between Weihai Electronic and Rituo Automotive, pursuant to which parties agreed to extend the date of payment of consideration;

(c) a supplemental agreement to the equity transfer agreement as set out in paragraph (e) below dated 19 December 2012 entered into between Weihai Electronic and Wang Xiang, pursuant to which parties agreed to extend the date of payment of consideration and Wang Xiang agreed to pay interest if consideration is not paid in full by such time;

(d) the equity transfer agreement dated 20 November 2012 entered into among Weihai Electronic, Rituo Automotive and Rituo Technology in relation to the acquisition of 100% equity interest in Rituo Technology by Weihai Electronic from Rituo Automotive at the consideration of RMB15.0 million;

(e) the equity transfer agreement dated 20 November 2012 entered into among Weihai Electronic, Wang Xiang (王祥) and Rituo Automotive in relation to the transfer of 55% equity interest in Rituo Automotive by Weihai Electronic to Wang Xiang at the consideration of RMB58.6 million;

(f) the S&P Agreement;

(g) the acquisition and capital injection agreement dated 4 May 2011 entered into between Weihai Electronic, 田洪鎮 (Tian Hong Zheng), 周紹華 (Zhou Shao Hua), 袁火有 (Yuan Huo You), 王家沾 (Wang Jia Zhan) and 武月龍 (Wu Yue Long) and Huizhou Daya Bay in relation to the acquisition of 87% equity interest of Huizhou Daya Bay by Weihai Electronic at a consideration of RMB13.3 million and the capital injection of an aggregate amount of RMB63.2 million to the registered capital of Huizhou Company by Weihai Electronic and Yuan Huo You and Zhou Shao Hua; and

(h) the capital increase agreement dated 21 February 2011 entered into between Weihai Electronic, Wang Xiang (王祥), Wang Weiguo (王衛國) and Rituo Automotive, in relation to the capital contribution by Weihai Electronic of RMB58.6 million to the registered capital and capital reserve of Rituo Automotive.

6. GENERAL

(a) The secretary and qualified accountant of the Company is Ms. Ho Wing Yan. Ms. Ho is an associate member of the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries.

(b) The registered office of the Company is situated at Offshore Incorporations (Cayman) Limited, Corporation Scotia Centre, 4th Floor, P.O. Box 2804, George Town, Grand Cayman KY1-1112, Cayman Islands.

(c) The Company's headquarter situates at Pudong Road, Economic and Technological Development Zone, Weihai, Shandong Province, the PRC. The Company's head office and principal place of business in Hong Kong situates at 33rd Floor, Shui On Centre, 6–8 Harbour Road, Wanchai, Hong Kong.

(d) The Company's branch share registrar and transfer office in Hong Kong is Computershare Hong Kong Investor Services Limited, located at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(e) In the event of inconsistency, the English text shall prevail over the Chinese text.

7. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during 9:00 a.m. to 5:00 p.m. at the Company's head office and principal place of business in Hong Kong at 33rd Floor, Shui On Centre, 6–8 Harbour Road, Wanchai, Hong Kong up to and including the date of the EGM:

(a) the memorandum and articles of association of the Company;

(b) the annual reports of the Company for the two years ended 31 December 2011;

(c) the interim report of the Company for the six months ended 30 June 2012;

(d) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out on page 24 of this circular;

(e) the letter from GF Capital to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 25 to 49 of this circular;

(f) the accountants' report on the Target Group from EY, the text of which is set out in Appendix II to this circular;

(g) the accountants' report on the PRC Company from EY, the text of which is set out in Appendix III to this circular;

(h) the letter from Deloitte in respect of the unaudited pro forma statement of assets and liabilities of the Enlarged Group, the text of which is set out in Appendix V to this circular;

(i) the valuation report of the PRC Company prepared by Jones Lang LaSalle as set out in Appendix VI to this circular;

(j) the letters, from each of EY and Octal Capital Limited relating to the profit forecast of the PRC Company for the year ending 31 December 2012, the text of which are set out in Appendix VII to this circular;

(k) the written consents referred to in the paragraph headed "Experts and Consents" in this appendix;

(l) the material contracts referred to in the paragraph headed "Material Contracts" in this appendix;

(m) the S&P Agreement;

(n) the Supplemental Agreement;

(o) a circular of the Company dated 24 December 2012 in respect of a connected transaction and discloseable transaction in relation to the disposal of equity interest of a non-wholly owned subsidiary and acquisition of Rituo Technology; and

(p) this circular.

* *for identification purpose only*

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)

http://www.hong-lin.com.cn

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting (the "Meeting") of HL Technology Group Limited (the "Company") will be held at 10:30 a.m. on Monday, 28 January 2013 at Pudong Road, The First Industrial Park, Economic and Technological Development Zone, Weihai City, Shandong Province, PRC for the purpose of considering and, if thought fit, passing the following resolution as an ordinary resolution:

ORDINARY RESOLUTION

"**THAT**

(a) the sale and purchase agreement entered into between the Company (as purchaser) and Mr. Chi Shaolin (as vendor) dated 28 October 2012 (as supplemented by the supplemental agreement entered into between the Company and Mr. Chi Shaolin dated 28 December 2012 (the "Supplemental Agreement")) (the "S&P Agreement") in relation to the acquisition of the entire issued share capital of Rosy Sun Investments Limited and shareholder's loan (if any) at a consideration of HK$650 million (copies of the S&P Agreement and the Supplemental Agreement have been produced to the Meeting and marked "A" and "B", respectively, initialed by the chairman of the meeting for identification purpose), and all the transactions contemplated thereunder, be and are hereby approved, confirmed and ratified; and

(b) each of the directors of the Company be and is hereby authorised to do all such acts and things and signed, agree, ratify or execute all such documents and take all such steps as the director in his/her discretion may consider necessary, appropriate, desirable or expedient to implement, give effect to or in connection with the S&P Agreement (as supplemented by the Supplemental Agreement) and any of the transactions contemplated thereunder."

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

Hong Kong, 31 December 2012

* *for identification purpose only*

Principal Office:
33rd Floor, Shui On Centre
6–8 Harbour Road, Wanchai
Hong Kong

Notes:

1. A member entitled to attend and vote at the extraordinary general meeting is entitled to appoint one or more proxies to attend and on a poll vote instead of him. A proxy need not be a member of the Company.

2. In order to be valid, a form of proxy and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power of authority, must be deposited at 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 less than 48 hours before the time fixed for holding the Meeting or any adjourned meeting thereof. Completion and return of the form of proxy will not preclude any member from attending and voting in person at the extraordinary general meeting or any adjourned meeting thereof should he so wishes.

3. In case of joint shareholdings, the vote of the senior joint shareholder who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint shareholder(s) and for this purposes seniority will be determined by the order in which the names stand in the Register of Members of the Company in respect of the joint shareholding.

4. Completion and return of the form of proxy will not preclude shareholders from attending and voting in person at the meeting if shareholders so wish.

5. The ordinary resolution set out in this notice of extraordinary general meeting will be put to Shareholders to vote taken by way of a poll.