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 INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2012

HIGHLIGHTS

	Six months ended 30 June		
	2012	2011	Change
	RMB'000	*RMB'000*	%
	(unaudited)	(unaudited, restated)	
Revenue	**1,030,846**	881,691	16.9
Gross profit	**162,927**	187,932	(13.3)
Profit before taxation	**19,862**	94,156	(78.9)
Profit for the period	**22,041**	86,773	(74.6)
Profit attributable to:			
— Owners of the Company	**27,876**	84,201	(66.9)
— Non-controlling interests	**(5,835)**	2,572	(326.9)
	22,041	86,773	(74.6)
Earnings per share			
— Basic (RMB cents)	**3.9**	11.7	(66.7)

* *For identification purposes only*

Selected Financial Ratios
For the six months ended 30 June

	2012	2011
Gross profit margin	**15.8%**	21.3%
Net profit margin	**2.1%**	9.8%
Current ratio (times)	**1.3**	1.3
Gearing ratio	**33.5%**	35.2%
Return on total assets*	**0.9%**	4.0%
Return on total equity*	**2.0%**	8.8%

* The above ratios are calculated by using average balances of total assets and total equity.

CHAIRMAN'S STATEMENT

Performance Review

The operating environment for global 3Cs (computing, communication and consumer electronics) markets was met with challenges and difficulties during the first half of 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 (the "U.S."). Consumers became less confident towards markets and consumer demands remained low. Our customers' overall purchasing volume during the second half of 2011 remained stable, however, the first half of 2012 saw a slight decrease along with the downturn in global electronic markets. Notwithstanding the overall weakness in our operating environment, HL Technology Group Limited ("we" or the "Company", together with its subsidiaries, the "Group") remained prudent in operation, and made all efforts in strengthening customer base as well as capability in research and development. We also continued to reform automation. At the same time, we saw a persistent shift in global purchasing of wire and cable products towards China, especially those top-tier international customers of wire and cable. As a result of the aforementioned reasons, for the six months ended 30 June 2012, the Group's revenue reached approximately Renminbi ("RMB") 1,030.8 million, representing a growth of approximately 16.9% as compared to the corresponding period in 2011.

Although the Company recorded some growth in revenue, the gross profit margin fell to 15.8% for the six months ended 30 June 2012, as compared to the corresponding period ended 30 June 2011, mainly attributable to: (i) the Company's adoption of more aggressive pricing strategy so as to expand its market share in a depressed market; (ii) an increase of labour costs and outsourcing costs of approximately 49.6% and 80.2% respectively, mainly as a result of an overall increase in employee salaries in line with general inflation for the first half of 2012; and (iii) the lingering effect of two acquisitions in 2011 that dragged down the Company's gross profit margin. At the same time, the Group's net profit dropped from RMB86.8 million as at 30 June 2011 to RMB22.0 million, which was mainly due to: (i) the decrease of gross profit margin for the six months ended 30 June 2012; (ii) the necessary investment to uphold research and development, sales and administration, which would not generate significant return before 2013, for enabling the Group to gain a better position in an ever-competitive market; and (iii) a sharp rise of financial cost due to higher interest rate and an increase in bank borrowings compared to the corresponding period of 2011. Notwithstanding the presence of recession, we believe the set back in gross profit and net profit for the six months ended 30 June 2012 is tentative. Our current endeavours will eventually pave as solid basis of the Company's business for a long-term sustainable development.

Overall, we have lost some short-term interests due to a lot of factors in uncertainty and instability affecting the current 3Cs markets. Despite of such circumstances, we have still used our best endeavours to win us more global market share and customer base contributing to the Group's long-term profitability in the near future. In view of the above, our progress in the first half of 2012 are summarized as follows:

Strengthening of Customer Base

Notwithstanding the weak market operating environment since the second half of 2011, the Group still demonstrated a strong momentum in consolidating our global customer base. Major customers that have been working with us for a long time are increasing their purchasing volume on our major products. The purchasing volume of several newly engaged customers in Europe and the U.S., such as Dell and HP, was surging rapidly, representing an increasing recognition of the Group in global 3Cs markets. During the first half of 2012, newly engaged customers in Europe and the U.S., such as RIM (BlackBerry) proved our competitiveness, product quality and innovativeness were leading in the industry. At the same time, we saw a persistent shift of global purchasing of wire and cable products to China, partly due to the persistently escalating technical edge of China's suppliers and their competitiveness still remains strong notwithstanding the latest rise in labour cost.

Progress of Research and Development

During the first six months in 2012, we have been developing and upgrading the product mix derived from the research and development of high-speed and high-frequency wire and cable, with new inclusion of wire and cable products, halogen-free products and antenna products such as elastomer materials of halogen-free polyphenylene oxide, LSZH (Low Smoke Zero Halogen) polylefine jacketing materials, ultra thin embedded metal antenna, intelligent antenna and 3D (Three Dimensional) antenna, in particular the notable MHL (Mobile High-definition Link) 2.0 that adds remote control functions on the foundation of MHL1.0 to further demonstrate its intelligent features. This project also enabled us to continuously penetrate into communication and high-end consumer electronics markets.

Upgrading of Management System

During the first half of 2012, the Group implemented a series of policies to upgrade management system, including: (i) perfecting the all-round organizational performance appraisal system and the 360° individual performance appraisal system to realize an end-to-end tracking of management by objective and project management for the purpose of securing profit; (ii) perfecting the budget management system and the financial analysis system for the purpose of further strengthening management's control over the Group's cost; (iii) integrating information technology and enterprise management into an information system for the purposes of lowering management cost and enhancing operating effectiveness; and (iv) introducing professional managers with career background of working with internationally renowned enterprise into departments such as purchasing, human resources, research and development and sales for the purposes of applying advanced management concepts and bringing more scientific and systematic methods to the Group's management. These measures served to establish a more effective management team and consolidated the Company's operating basis.

Achievements in Quality Management System

As for quality control, we endeavoured to enhance the Company's overall competitiveness in various ways, mainly including: (i) introducing international standards in laboratory management methodology, such as RS17025 for the purpose of better serving our top-tier international customers; (ii) introducing EICC (Electronic Industry Code of Conduct) into the facilities in Weihai, Changshu and Dezhou which mainly endeavours in environmental protection and labour safety protection; and (iii) implementing on-site quality inspection system SPC (Statistical Process Control) for the purposes of enhancing product yield rate and lowering rejection rate. These measures successfully enhanced the Company's capability and effectiveness in quality control.

Outlook

The industry remains prudent towards the business environment of 3Cs industry in the second half of 2012. 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. We will continue to make necessary investments in high-value areas for better equipping the Group and maintaining the Group at the technological forefront, so as to make profits from economic recovery at any time. The Group will continuously improve our research and development capability, move the labor intensive production processes to bases in the underdeveloped areas and strengthen the automation level to keep our competitiveness in respect of research and development and cost. In order to further enhance our competitiveness, the Company is considering some industrial upgrading by developing downstream supply chain. Furthermore, we will not rule out merger and acquisition as the means to 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. In summary, we are confident in securing more renowned customer in the future, and are convinced that the continuous enhancement and development of our business will eventually realise.

UNAUDITED INTERIM RESULTS

The board (the "Board") of directors (the "Director(s)") of the Company is pleased to announce the interim financial information of the Group for the six months ended 30 June 2012 together with the unaudited comparative figures for the corresponding period in 2011. The interim financial information have not been audited, but have been reviewed by the auditors, Deloitte Touche Tohmatsu, and the Company's audit committee (the "Audit Committee").

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2012

	NOTES	Six months ended 30 June 2012 RMB'000 (unaudited)	2011 RMB'000 (unaudited, restated)
Revenue	4	**1,030,846**	881,691
Cost of sales		**(867,919)**	(693,759)
Gross profit		**162,927**	187,932
Other income	5	**4,380**	5,652
Other gains and losses	6	**9,764**	7,710
Distribution and selling expenses		**(32,346)**	(22,061)
Administrative and general expenses		**(63,041)**	(48,878)
Research and development expenses		**(39,427)**	(25,201)
Finance costs	7	**(22,395)**	(10,998)
Profit before taxation	8	**19,862**	94,156
Income tax credit (expenses)	9	**2,179**	(7,383)
Profit for the period		**22,041**	86,773
Other comprehensive income			
Exchange difference on translating of foreign operations		**294**	(111)
Total comprehensive income for the period		**22,335**	86,662
Profit (loss) for the period attributable to:			
— Owners of the Company		**27,876**	84,201
— Non-controlling interests		**(5,835)**	2,572
		22,041	86,773
Total comprehensive income for the period attributable to:			
— Owners of the Company		**28,170**	84,090
— Non-controlling interests		**(5,835)**	2,572
		22,335	86,662
Earnings per share			
— Basic (RMB cents)	11	**3.9**	11.7

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2012

	NOTES	**As at 30 June 2012** *RMB'000* **(unaudited)**	As at 31 December 2011 *RMB'000* (audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**723,530**	655,398
Prepaid lease payments		**47,032**	47,539
Intangible assets		**29,061**	35,431
Goodwill		**5,923**	7,746
Deferred tax assets		**12,914**	4,773
		818,460	750,887
CURRENT ASSETS			
Inventories		**305,981**	319,518
Trade and other receivables	*12*	**1,079,214**	1,061,267
Prepaid lease payments		**1,014**	1,014
Pledged bank deposits		**30,713**	49,574
Other financial assets		**17,002**	5,229
Bank balances and cash		**105,093**	106,650
		1,539,017	1,543,252
CURRENT LIABILITIES			
Trade and other payables	*13*	**421,642**	524,347
Other financial liabilities		**4,699**	6,311
Income tax liabilities		**9,110**	7,765
Bank borrowings		**790,667**	653,471
		1,226,118	1,191,894
NET CURRENT ASSETS		**312,899**	351,358
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,131,359**	1,102,245
CAPITAL AND RESERVES			
Share capital		**97,401**	97,401
Reserves		**965,044**	934,293
Equity attributable to owners of the Company		**1,062,445**	1,031,694
Non-controlling interests		**59,599**	60,833
TOTAL EQUITY		**1,122,044**	1,092,527
NON-CURRENT LIABILITY			
Deferred tax liabilities		**9,315**	9,718
		9,315	9,718
		1,131,359	1,102,245

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2012

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
	(unaudited)	(unaudited, restated)
OPERATING ACTIVITIES		
Profit before taxation	**19,862**	94,156
Adjustments for:		
Finance costs recognized in profit or loss	**22,395**	10,998
Interest income recognized in profit or loss	**(616)**	(1,963)
Depreciation of property, plant and equipment	**27,601**	22,441
Amortization of intangible assets	**2,273**	1,870
Release of prepaid lease payments	**507**	332
Losses (gains) on disposals of property, plant and equipment	**654**	(1,851)
Gains on disposals of prepaid lease payments	**—**	(175)
Changes in fair values of derivative financial instruments	**(9,877)**	446
Changes in fair value of the contingent consideration in respect of Tianjin Rituo Acquisition *(as defined in note 6)*	**(10,438)**	—
Allowance for trade and other receivables — net	**93**	13
Exchange losses (gains) relating to bank borrowings	**785**	(12,231)
Recognition of share-based payments	**3,574**	3,574
Impairment loss recognized in respect of goodwill	**1,823**	—
Impairment loss recognized in respect of intangible assets	**5,822**	—
Impairment loss recognized in respect of property, plant and equipment	**3,124**	—
Operating cash flows before movements in working capital	**67,582**	117,610
(Increase) decrease in trade and other receivables	**(7,157)**	68,114
Decrease (increase) in inventories	**13,537**	(92,966)
Decrease in trade and other payables	**(95,376)**	(64,738)
Settlement of derivative financial instruments	**6,930**	(1,851)
Cash (used in) from operations	**(14,484)**	26,169
Income taxes paid	**(5,020)**	(10,270)
Interest paid	**(27,309)**	(13,348)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	**(46,813)**	2,551

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
	(unaudited)	(unaudited, restated)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(106,938)**	(148,303)
Purchase of land use rights	**—**	(18,839)
Net cash outflow in respect of Huizhou Technology Acquisition *(as defined in note 3)*	**—**	(8,033)
Placement of pledged bank deposits	**(66,003)**	(47,743)
Release of pledged bank deposits	**84,864**	43,759
Purchase of intangible assets	**(1,725)**	(1,940)
Proceeds on disposals of property, plant and equipment	**560**	19,842
Proceeds on disposals of prepaid lease payment for land use rights	**—**	899
Net cash inflow in respect of the Tianjin Rituo Acquisition *(as defined in note 6)*	**—**	6,750
Interest received	**616**	1,963
Advances to third parties	**(6,431)**	10
NET CASH USED IN INVESTING ACTIVITIES	**(95,057)**	(151,635)
FINANCING ACTIVITIES		
New borrowings raised	**777,380**	564,029
Repayments of borrowings	**(640,675)**	(437,308)
Acquisition of non-controlling interests	**(1,992)**	—
Capital contribution from non-controlling interests of subsidiaries	**5,600**	—
NET CASH FROM FINANCING ACTIVITIES	**140,313**	126,721
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(1,557)**	(22,363)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	**106,650**	160,408
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, represented by bank balances and cash	**105,093**	138,045

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2012

1. GENERAL

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and with the International Accounting Standard 34 "Interim Financial Reporting" issued by the International Accounting Standards Board ("IASB").

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 condensed consolidated financial statements are presented in RMB, which is the same as the functional currency of the Company and the principal subsidiaries.

2. PRINCIPAL ACCOUNTING POLICIES

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

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2012 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2011.

In the current interim period, the Group has applied, for the first time, the following amendments to International Financial Reporting Standards ("IFRS") issued by the IASB:

Amendments to IFRS 7	Financial Instruments disclosure — Transfers of Financial Assets
Amendments to IAS 12	Deferred tax: Recovery of Underlying Assets

The application of the above amendments to IFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

3. RESTATEMENT ARISING FROM VALUATION REGARDING ACQUISITION OF SUBSIDIARIES

The fair values of the identifiable assets and liabilities relating to 87% equity interest in 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.*) ("Huizhou Technology Acquisition")) were determined on provisional bases in the preparation of the condensed consolidated financial statements of the Group for the six month ended 30 June 2011. The amounts were subsequently revised upon obtaining a valuation report, resulting in a goodwill RMB5,923,000, compared with the excess over the cost of business combination of RMB4,036,000 as previously included in the condensed consolidated financial statements of the Group for the six month ended 30 June 2011.

Also, the fair values of the property, plant and equipment and intangible assets obtained in Huizhou Technology Acquisition were determined to be RMB2,538,000 and RMB210,000 lower than the respective provisional amounts, resulting in lower depreciation charge of RMB54,000 and amortization charge of RMB1,000 respectively being recognized in the condensed consolidated financial statements of the Group for the six months ended 30 June 2011 as previously reported.

Accordingly, the comparative condensed consolidated financial statements of the Group for the six month ended 30 June 2011 have been restated.

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The effects of the changes as described above on the results for the six months ended 30 June 2011 by line items are as follows:

	Six months ended 30 June 2011 *RMB'000*
Decrease in excess over the cost of a business combination, provisional	**(4,036)**
Decrease in the depreciation of property, plant and equipment and the amortization of intangible assets	**55**
Decrease in profit for the period	**(3,981)**
Decrease in profit for the period attributable to:	
— Owners of the Company	**(3,988)**
— Non-controlling interests	**7**
	(3,981)

4. SEGMENT INFORMATION

Information about reportable and operating segment revenues and results

The following table sets forth a breakdown of the Group's revenue and results by reportable and operating segments during the period under review:

	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*	Other products *RMB'000*	Total *RMB'000*
Six months ended 30 June 2012 (unaudited)									
Segment revenue	**205,404**	**210,575**	**176,859**	**272,240**	**14,499**	**23,489**	**87,463**	**40,317**	**1,030,846**
Segment results	**29,584**	**47,415**	**26,507**	**43,767**	**1,104**	**4,454**	**6,859**	**3,237**	**162,927**
Six months ended 30 June 2011 (unaudited)									
Segment revenue	181,940	169,109	136,434	236,449	28,227	18,943	68,953	41,636	881,691
Segment results	36,859	48,982	18,555	48,223	8,913	4,203	14,042	8,155	187,932

Revenue reported above represents revenue generated from external customers. There were no inter-segment sales during the period under review.

The segment results represent segment revenue less segment cost of sales determined on a standard cost basis, which represents the internally generated financial information regularly reviewed by the Group's chief operating decision maker. However, the other income, other gains and losses, distribution and selling expenses, administrative and general expenses, research and development expenses, finance costs and taxation are not allocated to each reportable segment.

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

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
	(unaudited)	(unaudited, restated)
Reportable segment results	**162,927**	187,932
Unallocated income and expenses:		
— Other income	**4,380**	5,652
— Other gains and losses	**9,764**	7,710
— Distribution and selling expenses	**(32,346)**	(22,061)
— Administrative and general expenses	**(63,041)**	(48,878)
— Research and development expenses	**(39,427)**	(25,201)
— Finance costs	**(22,395)**	(10,998)
Profit before taxation	**19,862**	94,156
Income tax credit (expenses)	**2,179**	(7,383)
Profit for the period	**22,041**	86,773

5. OTHER INCOME

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Government grants	**3,764**	3,689
Interest income	**616**	1,963
	4,380	5,652

6. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
	(unaudited)	(unaudited, restated)
Net foreign exchange gains	**872**	6,130
(Losses) gains on disposals of property, plant and equipment	**(654)**	1,851
Gains on disposals of prepaid lease payment	**—**	175
Changes in fair value of derivative financial instruments in respect of commodity derivative contracts and cancellable foreign currency forwards swaps contracts	**9,877**	(446)
Changes in fair value of the contingent consideration in respect of acquisition of 55% interest in 天津日拓汽車電裝有公司 (Tianjin Rituo Automotive Electronic Ltd*, "Tianjin Rituo") ("Tianjin Rituo Acquisition")	**10,438**	—
Impairment loss recognized in respect of property, plant and equipment	**(3,124)**	—
Impairment loss recognized in respect of intangible assets	**(5,822)**	—
Impairment loss recognized in respect of goodwill	**(1,823)**	—
	9,764	7,710

7. FINANCE COSTS

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Interest on borrowings wholly repayable within five years	**27,309**	13,348
Less: amount capitalized in respect of cost of qualifying assets	**(4,914)**	(2,350)
	22,395	10,998

Borrowing costs capitalized during the six months ended 30 June 2012 arose on the general borrowing pool and are calculated by applying capitalization rates ranging from 6.99% to 7.75% per annum (six months period ended 30 June 2011: 5.21% to 6.11% per annum) to expenditure on qualifying assets.

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8. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging the following items:

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
	(unaudited)	(unaudited, restated)
Staff cost (including directors' emoluments)		
— Salaries and other benefits	**158,175**	102,148
— Retirement benefit scheme contributions	**5,770**	4,056
— Share-based payments	**3,574**	3,574
	167,519	109,778
Depreciation and amortization:		
— Property, plant and equipment	**27,601**	22,441
— Intangible assets	**2,273**	1,870
	29,874	24,311
Release of prepaid lease payments	**507**	332
Cost of inventories recognised as an expense included in		
— Cost of sales	**867,919**	693,759
— Research and development expenses	**20,131**	11,369
	888,050	705,128
Allowance for doubtful debts relating to trade receivables	**93**	13

9. INCOME TAX CREDIT (EXPENSES)

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
PRC Enterprise Income Tax ("EIT")		
— Current period	**6,478**	11,810
— Overprovision of PRC EIT in prior periods	**(113)**	(679)
	6,365	11,131
Deferred tax		
— Current period	**(8,544)**	(3,748)
Income tax (credit) expenses	**(2,179)**	7,383

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

Except of the following companies, the subsidiaries of the Company incorporated in the People's Republic of China (the "PRC") are subject to the PRC EIT of 25% for the period under review:

Name of the subsidiary	Six months ended 30 June	
	2012	2011
	%	%
威海市泓淋電子有限公司 (Weihai Honglin Electronic Co. Ltd.#, "Weihai Electronic")	**15.0**	15.0
威海市泓淋電線電纜有限公司 (Weihai Honglin Wire & Cable Co., Ltd.#, "Weihai Cable") *(note below)*	**N/A**	15.0
常熟泓淋電子有限公司 (Changshu Honglin Electronic Co., Ltd.#)	**12.5**	12.5
常熟泓淋電線電纜有限公司 (Changshu Honglin Wire & Cable Co., Ltd.#)	**15.0**	12.5
常熟泓淋連接技術有限公司 (Changshu Honglin Connecting-Technology Co., Ltd.#)	**12.5**	12.5
德州泓淋電子有限公司 (Dezhou Honglin Electronic Co., Ltd.#)	**15.0**	12.5
武漢市泓淋電子有限公司 (Wuhan Honglin Electronic Co., Ltd.#)	**25.0**	12.0

Note: Both Weihai Electronic and Weihai Cable are wholly owned subsidiaries of the Company. During the six months ended 30 June 2012, Weihai Cable merged its business and operations to Weihai Electronic and accordingly, the income of Weihai Cable was included in the taxable income of Weihai Electronic.

The English names are for identification purpose only.

10. DIVIDENDS

No dividend has been paid or proposed by the Company during the six months ended 30 June 2012, nor has any dividend been proposed since the end of the reporting period (six months ended 30 June 2011: nil).

11. EARNINGS PER SHARE

The calculation of the basic earnings per share for the period under review is based on the following data:.

	Weighted average number of shares	
	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
	(unaudited)	(unaudited, restated)
Profit attributable to owners of the Company	**27,876**	84,201

	Weighted average number of shares	
	Six months ended 30 June	
	2012	2011
Number of shares in issue for the purposes of basic earnings per share	**720,000,000**	720,000,000

The following table summarizes the impact on basic earnings per share for the six months ended 30 June 2011 as a result of change of fair value to tangible and intangible assets subsequent to acquisition of Huizhou Technology and consideration of Tianjin Rituo:

	Profit attributable to owners of the Company *RMB'000*	**Earnings per share** *RMB (cents)*
Before adjustment	88,189	12.2
Adjustment arising from valuation regarding acquisition of subsidiaries *(note 3)*	(3,988)	(0.5)
After adjustment	84,201	11.7

There were no potential dilutive shares in existence during the period under review and therefore, no diluted earnings per share amounts have been presented.

12. TRADE AND OTHER RECEIVABLES

	Notes	**As at 30 June 2012** ***RMB'000*** **(unaudited)**	As at 31 December 2011 *RMB'000* (audited)
Trade receivables	*(a)*	**898,744**	888,812
Less: Allowance for doubtful debts		**(1,336)**	(1,239)
		897,408	887,573
Bills receivable	*(b)*	**38,981**	59,327
Advance to suppliers		**83,014**	76,618
Value added tax recoverable		**20,984**	8,608
Deposits and prepayments		**17,746**	17,450
Consideration receivable from disposals of property, plant and equipment		**4,450**	—
Advances to non-control interest shareholders		**—**	1,902
Advances to third parties		**12,730**	6,299
Advances to staff		**2,458**	2,812
Other receivables		**1,443**	678
		1,079,214	1,061,267

Notes:

(a) Trade receivables

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

The Group generally allows a credit period ranging from 60 days to 180 days to its trade customers.

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

	As at 30 June 2012 *RMB'000* **(unaudited)**	As at 31 December 2011 *RMB'000* (audited)
Within 3 months	**706,882**	724,709
Over 3 months but within 6 months	**180,586**	154,175
Over 6 months but within 1 year	**9,940**	8,689
	897,408	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:

	As at 30 June 2012 *RMB'000* **(unaudited)**	As at 31 December 2011 *RMB'000* (audited)
Within 3 months	**11,414**	27,267
Over 3 months but within 6 months	**27,567**	32,060
	38,981	59,327

13. TRADE AND OTHER PAYABLES

	Notes	As at 30 June 2012 RMB'000 (unaudited)	As at 31 December 2011 RMB'000 (audited)
Trade payables	*(a)*	**312,968**	406,318
Bills payable	*(b)*	**55,996**	55,691
Receipts in advance from customers		**1,088**	4,781
Other tax payables		**4,292**	4,457
Payables for acquisition of property, plant and equipment		**12,659**	19,990
Payrolls and staff cost payables		**15,537**	15,909
Advances from non-control interest shareholders		**3,272**	5,737
Accrued expenses		**10,857**	9,127
Other payables		**4,973**	2,337
		421,642	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.

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:

	As at 30 June 2012 RMB'000 (unaudited)	As at 31 December 2011 RMB'000 (audited)
Within 3 months	**295,313**	380,999
Over 3 months but within 1 year	**16,401**	23,782
Over 1 year but within 2 years	**1,153**	1,528
Over 2 years	**101**	9
	312,968	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:

	As at 30 June 2012 RMB'000 (unaudited)	As at 31 December 2011 RMB'000 (audited)
Within 3 months	**26,210**	15,504
Over 3 months but within 6 months	**29,786**	40,187
	55,996	55,691

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

	For six months ended 30 June				
	2012		2011		
	Revenue *RMB'000* **(unaudited)**	**% of Revenue**	Revenue *RMB'000* (unaudited)	% of Revenue	Change %
External signal cable assembly	**205,404**	**19.9**	181,940	20.6	12.9
Internal signal cable assembly	**210,575**	**20.4**	169,109	19.2	24.5
Power cord assembly	**176,859**	**17.2**	136,434	15.5	29.6
Signal transmission wire and cable	**272,240**	**26.4**	236,449	26.8	15.1
Connectors	**14,499**	**1.4**	28,227	3.2	(48.6)
Antennas	**23,489**	**2.3**	18,943	2.1	24.0
Automotive wiring harness	**87,463**	**8.5**	68,953	7.8	26.8
Others	**40,317**	**3.9**	41,636	4.8	(3.2)
Total	**1,030,846**	**100.0**	881,691	100.0	16.9

Total revenue increased by approximately RMB149.2 million for the six months ended 30 June 2012 or approximately 16.9%, as compared to the corresponding period in 2011 as we witnessed growth in revenue across most of our key product segments, including strong growth in our power cord assembly and signal transmission wire and cable segments. The increase was primarily due to: (i) our ability to gain market share in our key target markets despite the weak operating environment; (ii) our ability to develop new customers and obtain new orders; and (iii) the success of the aggressive pricing strategy adopted 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, our overall revenue 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.

While challenges are expected to continue in the global economies and 3Cs industries in general in the second half of 2012, we remain optimistic that the Group is well positioned to continue increasing market share in our target markets. The Group has also proactively been 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 operations. In the second half of 2012, the Group will however continue to invest, when necessary, in research and development and marketing efforts in order to strengthen the Group's competitive advantage and to best position ourselves to benefit from a recovery.

External Signal Cable Assembly

	Six months ended 30 June				
	2012		2011		
	Revenue *RMB'000* **(unaudited)**	**% of Revenue**	Revenue *RMB'000* (unaudited)	% of Revenue	Change %
RGB assembly	**95,476**	**46.5**	88,228	48.5	8.2
DVI assembly	**48,070**	**23.4**	46,306	25.4	3.8
HDMI assembly	**526**	**0.3**	439	0.2	19.8
USB assembly	**47,891**	**23.3**	36,303	20.0	31.9
DC assembly	**13,441**	**6.5**	10,664	5.9	26.0
	205,404	**100.0**	181,940	100.0	12.9

We developed a few new customers and obtained some new orders as well as gained more market share in our key existing markets 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 especially USB assembly. Our external signal cable assembly segment recorded an increase in revenue of approximately RMB23.5 million for the six months ended 30 June 2012, or approximately 12.9%, as compared to the corresponding period in 2011.

Internal Signal Cable Assembly

	Six months ended 30 June				
	2012		2011		
	Revenue *RMB'000* **(unaudited)**	**% of Revenue**	Revenue *RMB'000* (unaudited)	% of Revenue	Change %
Low Voltage Differential Signaling (LVDS)	**175,522**	**83.4**	129,016	76.3	36.0
Flexible Flat Cable (FFC)	**35,053**	**16.6**	40,093	23.7	(12.6)
	210,575	**100.0**	169,109	100.0	24.5

Our internal signal cable assembly segment recorded an increase in revenue of approximately RMB41.5 million for the six months ended 30 June 2012, or approximately 24.5%, as compared to the corresponding period in 2011, mainly driven by: (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 existing customers due to the decrease of their production capacities during their product upgrading. Our FFC assembly 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.

Power Cord Assembly

Sales of power cord assembly increased by approximately RMB40.4 million for the six months ended 30 June 2012, or approximately 29.6%, as compared to the corresponding period in 2011, mainly due to: (i) strengthening of our customer base, especially the newly obtained customers in the second half of 2011, including DELL and HP, 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. We believe 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. The Group will continue to increase the research and development investment in this segment and take this as the emphasis of future development.

Signal Transmission Wire and Cable

	Six months ended 30 June				
	2012		2011		
	Revenue ***RMB'000*** **(unaudited)**	**% of Revenue**	Revenue *RMB'000* (unaudited)	% of Revenue	Change %
Communication cable	**74,342**	**27.3**	48,386	20.5	53.6
Consumer electronics cable	**135,785**	**49.9**	131,811	55.7	3.0
Automotive cable	**11,738**	**4.3**	11,407	4.8	2.9
Power cable	**40,870**	**15.0**	41,272	17.5	(1.0)
Specialty wire and cable	**628**	**0.2**	—	—	N/A
Others	**8,877**	**3.3**	3,573	1.5	148.4
	272,240	**100.0**	236,449	100.0	15.1

Our signal transmission wire and cable segment recorded an increase in revenue of approximately RMB35.8 million for the six months ended 30 June 2012, or approximately 15.1%, as compared to the corresponding period in 2011, as we saw a strong increase in sales across products such as communication cable which increased by approximately 53.6% primarily due to increased revenue contribution from the customers, including ZTE and Huawei, of Huizhou Technology post our acquisition in May 2011 and increased procurement volume from our existing customers. Furthermore, revenue generated by our halogen-free wire and cable increased by approximately RMB33.5 million or approximately 124.1% as compared to the corresponding period in 2011. We have 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.

Connectors

The revenue of the Group's connectors segment recorded a revenue of approximately RMB14.5 million for the six months ended 30 June 2012, representing a decrease of approximately 48.6%, as compared to the corresponding period in 2011. The significant drop 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.

Antenna

The sales of the antenna segment recorded an aggregate revenue of approximately RMB23.5 million for the six months ended 30 June 2012, representing an increase of approximately RMB4.5 million, or approximately 24.0%, as compared to the corresponding period in 2011. The main reasons for the increase are: (i) the initial success of the substantial investment in earlier research and development and sales made by the Group to the antenna 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.

Automotive Wiring Harness

Revenue for automotive wiring harness increased by approximately RMB18.5 million for the six months ended 30 June 2012, or approximately 26.8%, as compared to the corresponding period in 2011, mainly due to the increase in the market share in our key customers including JAC and HAIMA.

FINANCIAL REVIEW

Cost of Sales

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

	Six months ended 30 June				
	2012		2011		
	RMB'000 **(unaudited)**	**% of total cost of sales**	*RMB'000* (unaudited)	% of total cost of sales	Change %
Raw material costs	**663,412**	**76.4**	555,124	80.0	19.5
Utilities	**13,121**	**1.5**	10,768	1.6	21.9
Depreciation	**16,460**	**1.9**	15,066	2.2	9.3
Labor costs	**105,886**	**12.2**	70,788	10.2	49.6
Outsourcing costs	**51,681**	**6.0**	28,678	4.1	80.2
Others	**17,359**	**2.0**	13,335	1.9	30.2
	867,919	**100.0**	693,759	100.0	25.1

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

	Six months ended 30 June				
	2012		2011		
	RMB'000 **(unaudited)**	**% of raw material costs**	*RMB'000* (unaudited)	% of raw material costs	Change %
Copper materials	**346,965**	**52.3**	299,767	54.0	15.7
Plastic materials	**126,716**	**19.1**	99,922	18.0	26.8
Iron materials	**12,605**	**1.9**	9,992	1.8	26.2
Others	**177,126**	**26.7**	145,443	26.2	21.8
	663,412	**100.0**	555,124	100.0	19.5

Cost of sales increased by approximately RMB174.2 million for the six months ended 30 June 2012, or approximately 25.1%, as compared to the corresponding period in 2011. The increase was primarily due to: (i) an increase in raw material costs of approximately 19.5%, mainly as a result of an overall increase in sales volume and the higher plastic material prices in the first half of 2012 as compared to the corresponding period of 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 level for internal signal cable assembly and automotive wiring harness products that required more plastic materials for production; and (ii) an increase in labor costs and outsourcing costs of approximately 49.6% and 80.2% respectively, mainly as a result of an overall increase in employee salaries in line with general inflation for the first half of 2012.

Gross Profit and Margin

As a result of the foregoing, our gross profit decreased by approximately RMB25.0 million or approximately 13.3% in the first half of 2012 as compared to the corresponding period in 2011. Our gross profit margin decreased from 21.3% in the first half of 2011 to 15.8% in the first half of 2012. Specifically:

	Six months ended 30 June				
	2012		2011		
	Gross profit *RMB'000* **(unaudited)**	**Gross profit margin** *%*	Gross profit *RMB'000* (unaudited)	Gross profit margin %	Change %
External signal cable assembly	**29,584**	**14.4**	36,859	20.3	(19.7)
Internal signal cable assembly	**47,415**	**22.5**	48,982	29.0	(3.2)
Power cord assembly	**26,507**	**15.0**	18,555	13.6	42.9
Signal transmission wire and cable	**43,767**	**16.1**	48,223	20.4	(9.2)
Connectors	**1,104**	**7.6**	8,913	31.6	(87.6)
Antennas	**4,454**	**19.0**	4,203	22.2	6.0
Automotive wiring harness	**6,859**	**7.8**	14,042	20.4	(51.2)
Others	**3,237**	**8.0**	8,155	19.6	(60.3)
Total	**162,927**	**15.8**	187,932	21.3	(13.3)

During the period, the Group recorded gross profit of approximately RMB162.9 million for the six months ended 30 June 2012, representing a decrease of approximately 13.3%, as compared to the corresponding period in 2011. Overall gross profit margin has decreased from 21.3% in the first half of 2011 to 15.8% in the first half of 2012. The sharp decrease in gross profit margin for the period was mainly due to the decrease in average selling price for most of our products resulted from weakened market demand and that in order to increase our market share in weak operating environment, we also undertook a more aggressive pricing strategy and higher cost pressure in terms of labor and raw material costs in the first half of 2012 as compared to the corresponding period in 2011. The lingering effect of two acquisitions in 2011 dragged down the Company's gross profit margin as well.

Other Income

We have other income of approximately RMB4.4 million for the six months ended 30 June 2012, which was primarily attributable to interest income of approximately RMB0.6 million and government grant of approximately RMB3.8 million as incentives for research and development effort of the Group.

Other Gains and Losses

We have other gains and losses of approximately RMB9.8 million for the six months ended 30 June 2012, which was primarily attributable to: (i) net positive changes in fair value of our commodity derivative contract on copper and convertible foreign currency forwards swaps contract of approximately RMB9.9 million; (ii) during the six months period ended 30 June 2012, the Group recognized impairment loss of RMB10.8 million in relating to goodwill, property, plant and equipment and intangible assets of customer relationships and technology knowhow of automotive wiring harness CGU, as the recoverable amount of the unit is less than the carrying amount of net assets; and (iii) changes in fair value of the contingent consideration in respect of Tianjin Rituo Acquisition of approximately RMB10.4 million.

Distribution and Selling Expenses

Distribution and selling expenses increased by approximately RMB10.3 million for the six months ended 30 June 2012, or approximately 46.6%, as compared to the corresponding period in 2011, primarily as a result of increased level of sales and marketing activities in line with overall increase in revenue. This increase was primarily due to: (i) transportation expenses increased by approximately RMB3.2 million for the six months ended 30 June 2012, or approximately 37.0%, as compared to the corresponding period in 2011, which was attributable to the increase in revenue and marketing activities and the surging fuel price; (ii) labor cost increased by approximately RMB4.5 million for the six months ended 30 June 2012, or approximately 86.2%, as compared to the corresponding period in 2011 mainly due to the Group's number of staff in distribution and selling department increased from 175 as at 30 June 2011 to 253 as at 30 June 2012, out of which 43 staff employed by the Group are professional market developers with a background of working with internationally renowned enterprises. These people mainly served in the areas of antenna and high-speed wire and cable segment; and (iii) an increase in entertainment expenses of approximately RMB1.3 million for the six months ended 30 June 2012, or approximately 35.2%, as compared to the corresponding period in 2011, primarily due to an increase in sales and marketing activities.

Administrative and General Expenses

Administrative and general expenses increased by approximately RMB14.2 million for the six months ended 30 June 2012, or approximately 29.0%, as compared to the corresponding period in 2011. The major factors attributable to such increase were: (i) an increase in salary expenses of approximately RMB7.9 million for the six months ended 30 June 2012, or approximately 37.1%, as compared to the corresponding period of 2011, which was mainly attributable to the number of administrative staff of the Group increasing from 655 as at 30 June 2011 to 805 as at 30 June 2012 as a result of the expansion in Chongqing base and a new Weihai special plastic materials production base; (ii) depreciation and amortization increased by approximately RMB1.7 million for the six months ended 30 June 2012, or approximately 35.0%, as compared to the corresponding period of 2011 mainly as a result from office expansion and additional office related purchase in general as we increased our business scale; (iii) rental increase of approximately RMB1.5 million for the six months ended 30 June 2012, or approximately 129.1%, as compared to the corresponding period in 2011 was primarily due to the relocation to new and bigger plants of Tianjin Rituo and 蘇州華淳精密電子有限公司 (Suzhou Huachun Precision Electronics Co., Ltd.*); and (iv) consumable expense increased by approximately RMB0.5 million for the six months ended 30 June 2012, or approximately 51.8%, as compared to the corresponding period in 2011, which was also primarily due to the increase in the number of administrative staff.

* *The English name is for identification purposes only*

Research and Development Expenses

Research and development expenses increased by approximately RMB14.2 million for the six months ended 30 June 2012, or approximately 56.5%, as compared to the corresponding period in 2011. This increase was primarily attributed to: (i) the number of research and development staff increased from 274 as at 30 June 2011 to 393 as at 30 June 2012 which caused an increase of RMB1.8 million or 19.8% in labor cost. The increase of these staff mainly concentrated in the high-speed wire business department, antenna business department, polymer R&D center and specialty wire and cable team; and (ii) material cost and depreciation increased by approximately RMB8.8 million and approximately RMB2.0 million for the six months ended 30 June 2012, or approximately 77.1% and 140.2%, respectively, as compared to the corresponding period in 2011, primarily as a result of our expanded research and development scope and scale.

Finance Cost

Finance cost increased by approximately RMB11.4 million for the six months ended 30 June 2012, or approximately 103.6%, as compared to the corresponding period in 2011, due to an increase in bank borrowings in line with the expansion in size and scale of our business operations. In addition, the average interest rate for our short-term loans for the first six months in 2012 was higher than the average interest rate for the corresponding period in 2011 and thereby increased the interest cost for our borrowings.

Income Tax (Credit) Expenses

We received income tax credit for the six months ended 30 June 2012 primarily due to the effect of deferred tax credit of approximately RMB8.5 million in the first half of 2012. We registered such deferred tax credit because of deductible tax losses carried forward for some of our subsidiaries. Excluding the effect of deferred tax and adjustment for over provision of enterprise income tax (“EIT”) in prior years, our current period PRC EIT tax expenses decreased by approximately RMB5.3 million for the six months ended 30 June 2012, or approximately 45.1%, as compared to the corresponding period in 2011 as a result of decrease in our profit before taxation.

Profit for the Period

As a result of the foregoing, profit for the period decreased by approximately RMB64.7 million for the six months ended 30 June 2012, or approximately 74.6%, as compared to RMB86.8 million for the corresponding period in 2011. Our net profit margin was approximately 2.1% in the first half of 2012 as compared to approximately 9.8% in the first half of 2011. The sharp decrease in net profit margin was primarily due to: (i) impact of decrease in gross profit margin; (ii) the necessary investment to uphold research and development, sales and administration, which would not generate significant return before 2013, for enabling the Group to gain a better position in an ever-competitive market; and (iii) a sharp rise of financial cost due to higher interest rate and an increase in bank borrowings compared to the corresponding period in 2011.

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 30 June 2012, the Group's gearing ratio (measured by total short term borrowings as a percentage of total assets of the Company) was approximately 33.5% (30 June 2011: 35.2%).

As at 30 June 2012, the total bank borrowings of the Group amounted to approximately RMB790.7 million (31 December 2011: RMB653.5 million). These loans carried interests at floating or fixed rates. For the total short-term borrowings of approximately RMB790.7 million, approximately RMB487.5 million was secured loans.

Breakdown of our short-term borrowings is as follows:

	As at 30 June 2012 *RMB'000* **(unaudited)**	As at 31 December 2011 *RMB'000* (audited)
Trade financing	**289,944**	207,240
Note receivable discounted	**2,300**	5,096
Bank borrowings	**498,423**	441,135
Total	**790,667**	653,471

The increase in bank borrowings was mainly attributable to investments in new factories and production facilities in our Weihai, Dezhou and Huizhou base, working capital requirements and also the outstanding borrowing at our two newly acquired entities.

Save as aforesaid or as otherwise disclosed herein, and apart from intragroup liabilities, the Group did not have outstanding at the close of business on 30 June 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 30 June 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 currencies, 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 30 June 2012 was approximately RMB306.0 million (31 December 2011: approximately RMB319.5 million). The decrease in inventory was primarily due to the proper inventory control during the economic depression. The average turnover days for inventory stood at 65 days as at 30 June 2012 as compared to 66 days as at 30 June 2011, which was negatively affected by the increase of inventories from Tianjin Rituo due to special strategic preparation for its customers. Excluding the effect of Tianjin Rituo's special strategic preparation, our average turnover days for inventory stood at 51 days as at 30 June 2012.

Trade and bill receivables balance as at 30 June 2012 was approximately RMB936.4 million (31 December 2011: approximately RMB946.9 million). The decrease in trade and bill receivables balance was mainly due to the Company speeded up the recovery of the trade and bill receivables. The average turnover days for trade and bill receivables stood at 165 days as at 30 June 2012 as compared to 141 days as at 30 June 2011 as we have extended the credit period of some significant customers with good credit records to gain more market share at the end of 2011 and in the period for the six months ended 30 June 2012. As at 30 June 2012, approximately 76.7% of our trade and bill receivables were due within three months.

Trade and bill payables balance as at 30 June 2012 was approximately RMB369.0 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 stand at 87 days as at 30 June 2012 as compared to 89 days as at 30 June 2011.

Our cash conversion cycle for the six months ended 30 June 2012 was approximately 143 days as compared to 118 days as at 30 June 2011.

Cash Flow

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
	(unaudited)	(unaudited, restated)
Net cash (used in)/from operating activities	**(46,813)**	2,551
Net cash (used in) investing activities	**(95,057)**	(151,635)
Net cash from financing activities	**140,313**	126,721

Net cash used in operating activities for the six months ended 30 June 2012 was approximately RMB46.8 million, which was primarily due to decrease in trade and other payables.

Net cash used in investing activities for the six months ended 30 June 2012 of approximately RMB95.1 million was primarily attributable to: (i) new plants was built in Weihai, Dezhou and Huizhou; (ii) purchase of machine and equipment for specialty wire and cable; and (iii) other purchase for property, plant and equipment as we increase our production capacities.

Net cash from financing activities for the six months ended 30 June 2012 amounted to approximately RMB140.3 million, which was primarily attributable to the increase in net borrowings.

Capital Expenditures

For the six months ended 30 June 2012, the Group incurred total capital expenditures of approximately RMB106.2 million in construction of new factories and office buildings, the purchase of plant and machinery, equipment and computer systems.

Capital Commitments

As at 30 June 2012, the Group had total capital commitments of approximately RMB44.6 million (31 December 2011: RMB71.3 million), which were mainly used in respect of acquisition of property, plant and manufacturing facilitates.

Employees

As at 30 June 2012, the Group had a total of 10,860 full time staff, of which 3,626 were our direct employees (30 June 2011: 2,497) and 5,960 were our contract workers (30 June 2011: 6,897). As at 30 June 2012, we also had 1,274 part time interns (30 June 2011: 836). 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 30 June 2012 is as follows:

	As at 30 June 2012 ***RMB'000***	As at 30 June 2011 *RMB'000*
Manufacturing	**1,558**	1,038
Sales and marketing	**253**	175
General and administration	**809**	655
Research and development	**393**	274
Quality control	**613**	355
Total	**3,626**	2,497

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 Hong Kong dollar ("HKD") 470.3 million (equivalent to approximately RMB400.7 million). As at 30 June 2012, the Company utilized the proceeds of approximately RMB278.2 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 30 June 2012, proceeds used on projects are generally analyzed as follows:

Projects	**Accumulated use of proceeds** **Estimated amount** *RMB(million)* (audited)	 **Accumulated expenses** *RMB(million)* (unaudited)
(1) Expanding production capacity of existing products	160.3	75.3
(2) Development and production of new products	176.3	138.8
(3) Research and development investment	24.0	24.0
(4) General working capital and other general corporate purposes	40.1	40.1
Total	400.7	278.2

Capital Injection in Huizhou Technology

Apart from August and December 2011, on 10 February 2012, Weihai Electronic injected capital of approximately RMB1,992,000 to Huizhou Technology 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 interest.

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

On 27 April 2012, the Board has approved the establishment of Weihai Dongchen Plastics New Materials Limited* (威海市東晨塑膠新材料有限公司) (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.

* *For identification purposes only*

PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30 June 2012, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE

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 Corporate Governance Code and Corporate Governance Report (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") have been adopted by the Group. The Company has also complied with the CG Code throughout the six months ended 30 June 2012 except for the following deviation.

According to the code provision A.2.1 of the CG Code, the roles of the chairman and the chief executive 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. For the six months ended 30 June 2012, Mr. Chi Shaolin is both the chairman of the Board and the chief executive ("CE") of the Group. The Board considers that vesting the roles of chairman and CE 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 CE when necessary.

AUDIT COMMITTEE

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 overseeing the internal control procedures of the Company. The Audit Committee consists of three members, namely, Mr. Shu Wa Tung, Laurence, Mr. Song Lizhong and Ms. Zheng Lin, all of whom are independent non-executive Directors. Mr. Shu Wa Tung, Laurence currently serves as the chairman of the Audit Committee. The Audit Committee has adopted the terms of reference which are in line with the CG Code. During the period under review, the Audit Committee has convened one meeting with an attendance of 100%. The Audit Committee has reviewed the Group's unaudited financial statements for the six months ended 30 June 2012, reviewed the internal control system and its execution.

The Audit Committee has also reviewed the accounting principles and practices adopted by the Group and discussed about the auditing, internal controls, and financial reporting matters including the review of the unaudited interim financial statements for the six months ended 30 June 2012.

The external auditor, Deloitte Touche Tohmatsu, has reviewed the consolidated interim financial statements for the six months ended 30 June 2012 in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Equity" issued by the Hong Kong Institute of Certified Public Accountants.

MODEL CODE FOR SECURITIES TRANSACTION BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors (the "Model Code") as set out in Appendix 10 of the Listing Rules as its code of conduct regarding securities transactions by the Directors. On specific enquiries made, all Directors confirmed that they have complied with the required standards set out in the Model Code and its code of conduct regarding Directors' securities transactions during the six months ended 30 June 2012.

INTERIM DIVIDEND

The Directors do not recommend the payment of any interim dividend for the six months ended 30 June 2012 (six months ended 30 June 2011: Nil).

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this announcement, the Company has maintained the prescribed public float of not less than 25% of the Company's issued shares as required under the Listing Rules for the period from the listing date to 30 June 2012.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

The interim report of the Company for the six months ended 30 June 2012 containing all the applicable information required by the Listing Rules will be published on the website of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the Company's website (www.hong-lin.com.cn) in due course. Printed copies will be despatched to shareholders of the Company in due course.

By Order of the Board
HL Technology Group Limited
Chi Shaolin
Chairman and CE

Hong Kong, 15 August 2012

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.