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HL Technology Group Limited
泓淋科技集團有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1087)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2012

2012 FINANCIAL HIGHLIGHTS

	Year ended 31 December		
	2012	2011	Change
	RMB'000	*RMB'000*	*%*
Revenue	**1,933,675**	1,865,376	3.7
Gross profit	**281,255**	378,405	(25.7)
(Loss) profit before tax	**(58,184)**	135,000	N/A
(Loss) profit for the year	**(62,590)**	119,360	N/A
(Loss) profit attributable to:			
— Owners of the Company	**(48,325)**	116,071	N/A
— Non-controlling interests	**(14,265)**	3,289	N/A
(Loss) earnings per share			
— Basic and dilutive (RMB cents)	**(6.7)**	16.1	N/A

* *For identification purposes only*

- Revenue for the year ended 31 December 2012 increased by approximately 3.7% as compared to the year ended 31 December 2011 to approximately RMB1,933.7 million despite a tough and challenging business environment.

- Loss for the year ended 31 December 2012 was approximately RMB62.6 million, which was primarily due to (i) the decrease in gross profit for the year ended 31 December 2012; (ii) the significant increase in operating expenses relating to sales, distribution and research and development along with the Group's continued efforts on developing new products and exploring new markets; and (iii) impairment loss of goodwill, intangible assets, property, plant and equipment, inventory and trade receivables recognized during the year ended 31 December 2012.

- Basic loss per share was RMB6.7 cents during the year ended 31 December 2012.

The board (the "**Board**") of directors (the "**Directors**") of HL Technology Group Limited (the "**Company**") announce the consolidated results of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2012, together with comparative figures for the year ended 31 December 2011. The consolidated results of the Group for the year ended 31 December 2012 have been reviewed by the Company's audit committee.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
Revenue	3	**1,933,675**	1,865,376
Cost of sales		**(1,652,420)**	(1,486,971)
Gross profit		**281,255**	378,405
Other income, other gains and losses	4	**32,855**	22,080
Distribution and selling expenses		**(77,047)**	(49,056)
Administrative and general expenses		**(135,284)**	(116,714)
Research and development expenses		**(81,190)**	(62,179)
Finance costs	5	**(42,664)**	(37,536)
Other expenses	6	**(36,109)**	–
(Loss) profit before tax	7	**(58,184)**	135,000
Income tax expenses	8	**(4,406)**	(15,640)
(Loss) profit for the year		**(62,590)**	119,360
Other comprehensive income (expense)			
Exchange difference on translating foreign operations		**325**	(733)
Total comprehensive (expense) income for the year		**(62,265)**	118,627
(Loss) profit attributable to:			
— Owners of the Company		**(48,325)**	116,071
— Non-controlling interests		**(14,265)**	3,289
		(62,590)	119,360
Total comprehensive (expense) income attributable to:			
— Owners of the Company		**(48,000)**	115,338
— Non-controlling interests		**(14,265)**	3,289
		(62,265)	118,627
(Loss) earnings per share — Basic and dilutive (RMB cents)	10	**(6.7)**	16.1

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**712,507**	655,398
Prepaid lease payments		**42,218**	47,539
Intangible assets		**16,534**	35,431
Goodwill		**–**	7,746
Deferred tax assets		**1,744**	4,773
Prepayments for acquiring prepaid lease payments		**76,251**	–
		849,254	750,887
CURRENT ASSETS			
Inventories		**327,317**	319,518
Trade and other receivables	*11*	**904,856**	1,061,267
Prepaid lease payments		**923**	1,014
Other financial assets		**156**	5,229
Pledged bank deposits		**24,180**	49,574
Bank balances and cash		**82,276**	106,650
		1,339,708	1,543,252
Assets classified as held for sale		**137,624**	–
		1,477,332	1,543,252
CURRENT LIABILITIES			
Trade and other payables	*12*	**425,081**	524,347
Other financial liabilities		**–**	6,311
Income tax liabilities		**3,643**	7,765
Bank borrowings		**800,154**	653,471
		1,228,878	1,191,894
Liabilities associated with assets classified as held for sale		**69,613**	–
		1,298,491	1,191,894
NET CURRENT ASSETS		**178,841**	351,358
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,028,095**	1,102,245

	Notes	**2012**	2011
		RMB'000	*RMB'000*
CAPITAL AND RESERVES			
Share capital		**97,401**	97,401
Share premium and reserves		**888,435**	934,293
Equity attributable to owners of the Company		**985,836**	1,031,694
Non-controlling interests		**35,197**	60,833
TOTAL EQUITY		**1,021,033**	1,092,527
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**7,062**	9,718
		1,028,095	1,102,245

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 16 November 2007 as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). Its parent and ultimate holding company is Chenlin International Joint Stock Company Limited. Its ultimate controlling party is Mr. Chi Shaolin ("**Mr. Chi**").

The Company acts as an investment holding company and was also 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 during the year ended 31 December 2012.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

In the current year, the Group has applied the following revised IFRSs issued by the International Accounting Standards Board ("IASB"):

Amendments to IAS 12	Deferred Tax: Recovery of Underlying Asset; and
Amendments to IFRS 7	Financial Instruments: Disclosures — Transfers of Financial Assets.

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

The Group has not early adopted the following new and revised IFRSs that have been issued but are not yet effective:

Amendments to IFRSs	Annual Improvements to IFRSs 2009–2011 Cycle[1]
Amendments to IAS 1	Presentation of Items of Other Comprehensive Income[4]
Amendments to IFRS 7	Disclosures — Offsetting Financial Assets and Financial Liabilities[1]
Amendments to IFRS 9 and IFRS 7	Mandatory Effective Date of IFRS 9 and Transition Disclosures[3]
Amendments to IFRS 10, IFRS 11 and IFRS12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[1]
Amendments to IFRS10, IFRS 12 and IAS 27	Investment Entities[2]
IFRS 9	Financial Instruments[3]
IFRS 10	Consolidated Financial Statements[1]
IFRS 11	Joint Arrangements[1]
IFRS 12	Disclosure of Interests in Other Entities[1]
IFRS 13	Fair Value Measurement[1]
IAS 19 (as revised in 2011)	Employee Benefits[1]
IAS 27 (as revised in 2011)	Separate Financial Statements[1]
IAS 28 (as revised in 2011)	Investments in Associate and Joint Ventures[1]
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities[2]
IFRIC-20	Stripping Costs in the Production Phase of a Surface Mine[1]

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

Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities and amendments to IFRS 7 Disclosures — Offsetting Financial Assets and Financial Liabilities

The amendments to IAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of “currently has a legally enforceable right of set-off” and “simultaneous realisation and settlement”.

The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amendments to IFRS 7 are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should also be provided retrospectively for all comparative periods. However, the amendments to IAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

The Directors anticipate that the application of these amendments to IAS 32 and IFRS 7 may result in more disclosures being made with regard to offsetting financial assets and financial liabilities in the future others.

IFRS 9 Financial Instruments

IFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9 are described as follows:

- All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities’ credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

IFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

The directors of the Company anticipate that the adoption of IFRS 9 in the future may have impact on amounts reported in respect of the Group’s financial assets and financial liabilities. Regarding the Group’s financial assets, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

New and revised standards on consolidation, joint arrangements, associates and disclosures

In May 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including IFRS 10, IFRS 11, IFRS 12, IAS 27 (as revised in 2011) and IAS 28 (as revised in 2011).

Key requirements of these five standards are described below.

IFRS 10 replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements. SIC-12 Consolidation — Special Purpose Entities will be withdrawn upon the effective date of IFRS 10. Under IFRS 10, there is only one basis for consolidation, that is, control. In addition, IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in IFRS 10 to deal with complex scenarios.

IFRS 11 replaces IAS 31 Interests in Joint Ventures. IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. SIC-13 Jointly Controlled Entities — Non-monetary Contributions by Ventures will be withdrawn upon the effective date of IFRS 11. Under IFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under IAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under IFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under IAS 31 can be accounted for using the equity method of accounting or proportionate consolidation.

IFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive than those in the current standards.

In June 2012, the amendments to IFRS10, IFRS11 and IFRS12 were issued to clarify certain transitional guidance on the application of these five IFRSs for the first time.

These five standards, together with the amendments relating to the transitional guidance, are effective for annual periods beginning on or after 1 January 2013 with earlier application permitted provided that all of these standards are applied at the same time.

The Directors anticipate that these five standards will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013. The application of this standard may have significant impact on amounts reported in the consolidated financial statements. However, the Directors have not completed a detailed analysis of the impact of the application of these Standards and hence have been certain about the extent of the impact.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 Financial Instruments: Disclosures will be extended by IFRS 13 to cover all assets and liabilities within its scope.

IFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. The directors of the Company anticipate that IFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard may not affect the amounts reported in the consolidated financial statements but may result in more extensive disclosures in the consolidated financial statements.

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

3. REVENUE AND SEGMENT INFORMATION

(a) Revenue

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

(b) Segment information

The chief executive officer of the Company has been identified as the Group's chief operating decision maker (the "**CODM**") who reviews the business based on the following operating and reportable segments organized by products:

— External signal cable assembly

— Internal signal cable assembly

— Power cord assembly

— Signal transmission wire and cable

— Connectors

— Antennas

— Automotive wiring harness

— Others

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

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

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

	External signal cable assembly *RMB'000*	Internal signal cable assembly *RMB'000*	Power cord assembly *RMB'000*	Signal transmission wire and cable *RMB'000*	Connectors *RMB'000*	Antennas *RMB'000*	Automotive wiring harness *RMB'000*	Others *RMB'000*	Total *RMB'000*
Year ended 31 December 2012									
Segment revenue	**333,816**	**384,517**	**463,814**	**420,956**	**27,722**	**71,913**	**127,454**	**103,483**	**1,933,675**
Segment results	**43,459**	**68,148**	**67,499**	**68,264**	**(3,670)**	**9,624**	**20,880**	**7,051**	**281,255**
Year ended 31 December 2011									
Segment revenue	337,750	339,859	329,016	488,422	49,928	28,462	156,678	135,261	1,865,376
Segment results	67,863	92,270	42,799	101,548	13,273	5,294	35,444	19,914	378,405

Revenue reported above represents revenue generated from external customers. There were no inter-segment sales during the two years ended 31 December 2011 and 2012.

The segment results represent segment revenue less segment cost of sales, which represents the internally generated financial information regularly reviewed by the CODM. However, the other income and other gains and losses, distribution and selling expenses, administrative and general expenses, research and development expenses, finance costs and other expenses are not allocated to each reportable segment.

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

	2012 *RMB'000*	2011 *RMB'000*
Reportable segment results	**281,255**	378,405
Unallocated income and expenses:		
— Other income, other gains and losses	**32,855**	22,080
— Distribution and selling expenses	**(77,047)**	(49,056)
— Administrative and general expenses	**(135,284)**	(116,714)
— Research and development expenses	**(81,190)**	(62,179)
— Finance costs	**(42,664)**	(37,536)
— Other expenses	**(36,109)**	–
(Loss) profit before tax	**(58,184)**	135,000
Income tax expenses	**(4,406)**	(15,640)
(Loss) profit for the year	**(62,590)**	119,360

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

ii. Geographical information

The Group's products are produced from the production facilities located in the People's Republic of China ("**PRC**"). Almost all of the Group's non-current assets are located in the PRC and thus, no geographical information has been presented.

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

	2012	2011
	RMB'000	*RMB'000*
Analyzed by:		
PRC, excluding Hong Kong and Taiwan	**1,310,576**	1,265,881
Taiwan	**284,873**	211,970
Korea	**213,468**	163,506
The United States of America	**105,948**	8,527
Hong Kong	**602**	40,318
Other countries and areas	**18,208**	175,174
	1,933,675	1,865,376

4. OTHER INCOME, OTHER GAINS AND LOSSES

	2012	2011
	RMB'000	*RMB'000*
Interest income	**881**	10,149
Government grants	**5,138**	7,987
(Losses) gains on disposals of property, plant and equipment	**(6,130)**	1,688
Net foreign exchange losses	**(1,355)**	(1,513)
Gains on disposal of prepaid lease payments for land use rights	**–**	175
Gains on changes in fair value of other financial instruments	**21,155**	3,594
Gains on changes in fair value of contingent consideration	**13,166**	–
	32,855	22,080

5. FINANCE COSTS

	2012	2011
	RMB'000	*RMB'000*
Interest on borrowings wholly repayable within five years	**50,435**	44,152
Less: Amount capitalized in respect of cost of qualifying assets	**(7,771)**	(6,616)
	42,664	37,536

During the year ended 31 December 2012, interest has been capitalized at the rate of interest applicable to general borrowings ranging from 6.83% to 7.17% (2011: 4.20% to 7.57%) per annum.

6. OTHER EXPENSES

	2012	2011
	RMB'000	*RMB'000*
Impairment loss recognized in respect of property, plant and equipment	**20,275**	–
Impairment loss recognized in respect of intangible assets	**6,529**	–
Impairment loss recognized in respect of goodwill	**7,488**	–
Impairment loss on trade receivables	**1,817**	–
	36,109	–

7. (LOSS) PROFIT BEFORE TAX

(Loss) profit before tax has been arrived at after charging:

	2012	2011
	RMB'000	*RMB'000*
Staff cost (including directors' emoluments)		
— Salaries and other benefits	**292,696**	226,719
— Retirement benefit scheme contributions	**9,738**	7,309
— Share-based payments	**3,762**	7,147
	306,196	241,175
Depreciation and amortization:		
— Property, plant and equipment	**47,599**	36,812
— Intangible assets (included in administrative and general expenses)	**4,596**	4,051
	52,195	40,863
Release of prepaid lease payments	**976**	815
Cost of inventories recognized as an expense	**1,689,025**	1,517,099
Auditors' remuneration	**2,889**	2,532
Impairment loss on trade receivables	**1,817**	16

8. INCOME TAX EXPENSES

	2012 *RMB'000*	2011 *RMB'000*
Current tax		
— PRC Enterprise Income Tax ("**EIT**")	**3,346**	18,724
— Under (over) provision of EIT in prior years	**689**	(68)
	4,035	18,656
Deferred tax	**371**	(3,016)
	4,406	15,640

No provision for Hong Kong Profits Tax has been made as the Group did not have any assessable profit arising in Hong Kong in the two years ended 31 December 2011 and 2012.

The statutory tax rate of 泓淋科技有限公司 (Honglin Technology Co., Ltd.), a company established in Taiwan is 17% for both years ended 31 December 2011 and 2012. No provision for Taiwan income tax has been made as this company did not have any taxable income for these years.

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

9. DIVIDENDS

No dividend has been paid or proposed by the Company during the year ended 31 December 2012 nor has any dividend been proposed since the end of the reporting period (2011: Nil).

10. (LOSS) EARNINGS PER SHARE

The calculation of the basic loss per share for the year ended 31 December 2012 is based on the loss attributable to owners of the Company for the year ended 31 December 2012 (2011 basic earnings per share: profit attributable to owners of the Company) and on the weighted average of 720,000,000 shares (2011: 720,000,000 shares) in issue during the year.

Diluted (loss) earnings per share is the same as basis (loss) earnings per share as there were no potential dilutive shares in existence during the year ended 31 December 2012 and 31 December 2011.

11. TRADE AND OTHER RECEIVABLES

	Notes	**2012** **RMB'000**	2011 *RMB'000*
Trade receivables	*a*	**725,715**	888,812
Less: Allowances for doubtful debts		**(2,834)**	(1,239)
		722,881	887,573
Bills receivable	*b*	**39,768**	59,327
Advance to suppliers		**27,674**	38,118
Prepayment for acquiring a land		**–**	38,500
Value added tax ("VAT") receivable		**20,977**	8,608
Consideration receivable from disposal of a subsidiary		**8,730**	–
Dividend receivable from a former subsidiary		**4,145**	–
Receivable from disposal of property, plant and equipment		**25,653**	–
Deposit in margin accounts for derivatives		**12,579**	7,588
Deposits and prepayments		**6,048**	9,862
Advances to staff		**1,401**	2,812
Advances to non-controlling shareholders of a subsidiary		**–**	1,902
Other receivables		**35,000**	6,977
		904,856	1,061,267

Notes:

(a) Trade receivables

The Group's trade receivables at the end of each reporting period comprise amounts receivable from the sales of goods.

No interest is charged on the trade receivables.

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

	2012 **RMB'000**	2011 *RMB'000*
Within 3 months	**576,583**	724,709
Over 3 months but within 6 months	**142,212**	154,175
Over 6 months but within 1 year	**2,200**	8,689
Over 1 year but within 2 years	**1,886**	–
	722,881	887,573

(b) Bills receivable

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

	2012	2011
	RMB'000	*RMB'000*
Within 3 months	**19,608**	27,267
Over 3 months but within 6 months	**20,160**	32,060
	39,768	59,327

12. TRADE AND OTHER PAYABLES

		2012	2011
	Notes	*RMB'000*	*RMB'000*
Trade payables	*a*	**328,553**	406,318
Bills payable	*b*	**48,442**	55,691
Receipts in advance from customers		**406**	4,781
Other tax payables		**582**	4,457
Payables for acquisition of property, plant and equipment		**5,152**	19,990
Payrolls and staff cost payables		**21,376**	15,909
Advances from non-controlling shareholders of a subsidiary		**–**	5,737
Accrued expenses		**17,640**	9,127
Other payables		**2,930**	2,337
		425,081	524,347

Notes:

(a) Trade payables

The Group's trade payables principally comprise amounts outstanding for trade purchases. Payment terms with suppliers are mainly on credit within 90 days from the time when the goods are received from suppliers.

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

	2012	2011
	RMB'000	*RMB'000*
Within 3 months	**224,608**	380,999
Over 3 months but within 1 year	**97,063**	23,782
Over 1 year but within 2 years	**6,504**	1,528
Over 2 years	**378**	9
	328,553	406,318

(b) Bills payable

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

	2012	2011
	RMB'000	*RMB'000*
Within 3 months	**23,891**	15,504
Over 3 months but within 6 months	**24,551**	40,187
	48,442	55,691

MANAGEMENT DISCUSSION & ANALYSIS

PERFORMANCE REVIEW

In 2012, the overall economic landscape around the world was featured by heightened complications, which stemmed from the remote chance of the short-term settlement of sovereign debt problems in Europe and the rising unemployment rate in the United States, all of which led to the continuous increase in economic downside pressures, represented by worldwide inflation and the decrease in consumer demand.

Consequently, peers in the worldwide 3Cs (computing, communication and consumer electronics) markets were faced with a challenging and tough operating environment in 2012, and were put under increasing pressures. According to the statistics of some independent research agencies in the industries, the performance of the 3Cs industries was far behind expectation in 2012, with a fall in global sales volume of mobile phone, PC (personal computer) and TV (television) in 2012 when compared to 2011. Hampered by the impact of the macro-environment, some of the customers of the Company reined-in their spending for purchases along with the continued sluggishness of the global consumer electronics market, and the level of purchase price was also crimped by the oversupply in the market, especially for the relatively more traditional products such as the external signal cable assembly, internal signal cable assembly, connectors and antennas.

To withstand the complicated and challenging operating environment, we had stuck to the essentials of our business philosophy of organic growth and sustainable development and also of our core corporate values of integrity, unity, innovation and thanksgiving, in an effort to build a more stable and stronger base of high-quality customers for the Company. Continued efforts were dedicated to (i) strengthen the customer base, improve our ability on research and development, upgrade the management system, optimize the products quality system and execute business restructuring; (ii) tighten credit and cost control, implement appropriate inventory policy and scaling back capital expenditure in certain areas to better manage our operations; and (iii) improve our operating cash flow condition and make efforts to convert the negative cash flow. In light of the aforesaid reasons, the Group recorded a total revenue of approximately RMB1,933.7 million for the year ended 31 December 2012, representing an increase of approximately 3.7% when compared to the figure for the year ended 31 December 2011. Furthermore, our cash flow from operating activities was converted to positive status for the year ended 31 December 2012 from negative status for the year ended 31 December 2011.

Meanwhile, the Group's gross profit for the year ended 31 December 2012 amounted to approximately RMB281.3 million, representing a decrease of approximately RMB97.2 million when compared to the gross profit for the year ended 31 December 2011. There was a decrease of 5.8% in gross profit margin for the year ended 31 December 2012 over the same period of 2011. The decrease was mainly due to: (i) the decline in the average selling price across some of the Group's product segments along with increasingly fierce competition in the worldwide 3Cs industries and the weakened demand from the Company's major customers in 2012, especially the relatively more traditional products, such as external signal cable assembly, internal signal cable assembly, connectors and antennas; (ii) rise in labour and outsourcing costs by 21.0% and 24.5% respectively, which was mainly due to the increase in overall wages and salaries in response to the level of inflation. As at 31 December 2012, the Group incurred a net loss of approximately RMB62.6 million. The loss was mainly due to: (i) the decrease in gross profit for the year ended 31 December 2012; (ii) the significant increase in operating expenses relating to sales, distribution and research and development along with the Group's continued efforts on developing new products and exploring new markets; and (iii) impairment loss of goodwill, intangible assets, property, plant and equipment, inventory and trade receivables recognized during the year ended 31 December 2012 since their recoverable amount, or net realizable value, or fair value is less than their carrying amount.

In view of the above circumstances, the Company will review our business scale and portfolio cautiously and focus on putting resources into businesses with stronger profitability and better market prospects to get rid of the loss status and make profit in the near future.

Efforts extended by the Group in 2012 were summarized as follows:

Strengthening of Customer Base

In 2012, given that the 3Cs industries across the world experienced increasing operational pressure, wire and cable purchasers over the world continued to shift their procurement to the PRC where there were relatively lower labour costs. The Group took this opportunity to provide these customers with products with more favorable price, more premium quality and a wider range of services. This strategy enabled the Group to maintain a strong customer base. To enable our customers to cast a vote of stronger confidence in the industries when it was in time of uncertainties, we have always endeavoured to tie up tighter connections with our customers no matter in favourable or daunting operating environment. New customers secured by the Group in 2012 included a number of internationally prestigious large-sized clients such as RIM (Blackberry), Lenovo and Amazon.

Progress of Research and Development

In 2012, the Group attained remarkable brand new breakthroughs in the research and development fields of antennas, high-speed cable and automotive wiring harness. Relatively notable development was achieved in the antenna field. In 2012, we completed the entire process of design, development, trial testing and operation relating to LDS (Laser-Direct-structuring) antennas, which are mainly used for smart phones and 4G LTE (Long Term Evolution) equipment, etc.. Our LDS antennas have now reached a monthly production capacity of 1 million units, and have secured strong cooperation intentions from a couple of large-scale European and American customers. NFC (Near Field Communication) mobile payment antennas has been developed and the reserves that are based on mobile payment and are blended with wireless charging technology have been completed and are now in the course of research and development. In relation to the high-speed cable, the Group started the research and development of modular products of high-speed cable, namely DONGLE, which is a kind of high-speed cable featuring signal conversion functions. The research and development of this category of products is expected to be completed in 2013. On the front of automotive wiring harness, both the design of the harness for the whole car and the electric current transmission method are evolving. With the Group's strong research and development capability and distinct research and development strengths in terms of automotive wiring harness of light weight and sophisticated technology, the Group took the initiative to lead the research and development in this aspect across the country.

Upgrading of Management System

In order to further enhance the management efficiency and reduce management costs, the Group stepped up ongoing optimization and upgrading of its management system in 2012. Great efforts were put on a number of spectrums, stretching across: (i) providing training courses for different management positions, and tailor-made training programs for different employees, with a vision to further enhance the quality and efficiency of our employees; (ii) continuously enhancing the role of the internal audit department of the Group to monitor and minimize the Company's risks in financial and management aspects; (iii) optimizing the function and role of the integrated information technology and business management system, with a view to optimizing the planning and management of information systems; (iv) recruiting talents with experience in internationally renowned companies in respect of our research and development, management and sales departments, in order for us to pursue management in a more scientific and systematic manner.

Optimization of Quality System

To continuously improve the competitiveness of the Company's product offering, the Company continued to extend vigorous efforts on the enhancement of quality system in multiple aspects, spanning from the introduction of the international standards for laboratory management approach, the further implementation of EICC (Electronic Industry Code of Conduct) based on environmental protection and labour safety protection in each of our factory bases, as well as the thorough adoption of SPC (Statistical Process Control), an on-site quality supervision system. All these efforts enabled the Company to exercise a more systematic control over its products quality.

Business Restructuring

The Company entered into a sale and purchase agreement dated 28 October 2012 (supplemented by a supplemental agreement dated 28 December 2012) with Mr. Chi, the vendor, in relation to the acquisition of the entire issued share capital in Rosy Sun Investments Limited ("**Rosy Sun**"), which indirectly wholly owned 沈陽新郵通信設備有限公司 (Shenyang New Postcom Co., Ltd.*, the "**PRC Company**"), a company based in PRC. The acquisition represented an opportunity for the Group to lay a solid foundation for its further business restructuring by making a steady step into the telecommunication and broadband

* *English names are for identification purposes only.*

market with better market prospects, the research and development as well as manufacture of wireless communication system devices and wireless terminal devices, and the provision of wireless network planning and optimization services. 威海市泓淋電子有限公司 (Weihai Honglin Electronic Co., Ltd.*, "**Weihai Electronic**"), a wholly-owned subsidiary of the Company, on 20 November 2012, entered into an equity transfer agreement with 天津日拓汽車電裝有限公司 (Tianjin Rituo Automotive Electronics Co., Ltd.*, "**Rituo Automotive**") and 天津市日拓高科技有限公司 (Tianjin Rituo High Technology Co., Ltd*, "**Rituo Technology**") in relation to the acquisition of 100% equity interest in Rituo Technology (supplemented by a supplemental agreement dated 19 December 2012) and an equity transfer agreement with Wang Xiang and Rituo Automotive in relation to the disposal of 55% equity interest in Rituo Automotive (supplemented by a supplemental agreement dated 19 December 2012), in order to carry out the Group's wholly owned automotive wiring harness business.

OUTLOOK

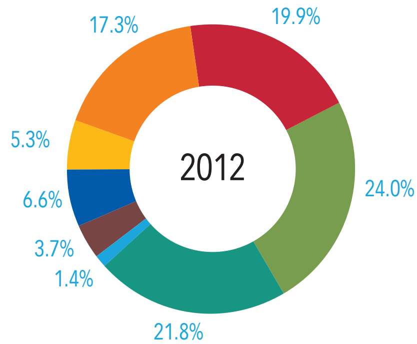
Peers in the global 3Cs industries remain cautious about the operating environment and performance within the industries in the coming years. The roll out of Windows 8 and Ultrabook in 2012 had not added much fresh impetus to fuel the recovery of the market. As a whole, there were no strong stimuli which could revive the market from the prevailing sluggishness. Facing heightened uncertainties, the Company will continue to adhere to prudent approach to cope with the complications of the operating environment. We will review our business portfolio. We will also proactively seek for and capture the right opportunities for business restructuring and industrial upgrading. We will exit from part of our relatively more traditional products with year-on-year reduction in profitability through acquisitions or realizations, while vigorously developing new products with strong profitability, for instance, the acquisition of Rosy Sun in early 2013. In summary, we are confident in securing more renowned customers in the future, and are convinced that the continuous enhancement and development of our business will eventually realise.

BUSINESS REVIEW

	Year ended 31 December				
	2012		2011		
	Revenue *RMB'000*	**% of revenue**	Revenue *RMB'000*	% of revenue	Change in %
External signal cable assembly	**333,816**	**17.3**	337,750	18.1	(1.2)
Internal signal cable assembly	**384,517**	**19.9**	339,859	18.2	13.1
Power cord assembly	**463,814**	**24.0**	329,016	17.6	41.0
Signal transmission wire and cable	**420,956**	**21.8**	488,422	26.2	(13.8)
Connectors	**27,722**	**1.4**	49,928	2.7	(44.5)
Antennas	**71,913**	**3.7**	28,462	1.5	152.7
Automotive wiring harness	**127,454**	**6.6**	156,678	8.4	(18.7)
Others	**103,483**	**5.3**	135,261	7.3	(23.5)
Total	**1,933,675**	**100.00**	1,865,376	100.00	3.7

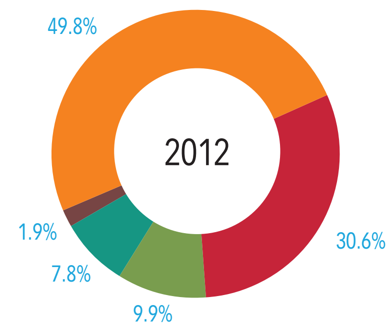
* *English names are for identification purposes only.*

2012 Revenue Breakdown by Products



External signal cable assembly	17.3%
Internal signal cable assembly	19.9%
Power cord assembly	24.0%
Signal transmission wire & cable	21.8%
Connectors	1.4%
Antennas	3.7%
Automotive wiring harness	6.6%
Others	5.3%

2012 Revenue Breakdown by End Markets



Computing	49.8%
Consumer electronics	30.6%
Communication	9.9%
Automotive	7.8%
Others	1.9%

For the year ended 31 December 2012, increasing procurement volume has been made by most of our major customers across some of our main products segments. For the year ended 31 December 2012, the Group recorded a total revenue of approximately RMB1,933.7 million, which was an increase of approximately RMB68.3 million, or approximately 3.7%, as compared to 2011. The increase was primarily due to our ability to enhance market share among the existing major customers, explore new customers and secure new orders, especially from our new customers RIM and Lenovo. However, our overall revenue was also negatively affected by the decreasing unit price of most of our relatively more traditional products and the disposal of some businesses such as consumer electronic connectors.

The continued challenges and uncertainties in the global economies and 3Cs industries had severely affected our business, especially our relatively more traditional products, such as external signal cable assembly, internal signal cable assembly, antennas and connectors. The Group has also been proactively addressing the impacts of the weak operating environment by implementing appropriate inventory policy, tightening credit and cost control and scaling back capital expenditure in certain areas to better manage our corporate operations. In 2013, the Company will review our business scale and portfolio cautiously and focus on putting resources into businesses with stronger profitability and better market prospects to get rid of the loss status and make profit in the near future.

Analysis of each product segment in 2012 is summarized as follows:

External Signal Cable Assembly

	Year ended 31 December				
	2012		2011		
	Revenue *RMB'000*	**% of revenue**	Revenue *RMB'000*	% of revenue	Change in %
RGB assembly	**149,786**	**44.9**	178,773	52.9	(16.2)
DVI assembly	**111,346**	**33.4**	92,765	27.5	20.0
HDMI assembly	**724**	**0.2**	561	0.2	29.1
USB assembly	**54,462**	**16.3**	49,984	14.8	9.0
DC assembly	**17,498**	**5.2**	15,667	4.6	11.7
	333,816	**100.0**	337,750	100.0	(1.2)

Our external signal cable assembly segment recorded a decrease in revenue of approximately RMB3.9 million for the year ended 31 December 2012, or approximately 1.2%, as compared to 2011, as we witnessed a decrease in sales of RGB assembly of approximately 16.2% primarily due to the reduction of unit price in view of the fierce competition and the decrease of sales volume in line with the decrease of market demands on such traditional products. In terms of other external signal cable assembly products, we recorded increases as we were able to add some new customers.

Internal Signal Cable Assembly

	Year ended 31 December				
	2012		2011		
	Revenue *RMB'000*	**% of revenue**	Revenue *RMB'000*	% of revenue	Change in %
LVDS (Low Voltage Differential Signaling)	**326,565**	**84.9**	270,220	79.5	20.9
FFC (Flexible Flat Cable)	**57,952**	**15.1**	69,639	20.5	(16.8)
	384,517	**100.0**	339,859	100.0	13.1

Our internal signal cable assembly segment recorded an increase in revenue of approximately RMB44.7 million for the year ended 31 December 2012, or approximately 13.1%, as compared to 2011. The increase was mainly driven by the increase in revenue of approximately RMB56.3 million from the Group's LVDS products segment for the year ended 31 December 2012, or approximately 20.9%, as compared to 2011, since we were able to add new customers, such as Pegatron. However, such increase was partially offset by the decrease in revenue of our FFC assembly from approximately RMB69.6 million for the year ended 31 December 2011 to approximately RMB58.0 million for the year ended 31 December 2012. Such decrease was mainly due to the negative effects of weak operating environment and the decrease on the purchase from existing customers.

Power Cord Assembly

Revenue from power cord assembly products increased by approximately RMB134.8 million for the year ended 31 December 2012, or approximately 41.0%, as compared to 2011. The increase was mainly due to: (i) the success of the aggressive pricing strategy adopted by the Company for acquiring market share in halogen-free products market, in particular, the market share in our existing customers; and (ii) unit price of our newly developed halogen-free products with substantial demand from customers has not been affected by the overall trend of the decrease in unit price.

Signal Transmission Wire and Cable

	Year ended 31 December				
	2012		2011		
	Revenue *RMB'000*	**% of revenue**	Revenue *RMB'000*	% of revenue	Change in %
Communication cable	**132,724**	**31.5**	134,491	27.5	(1.3)
Consumer electronics cable	**171,788**	**40.8**	263,863	54.0	(34.9)
Automotive cable	**16,641**	**4.0**	16,342	3.4	1.8
Power cable	**69,867**	**16.6**	60,043	12.3	16.4
Specialty wire and cable	**12,970**	**3.1**	–	–	N/A
Others	**16,966**	**4.0**	13,683	2.8	24.0
	420,956	**100.0**	488,422	100.0	(13.8)

Our signal transmission wire and cable segment recorded a decrease in revenue of approximately RMB67.5 million for the year ended 31 December 2012, or approximately 13.8%, as compared to 2011. This decrease was mainly due to the reduced revenue of our communication cable and consumer electronics cable of approximately 1.3% and 34.9% respectively as both sales volume and unit price declined in a tough and challenging business environment since the market demand decreased. However, we witnessed the increase in the revenue of our specialty wire and cable products and power cable products of approximately RMB13.0 million and RMB9.8 million respectively mainly due to our ability to gain more market share from our existing customers.

Connectors

The revenue of the Group's connectors segment recorded a revenue of approximately RMB27.7 million for the year ended 31 December 2012, representing a decrease of approximately 44.5%, as compared to 2011. The significant drop was primarily due to our decision to exit the business of consumer electronic connectors as this kind of products are relatively more traditional with weak profitability. In 2013, we will re-schedule our production capacity and focus mainly on the solar connectors.

Antennas

Revenue from antennas segment grew by approximately RMB43.5 million for the year ended 31 December 2012, or approximately 152.7%, as compared to 2011. This growth was mainly attributable to (i) the investment on sales and marketing activities since fourth quarter of 2010 bring us increasing market share and new customers in 2012; and (ii) while the increase was partially offset by the decrease in the unit price due to fierce competition.

Automotive Wiring Harness

Revenue from our automotive wiring harness segment decreased by approximately RMB29.2 million for the year ended 31 December 2012, or approximately 18.7%, as compared to 2011. The decrease was primarily due to the integration of our automotive wiring harness business and the re-location of the production center from Tianjin to Dezhou. During such integration and re-location, we sacrificed certain level of production output and therefore sales.

FINANCIAL REVIEW

Cost of Sales

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

	Year ended 31 December				
	2012		2011		
	RMB'000	**% of total cost of sales**	*RMB'000*	% of total cost of sales	Change in %
Raw material costs	**1,275,224**	**77.2**	1,166,905	78.5	9.3
Utilities	**19,399**	**1.2**	19,331	1.3	0.4
Depreciation	**29,624**	**1.8**	25,646	1.7	15.5
Labor costs	**201,555**	**12.2**	166,541	11.2	21.0
Outsourcing costs	**103,693**	**6.3**	83,270	5.6	24.5
Others	**22,925**	**1.3**	25,278	1.7	(9.3)
	1,652,420	**100.0**	1,486,971	100.0	11.1

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

	Year ended 31 December				
	2012		2011		
	RMB'000	**% of raw material cost**	*RMB'000*	% of raw material cost	Change in %
Copper materials	**731,642**	**57.4**	689,980	59.1	6.0
Plastic materials	**291,965**	**22.9**	239,216	20.5	22.1
Iron materials	**65,993**	**5.2**	59,173	5.1	11.5
Others	**185,624**	**14.5**	178,536	15.3	4.0
	1,275,224	**100.0**	1,166,905	100.0	9.3

Cost of sales increased by approximately RMB165.4 million for the year ended 31 December 2012, or approximately 11.1%, as compared to 2011. The increase was primarily due to: (i) the increase in raw material costs of approximately 9.3%, which was mainly as a result of the overall increase in sales volume and the higher plastic material prices in 2012 as compared to 2011. For plastic materials, the increase in cost is also due to increased proportion of higher cost halogen-free insulating materials used and increased sales volume for internal signal cable assembly products that required more plastic materials for production; and (ii) the increase in labour costs and outsourcing costs of approximately 21.0% and 24.5% respectively, which was mainly as a result of the overall increase in employee salaries in line with the general inflation in 2012.

Gross Profit and Margin

Our gross profit decreased by approximately RMB97.2 million, or approximately 25.7%, in 2012 as compared to 2011. Our gross profit margin decreased from 20.3% for the year ended 31 December 2011 to 14.5% for the year ended 31 December 2012, the details of which are specifically set out as follows:

	Year ended 31 December				
	2012		2011		
	Gross profit *RMB'000*	**Gross profit margin** *(%)*	Gross profit *RMB'000*	Gross profit margin *(%)*	Change of gross profit in %
External signal cable assembly	**43,459**	**13.0**	67,863	20.1	(36.0)
Internal signal cable assembly	**68,148**	**17.7**	92,270	27.1	(26.1)
Power cord assembly	**67,499**	**14.6**	42,799	13.0	57.7
Signal transmission wire and cable	**68,264**	**16.2**	101,548	20.8	(32.8)
Connectors	**(3,670)**	**(13.2)**	13,273	26.6	N/A
Antennas	**9,624**	**13.4**	5,294	18.6	81.8
Automotive wiring harness	**20,880**	**16.4**	35,444	22.6	(41.1)
Others	**7,051**	**6.8**	19,914	14.7	(64.6)
Total	**281,255**	**14.5**	378,405	20.3	(25.7)

The relatively significant decrease in gross profit margin for the year ended 31 December 2012 was mainly due to: (i) the decline in the average selling price of most of the Group's products, especially our external signal cable assembly, internal signal cable assembly, antennas and connectors, due to increasingly fierce competition in the global 3Cs industries and the weakening of demand from the Company's major customers in 2012; and (ii) the rise in labour and outsourcing costs by approximately 21.0% and 24.5% respectively, which was mainly as a result of the rise in overall wages and salaries in line with the level of inflation.

Other Income, Other Gains and Losses

We recorded other gains of approximately RMB32.9 million for the year ended 31 December 2012, which were primarily attributable to the gains on changes in fair value of financial instrument and the contingent consideration of approximately RMB34.3 million.

Distribution and Selling Expenses

Distribution and selling expenses increased by approximately RMB28.0 million for the year ended 31 December 2012, or approximately 57.1%, as compared to 2011, which was primarily as a result of increased level of sales and marketing activities in line with the overall increase in revenue. This increase was primarily due to: (i) transportation expenses increased by approximately RMB14.7 million for the year ended 31 December 2012, or approximately 129.7%, as compared to 2011, which was mainly as a result of the increase in revenue and marketing activities and the surge in fuel prices; (ii) staff cost increased by approximately RMB1.9 million for the year ended 31 December 2012, or approximately 10.0%, as compared to 2011, which was mainly as a result of the recruitment of a vast number of sales personnel by the Group's sales department for specialty wire and cable, antennas and European and American sales, as well as the rise in wages and salaries in line with the level of inflation; and (iii) the increase in entertainment expenses of approximately RMB6.2 million for the year ended 31 December 2012, or approximately 75.9%, as compared to 2011, which was primarily due to the increase in sales and marketing activities.

Administrative and General Expenses

Administrative and general expenses increased by approximately RMB18.6 million for the year ended 31 December 2012, or approximately 15.9%, as compared to 2011. The major factors attributable to such increase were: (i) the increase in staff cost of approximately RMB13.1 million for the year ended 31 December 2012, or approximately 27.4%, as compared to 2011, which was mainly attributable to the rise in wages and salaries in line with the level of inflation; (ii) the increase in depreciation by approximately RMB6.3 million for the year ended 31 December 2012, or approximately 87.9%, as compared to 2011, which was mainly as a result of the office expansion and additional office related purchase along with the growth of our business scale; and (iii) audit and other professional expenses for the year ended 31 December 2012 increased by approximately RMB4.8 million, or approximately 81.3%, as compared to 2011, which was mainly as a result of professional fees incurred in 2012 in respect of the disposal of 55% equity interest in Rituo Automotive (a former subsidiary of the Group), the acquisition of 100% equity interests of Rituo Technology, and the acquisition of the entire issued share capital of Rosy Sun.

Research and Development Expenses

Research and development expenses increased by approximately RMB19.0 million for the year ended 31 December 2012, or approximately 30.6%, as compared to 2011. This increase was primarily attributable to: (i) the engagement of a large number of research and development personnel in a number of aspects stretching across specialty wire and cable, halogen-free materials, solar connector as well as LDS antennas, together with the increase in wages and salaries by approximately RMB4.2 million, or approximately 22.1% in line with the level of inflation; and (ii) the increase in material cost and depreciation by approximately RMB10.2 million and approximately RMB1.8 million for the year ended 31 December 2012, or approximately 33.7% and 41.9% respectively, as compared to 2011, which was primarily as a result of the expansion of our research and development in terms of both scope and scale and our investment in the fields of specialty wire and cable, halogen-free materials and LDS antennas.

Other Expenses

Other expenses of approximately RMB36.1 million were impairment losses recognized in respect of trade receivables, goodwill, intangible assets and property, plant and equipment since the fair value or recoverable amount of these assets was less than the carrying amount as at 31 December 2012.

Finance Cost

Finance cost increased by approximately RMB5.1 million for the year ended 31 December 2012, or approximately 13.7%, as compared to 2011. The increase was as a result of the increase in bank borrowings in line with the expansion of our business operations in both size and scale. In addition, the average interest rate of our short-term loans for the year ended 31 December 2012 was higher than that for the year ended 31 December 2011 and thereby the finance cost increased.

Income Tax Expenses

We incurred income tax expenses of approximately RMB4.4 million for the year ended 31 December 2012, representing a decrease of approximately 71.8%, as compared to 2011. The decrease was primarily attributable to the losses incurred by some of the Group's subsidiaries in 2012, which in turn resulted in a decrease in the overall profit of the Group and a decrease in income tax expense. On an overall basis, the Group's effective tax rate in 2012 was -7.6%, contrasting to 11.6% in 2011.

(Loss) profit for the Year

Loss for the year ended 31 December 2012 was approximately RMB62.6 million, while the net profit for the year ended 31 December 2011 was approximately RMB119.4 million. The loss for the year was primarily due to: (i) the decrease in gross profit for the year ended 31 December 2012; (ii) the significant increase in operating expenses relating to sales, distribution and research and development along with the Group's continued efforts on developing new products and exploring new markets; and (iii) impairment loss of goodwill, intangible assets, property, plant, equipment, inventory and trade receivables recognized during the year since their recoverable amount, or net realizable value, or fair value was less than their carrying amount.

Liquidity and Financial Resources

The Group will continue to implement prudent financial management policies and maintain a reasonable gearing ratio during its expansion. As at 31 December 2012, the Group's gearing ratio (measured by total short term borrowings as a percentage of total assets of the Group) was approximately 34.4% (31 December 2011: 28.4%).

As at 31 December 2012, the total bank borrowings of the Group amounted to approximately RMB800.2 million (31 December 2011: approximately RMB653.5 million). These loans carried interests at floating or fixed rates. For the total short-term borrowings of approximately RMB800.2 million, approximately RMB668.9 million was secured loans.

Breakdown of our short-term borrowings is as follows:

	As at 31 December 2012 *RMB'000*	As at 31 December 2011 *RMB'000*
Trade financing	**408,311**	207,240
Note receivable discounted	**15,845**	5,096
Bank borrowings	**375,998**	441,135
Total	**800,154**	653,471

The increase in bank borrowings was mainly attributable to the investments in new factories and production facilities in Huizhou bases, investments in research and development centers both in Weihai and Suzhou base, and the working capital requirements.

Save as aforesaid or as otherwise disclosed herein, and apart from intragroup liabilities, the Company did not have outstanding at the close of business on 31 December 2012, any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

The Directors have confirmed that, there has been no material change in the indebtedness and contingent liabilities of the Company and its subsidiaries since 31 December 2012.

Foreign Currency Risk

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

Working Capital

Inventory balance as at 31 December 2012 was approximately RMB327.3 million (31 December 2011: approximately RMB319.5 million). The increase in inventory was in line with the increase in sales. The average turnover days for inventory were 71 days as at 31 December 2012 as compared to 61 days as at 31 December 2011, which was negatively affected by the increase of inventories from Dezhou due to special strategic preparation for its customers. Excluding the effect of the special strategic preparation, our average turnover days for inventory were stable as compared to 2011.

Trade and bill receivables balance as at 31 December 2012 was approximately RMB762.6 million (31 December 2011: approximately RMB946.9 million). The decrease in trade and bill receivables balance was mainly due to: (i) the acceleration of the recovery of trade and bill receivables; and (ii) the increased proportion of sales from the customers with shorter credit period. The average turnover days for trade and bill receivables stood at 161 days as at 31 December 2012 as compared to 158 days as at 31 December 2011. As at 31 December 2012, approximately 78.2% of our trade and bill receivables were due within three months.

Trade and bill payables balance as at 31 December 2012 was approximately RMB377.0 million (31 December 2011: approximately RMB462.0 million). The decrease in trade and bill payables balance was mainly due to our procurement control as well as raw material control. The average turnover days for trade and bill payables stood at 93 days as at 31 December 2012 as compared to 97 days as at 31 December 2011.

Our cash conversion cycle for the year ended 31 December 2012 was 139 days as compared to 122 days as at 31 December 2011.

Cash Flow

	Year ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
Net cash from/(used in) operating activities	**5,309**	(167,546)
Net cash (used in)/from investing activities	**(194,254)**	161,211
Net cash from/(used in) financing activities	**173,406**	(47,423)

For the year ended 31 December 2012, our cash flow has been improved greatly. Net cash from operating activities for the year ended 31 December 2012 was approximately RMB5.3 million, whereas net cash used in operating activities for the year ended 31 December 2011 was approximately RMB167.5 million. The improvement on operating cash flow condition was primarily due to decrease in trade and other receivables.

Net cash used in investing activities for the year ended 31 December 2012 of approximately RMB194.3 million was primarily attributable to prepayments for acquiring lands in Dezhou and Weihai, investments in research and development centers in Weihai and Suzhou, investments in new plant and office building in Huizhou and other purchase of property, plant and equipment, which were in line with the expansion of our production capacities.

Net cash from financing activities for the year ended 31 December 2012 amounted to approximately RMB173.4 million, which was primarily attributable to the increase in net borrowings.

Capital Expenditures

For the year ended 31 December 2012, the Group incurred total capital expenditures of approximately RMB226.7 million in construction of new factories, research and development centers and office buildings, the purchase of land, plant and machinery, equipment and computer systems.

Capital Commitments

As at 31 December 2012, the Group had capital commitments of approximately RMB58.1 million (31 December 2011: RMB71.3 million) in respect of acquisition of property, plant and equipments and approximately RMB533.1 million (31 December 2011: Nil) in respect of acquisition of equities.

Employees

As at 31 December 2012, the Group had a total of 9,918 full time staff, of which 3,150 were our direct employees (31 December 2011: 3,042) and 5,549 were our contract workers (31 December 2011: 5,437). As at 31 December 2012, we also had 1,219 part time interns (31 December 2011: 1,087). All our contract workers and part time interns were mainly deployed in production whereas in terms of our direct employees, the breakdown of direct employees as at 31 December 2012 is as follows:

	As at 31 December 2012	As at 31 December 2011
Manufacturing	**1,633**	1,543
Sales and marketing	**289**	204
General and administration	**618**	678
Research and development	**270**	288
Quality control	**340**	329
Total	**3,150**	3,042

Use of Proceeds Raised from the Global Offering

The net proceeds from the global offering of the Company (the "**Global Offering**"), after deducting the relevant cost were approximately HKD470.3 million (equivalent to approximately RMB400.7 million). As at 31 December 2012, the Company utilized the proceeds of approximately RMB302.4 million to the Group's new development projects, research and development and working capital in line with the disclosure in the prospectus of the Company. The Directors do not anticipate any changes to its plan on the use of proceeds as stated in the prospectus of the Company.

At present, the utilization of proceeds from the Global Offering is basically the same with the intended use of proceeds as disclosed in the prospectus of the Company.

As at 31 December 2012, proceeds used on projects are generally analyzed as follows:

Project	Accumulated use of proceeds Estimated amount *RMB (million)*	 Accumulated expenses *RMB (million)*
Expanding production capacity of existing products	160.3	95.5
Development and production of new products	176.3	142.8
Research and development investment	24.0	24.0
General working capital and other general corporate purposes	40.1	40.1
Total	400.7	302.4

CAPITAL INJECTION IN HUIZHOU TECHNOLOGY

Apart from August and December 2011, on March 2012, Weihai Electronic injected capital of approximately RMB1,992,000 to 惠州市泓淋科技有限公司 (Huizhou Honglin Technology Co., Ltd.*, "**Huizhou Technology**"), formerly known as 惠州大亞灣和平通信電纜有限公司 (Huizhou Daya Bay Heping Telecommunication Co., Ltd.*), for a third time to acquire the remaining 2.73% non-control interest. As such, Weihai Electronic completed all the acquisitions of Huizhou Technology with a 100% holding of its equity interests.

Huizhou Technology is principally engaged in the design, research and development, manufacture and sale of communication wire and cable and related products catering to the telecommunication industry in the PRC.

CONNECTED TRANSACTION IN RELATION TO THE ESTABLISHMENT OF WEIHAI DONGCHEN

On 27 April 2012, the Board has approved the establishment of 威海市東晨塑膠新材料有限公司 (Weihai Dongchen Plastics New Materials Limited*, the "**JV Company**") by Weihai Electronic, a wholly owned subsidiary of the Company, and Mr. Chi Zhongmin (the "**JV Partner 1**") and Mr. Zhang Fengji (the "**JV Partner 2**") (collectively, the "**JV Partners**") pursuant to the terms of the articles of the JV Company signed by Weihai Electronic and the JV Partners in relation to the establishment of the JV Company (the "**JV Articles**"). According to the JV Articles, the JV Company is to be owned by Weihai Electronic as to 60%, JV Partner 1 as to 30% and JV Partner 2 as to 10%. Weihai Electronic shall contribute an aggregate of RMB6.0 million (equivalent to HKD7.2 million) to the capital of the JV Company, representing 60% of the equity capital in the JV Company.

The business scope of the JV Company will be the manufacture and sale of plastic materials and products used for cable jacketing, focusing on the production of halogen-free insulating plastic materials.

* *English names are for identification purposes only.*

As JV Partner 1 is an associate of Mr. Chi, a controlling shareholder and a director of the Company, JV Partner 1 is a connected person of the Company as defined under the Rules Governing the Listing of Securities (the "**Listing Rules**") on the Stock Exchange. Hence, the establishment of the JV Company constitutes a connected transaction of the Company which is exempt from the independent shareholders' approval requirements and is only subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules.

Details of the establishment of the JV Company have been set out in the announcement dated 27 April 2012 published by the Company.

MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF ROSY SUN

On 28 October 2012, the Company entered into a sale and purchase agreement (the "**S&P Agreement**") with Mr. Chi for the sale and purchase of the entire issued share capital of Rosy Sun (the "**Rosy Sun Acquisition**").

Pursuant to the S&P Agreement (as supplemented by the Supplemental Agreement (as defined below)), Mr. Chi has conditionally agreed to sell and the Company has conditionally agreed to purchase the entire issued share capital of Rosy Sun (the "**Sale Shares**") and the loan or debt (if any) owing by Rosy Sun, New Postcom Technology Company Limited (the "**HK Company**") or the PRC Company to Mr. Chi at a consideration of HKD650 million (the "**Consideration**"). The Consideration was satisfied by the Company issuing to Mr. Chi (or such other person as Mr. Chi may nominate in writing) the promissory note in a principal amount of HKD650 million. The Consideration was determined after arm's length negotiations between Mr. Chi and the Company after taking into account a number of factors including the business nature, the business prospects, net assets value of Rosy Sun, the HK Company and the PRC Company as at 30 June 2012, performance of the PRC Company, the profit guarantee given by Mr. Chi to the Company that, subject to the terms of the S&P Agreement, the net profit for the financial year ending 31 December 2013 shall be not less than RMB85 million, and the preliminary estimation of the fair value of the PRC Company of approximately HKD700 million pursuant to the business valuation carried out by an independent valuer under the market approach using the relevant forward price to earnings multiples and relevant forecast earnings of the PRC Company for the year ended 31 December 2012.

The PRC Company is a wholly foreign owned enterprise established in Shenyang, Liaoning Province, the PRC, which is wholly owned by the HK Company. The HK Company is an investment holding company incorporated in Hong Kong, which is wholly owned by Rosy Sun. Rosy Sun is an investment holding company incorporated in the British Virgin Islands.

The PRC Company is principally engaged in (i) the research and development, manufacturing 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 the their existing network systems.

The Rosy Sun Acquisition constituted a major transaction of the Company under Chapter 14 of Listing Rules. Mr. Chi is the controlling shareholder, an executive director and the chairman of the Company who is interested in approximately 40.87% interests of the Company, thus Mr. Chi is considered as a connected person of the Company and the Rosy Sun Acquisition also constituted a connected transaction of the Company and was subject to the reporting, announcement and the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

On 28 December 2012, the Company and Mr. Chi entered into a supplemental agreement (the "**Supplemental Agreement**"), pursuant to which the Company and Mr. Chi agreed that (i) the number of Sale Shares to be conditionally sold and purchased under the S&P Agreement shall be two, representing the entire issued share capital of Rosy Sun; and (ii) in relation to the aforesaid profit guarantee, the audited consolidated accounts of the PRC Company for the year ending 31 December 2013 pursuant to which the net profit would be shown shall be prepared according to the International Financial Reporting Standards instead of Hong Kong Financial Reporting Standards.

Details of the Rosy Sun Acquisition have been set out in the announcements dated 30 October 2012, 19 November 2012, 17 December 2012 and 28 December 2012 respectively and the circular dated 31 December 2012 published by the Company.

CONNECTED TRANSACTION AND DISCLOSEABLE TRANSACTION IN RELATION TO THE DISPOSAL OF RITUO AUTOMOTIVE AND THE ACQUISITION OF RITUO TECHNOLOGY

On 20 November 2012, Weihai Electronic, a wholly owned subsidiary of the Company, entered into a disposal agreement (the "**Disposal Agreement**") with, among others, Wang Xiang, pursuant to which Weihai Electronic has agreed to sell, and Wang Xiang has agreed to purchase 55% equity interest in Rituo Automotive (the "**Rituo Disposal**") at the consideration of RMB58.60 million (equivalent to approximately HKD70.32 million), which was determined primarily with reference to: (i) the operating situation at Rituo Automotive; (ii) the non-exercise of the relevant profit guarantee; (iii) the amount of such consideration representing a 30.8% premium to the 55% proportionate net asset value of Rituo Automotive as at 31 October 2012; and (iv) the amount of capital contribution injected by Weihai Electronic into Rituo Automotive in February 2011, which was made reference to factors including but not limited to the relevant profit guarantee.

On the same day, Weihai Electronic entered into an acquisition agreement (the "**Acquisition Agreement**") with, among others, Rituo Automotive, pursuant to which Rituo Automotive has agreed to sell and Weihai Electronic has agreed to purchase 100% equity interest in Rituo Technology (the "**Rituo Acquisition**") at the consideration of RMB15.00 million (equivalent to approximately HKD18.00 million). The consideration was determined by reference to, among other things, the total amount Rituo Automotive invested into Rituo Technology and the net asset value of Rituo Technology as at 31 October 2012.

Rituo Technology is principally engaged in the design, research and development, manufacture and sale of automotive wiring harness products to end PRC automobile customers.

The Rituo Disposal and the Rituo Acquisition, when aggregated, constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules. Wang Xiang holds more than 30% of the registered capital of Rituo Automotive and is a director of Rituo Automotive immediately before and after the Disposal, and within the preceding 12 months from the entering into of the Disposal Agreement and the Acquisition Agreement. Accordingly, both Wang Xiang and Rituo Automotive are connected persons of the Company and each of the Rituo Disposal and the Rituo Acquisition constitutes a connected transaction of the Company, and, when aggregated, is a connected transaction which is subject to the reporting, announcement and independent shareholders' approval to have been sought at the extraordinary general meeting of the Company held on 12 January 2013.

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

Details of the Rituo Disposal and the Rituo Acquisition have been set out in the announcements dated 20 November 2012, 11 December 2012 and 19 December 2012 and the circular dated 24 December 2012 published by the Company.

CONTINUING CONNECTED TRANSACTION IN RELATION TO THE SALES MASTER AGREEMENT WITH WEIHAI DONGCHEN

On 30 November 2012, Weihai Dongchen, a non-wholly owned subsidiary of the Company, entered into the sales master agreement (the "**Sales Master Agreement**") with: (i) the Company; (ii) Weihai Electronic; (iii) 常熟泓淋電線電纜有限公司 (Changshu Honglin Wire & Cable Co., Ltd.*); (iv) 德州泓淋電子有限公司 (Dezhou Honglin Electronic Co., Ltd.*) and (v) 惠州市泓淋科技有限公司 (Huizhou Honglin Technology Co., Ltd.*), all of the companies referred to in items (ii) to (v) are subsidiaries of the Company, in relation to the sale of the plastic materials for a term commencing from 30 November 2012 to 31 December 2012 and the two years commencing on 1 January 2013 and expiring on 31 December 2014. Prior to 30 November 2012, Weihai Dongchen had not commenced its business in the sale of plastic materials with the Company or its subsidiaries. Based on the estimated quantity of the plastic materials required by the subsidiaries of the Company and the estimated unit price for the products, and taking into account the estimated market size, the annual caps under the Sales Master Agreement shall be approximately RMB26.0 million (equivalent to approximately HKD31.2 million) for each of the period from 30 November 2012 to 31 December 2012, the year ending 31 December 2013 and the year ending 31 December 2014 respectively.

* *English names are for identification purposes only.*

Weihai Dongchen is a non-wholly owned subsidiary of Weihai Electronic, a wholly owned subsidiary of the Company. Mr. Chi Zhongmin owns 30% of the equity in Weihai Dongchen. Mr. Chi Zhongmin is the brother of Mr. Chi, who is a controlling shareholder and director of the Company. Weihai Dongchen is therefore a connected person of the Company under Chapter 14A of the Listing Rules. The entering into of the Sales Master Agreement and the transactions contemplated thereunder thus constitute continuing connected transactions which are exempt from the independent shareholders' approval requirement and are only subject to the reporting, annual review and announcement requirements under Chapter 14A of the Listing Rules.

Details of the Sales Master Agreement have been set out in the announcements dated 30 November 2012 and 5 December 2012 published by the Company.

DISPOSAL OF A SUBSIDIARY

Pursuant to an agreement dated 17 December 2012, the Group disposed of its 51% equity interests of 蘇州華淳精密電子有限公司 (Suzhou Huachun Precision Electronics Co., Ltd*, "**Suzhou Huachun**") to 吳江華鋭精密電子有限公司 (Wujiang Huarui Precision Electronics Co., Ltd.*) for RMB10,200,000. The disposal was completed on 26 December 2012 and the Group was no longer interested in Suzhou Huachun.

EVENTS AFTER REPORTING PERIOD

Completion of Rosy Sun Acquisition

On 28 January 2013, the resolution for approving the Rosy Sun Acquisition was passed by the independent shareholders of the Company.

On 31 January 2013, all conditions precedent under the S&P Agreement have been fulfilled, and completion of the transactions contemplated under the S&P Agreement (as supplemented by the Supplemental Agreement) took place on 31 January 2013. In accordance with the S&P Agreement, the Company issued a promissory note in the amount of HKD650 million to Mr. Chi.

Details of the independent shareholders' approval and the completion of Rosy Sun Acquisition have been set out in the announcements dated 28 January 2013 and 31 January 2013 respectively.

Approval of Rituo Disposal and Rituo Acquisition

On 12 January 2013, the resolutions for approving the Rituo Disposal and Rituo Acquisition were passed by the shareholders of the Company.

Details of the shareholders' approval of the Rituo Disposal and the Rituo Acquisition have been set out in the announcement dated 12 January 2013 published by the Company.

* *English names are for identification purposes only.*

Discloseable transaction in relation to the acquisition of the entire equity interest in 威海錦源銘業房地產開發有限公司 (Weihai Jinyuan Mingye Property Development Co., Ltd.,* "Weihai Jinyuan")

On 22 March 2013, Weihai Electronic, a wholly owned subsidiary of the Company, entered into a sale and purchase agreement with the 北京錦源銘業房地產開發有限公司 (Beijing Jinyuan Mingye Property Development Co., Ltd.*, "**Beijing Jinyuan**"), an independent third party, and Mr. Miao Junjie (苗俊傑) ("**Mr. Miao**"), an independent third party, pursuant to which Weihai Electronic agreed to acquire, in aggregate, the entire equity interest in Weihai Jinyuan at the consideration of RMB6.0 million (equivalent to approximately HKD7.2 million) (the "**Weihai Jinyuan Acquisition**").

Weihai Jinyuan is a company established in the PRC with limited liability by Beijing Jinyuan and Mr. Miao on 16 July 2012. As at 22 March 2013, Weihai Jinyuan had a registered capital of RMB30.0 million (equivalent to approximately HKD36.0 million), among which RMB6.0 million (equivalent to approximately HKD7.2 million) had been paid up by Beijing Jinyuan. The equity interest of Weihai Jinyuan is owned as to 90% by Beijing Jinyuan and as to 10% by Mr. Miao. Weihai Jinyuan is principally engaged in the business activities in property development, sale of commercial housing, property services, estate information consultation, sale of construction materials, electronic hardware, instrument and apparatus, computer software, hardware and peripheral.

The Group expects to develop a large scale macromolecule research and development centre in Weihai in near future. In order to attract and retain relevant personnel, the Board intends that the Weihai Jinyuan Acquisition may allow the Group to provide dormitory and/or residential housing for its staff at a lower cost, and offer additional incentives and benefit to its staff.

The Weihai Jinyuan Acquisition, when aggregated with the directional property development cooperation agreement dated 16 August 2012 entered into between Weihai Electronic and Weihai Jinyuan, constituted a discloseable transaction of the Company under Chapter 14 of the Listing Rules, and were therefore subject to the reporting and announcement requirement under the Listing Rules.

Details of the Weihai Jinyuan Acquisition have been set out in the announcement dated 22 March 2013 published by the Company.

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DIVIDEND

The Directors considered that the declaration, payment and amount of the dividend shall be subject to the status of the Group's future development. The Directors do not recommend the payment of any dividend for the financial year ended 31 December 2012 (2011: Nil) and will consider to formulate a dividend policy at an appropriate time in the future.

CLOSURE OF TRANSFER BOOKS AND REGISTER OF MEMBERS

The transfer books and register of members of the Company will be closed from 22 May 2013 to 29 May 2013 (both dates inclusive) during which period no transfer of shares will be registered. In order to qualify for attending and voting at the annual general meeting of the Company, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 21 May 2013.

CORPORATE GOVERNANCE CODE

The Directors recognize the importance of incorporating the elements of good corporate governance into the management structures and internal control procedures of the Group so as to achieve effective accountability to the shareholders of the Company as a whole. The Board strived to uphold good corporate governance and adopt sound corporate governance practices continuously in the interest of shareholders of the Company to enhance the overall performance of the Company. The principles and the code provisions of the Code on Corporate Governance Practices (the "**CG Code**") effective before 1 April 2012 contained in the former Appendix 14 to the Listing Rules have been adopted by the Group prior to and on 31 March 2012, and the principles and code provisions of the revised Corporate Governance Code (the "**Revised CG Code**") effective from 1 April 2012 contained in the revised Appendix 14 to the Listing Rules have been adopted by the Group after 31 March 2012. The Company has also complied with the CG Code from 1 January 2012 to 31 March 2012 and the Revised CG Code from 1 April 2012 to 31 December 2012 except for the following deviation.

According to the code provision A.2.1 of the CG Code and the Revised CG Code, the roles of the chairman and the chief executive should be separated and should not be performed by the same individual. The Group does not at present separate the roles of the chairman and chief executive officer ("**CEO**"). For the year ended 31 December 2012, Mr. Chi is both the chairman of the Board and the CEO of the Group. The Board considers that vesting the roles of chairman and CEO in the same individual is beneficial to the business prospects and management of the Group. The Board will review the need of appointing suitable candidate to assume the role of the CEO when necessary.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 of the Listing Rules as its code of conduct regarding securities transactions by the Directors. On specific enquiries made, all Directors confirmed that they have complied with the required standards set out in the Model Code and its code of conduct regarding Directors' securities transactions during the year ended 31 December 2012.

AUDIT COMMITTEE

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

The Audit Committee has reviewed the Group's annual results for the year ended 31 December 2012, the consolidated financial statements for the year ended 31 December 2012 and this announcement.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities for the year ended 31 December 2012.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2012 as set out in this preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on this preliminary announcement.

AUDITED FINANCIAL STATEMENTS

The Group's consolidated financial statements have been audited by the Group's external auditor, Deloitte Touche Tohmatsu who has issued an unqualified opinion.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held on Wednesday, 29 May 2013 and the notice of annual general meeting will be published and despatched to shareholders of the Company in due course.

ANNUAL REPORT

The annual report of the Company for the financial year ended 31 December 2012 containing all the applicable information required by the Listing Rules will be published on the website of the Stock Exchange (www.hkexnews.hk) and the Company's website (www.hong-lin.com.cn) in due course. Printed copies will be despatched to shareholders of the Company in due course.

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

Hong Kong, 27 March 2013

As at the date of this announcement, the executive Directors are Mr. Chi Shaolin, Mr. Jiang Taike and Mr. Li Jianming, the non-executive Director is Ms. Xu Yiming and the independent non-executive Directors are Mr. Shu Wa Tung, Laurence, Mr. Song Lizhong and Ms. Zheng Lin.