
BUSINESS

OVERVIEW

We are a “one-stop” provider of a broad line of cable assembly and connector related products with a leading market share for external signal cable assembly, notebook internal signal cable assembly, power cord assembly and signal transmission wire & cable products for the global high-end consumer electronics industry. We focus on the design, research and development, manufacture and sale of our own “Hong-lin” brand name products and have developed an extensive product portfolio covering signal cable assembly, power cord assembly, wire & cable (primarily for signal transmission purpose) and connector products which are mainly used in (i) personal computers and notebooks, (ii) LCD and LED TV, (iii) mobile phone handsets and (iv) digital cameras. In addition, we offer a comprehensive range of products of different specifications and varieties within each key product type and are therefore able to provide our target customers with a “one-stop” total solution for their signal cable assembly, power cord assembly, wire & cable and connector products needs. We have also developed and started manufacturing of wireless antenna products for signal transmission use in notebooks, routers and mobile handsets in 2010.

According to Frost & Sullivan, an independent market research and consulting company, in our target global high-end consumer electronics market which amounted to about US\$560.5 billion or represented about 82.3% of the global consumer electronics market in 2009 (total size in terms of revenue amounting to about US\$681.0 billion in 2009), (i) we are the second largest manufacturer of external signal cable assembly products in the world in terms of revenue for 2009 and the first half of 2010 with a market share of 20.8% and 21.8%, respectively; (ii) among all the notebook internal signal cable assembly manufacturers in the world, we ranked fifth in terms of revenue for 2009 with a market share of 10.7% and third in terms of revenue for the first half of 2010 with a market share of 19.0%; (iii) we ranked fifth among all the power cord manufacturers in the world in terms of revenue for 2009 and the first half of 2010 with a market share of 4.1% and 5.6%, respectively; and (iv) among all the signal transmission wire & cable manufacturers in the world, we ranked fifth in terms of revenue for 2009 with a market share of 3.9% and third in terms of revenue for the first half of 2010 with a market share of 7.3%. According to Frost & Sullivan, the global external signal cable assembly and power cord assembly markets catering to the consumer electronics industry and the global notebook internal signal cable assembly market are dominated by a few players with the top five players capturing about 85.3%, 90.3% and 90.6% of market share respectively in 2009 and 86.2% 94.2% and 94.1% of market share respectively in the first half of 2010 whereas the global signal transmission wire & cable market is fairly concentrated, with the top five players capturing about 54.0% and 71.0% of market share respectively in 2009 and the first half of 2010. For details on the top five players in such global product markets for the consumer electronics industry, please refer to the sections headed “Industry Overview — Global External Signal Cable Assembly Market — Competitive Landscape”, “— Global Notebook Internal Signal Cable Assembly Market — Competitive Landscape”, “— Global Power Cord Assembly Market — Competitive Landscape” and “— Global Signal Transmission Wire & Cable Market — Competitive Landscape”.

We have been selected as a core supplier for a number of our products to Samsung, LG, Eastman Kodak, Amphenol, Haier, Hisense, Quanta, Compal, Qisda, TPV Technology, Wistron, Innolux, ZTE and Inventec. Of such customers, LG, TPV Technology, Samsung, Compal, Quanta and Haier were among our ten largest customers during the Track Record Period whereas Eastman Kodak, Amphenol, Hisense, Qisda, Wistron, Innolux, ZTE and Inventec were not. The Directors believe that the reasons for us being selected as core supplier were because we were able to meet the key criteria that these customers normally require for their selection of core suppliers, including but not limited to

BUSINESS

(i) strong research and development capabilities that allow their core suppliers to design and develop new products and solutions that meet such customers' requirements in a timely manner; (ii) ability to meet their requirements for high product quality and timely product delivery; (iii) comprehensive product offerings; and (iv) strong manufacturing capabilities. For the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, total sales to these customers (determined on the basis that sales to all the member companies of a group company are combined as sales to one customer) amounted to approximately RMB284.5 million, RMB407.1 million, RMB449.5 million and RMB321.5 million, accounting for 43.6%, 45.3%, 51.5% and 50.6% of total revenue, respectively. We believe that our strong research and development capability, continuous focus on product innovation and stringent quality control enable us to provide a range of high and stable quality products that meet the requirements of our customers and become a strategic partner and major supplier to many of our key customers, such as Samsung, LG, Eastman Kodak, Haier, Hisense, Compal, Qisda, TPV Technology and Amphenol, with which we have established strong and long-standing relationships. Sales to our top ten customers amounted to about RMB433.9 million, RMB540.4 million, RMB549.0 million and RMB381.7 million and accounted for about 66.5%, 60.2%, 62.9% and 60.0% of the total sales during the Track Record Period. In terms of total number of customers, our customers increased from 68 as at the end of 2007 to 97 as at the end of 2008, 124 as at the end of 2009, and 147 as at the end of June 2010.

Our key manufacturing facilities are strategically located in (i) Weihai, Shandong Province; (ii) Suzhou, Jiangsu Province; (iii) Wuhan, Hubei Province; and (iv) Shenzhen, Guangdong Province, which are major consumer electronics manufacturing and/or distribution hubs in China. We believe that our proximity to our key customers enables us to provide a more timely response to customer requirements and quality services in terms of customer communications, understand their latest product development strategies, provide prompt technical support and maintain closer collaboration with such customers.

We adopt a vertically integrated production process starting from the production of our own plastic materials, drawing of our own copper, and processing of wire & cable products into finished signal cable assembly and power cord assembly products. For production of our connector products, we are able to conduct key processes in-house such as product design and development, stamping and plastic mold design, metal stamping, plastic injection and final product assembly. This vertically integrated strategy enables us to, among others, conduct highly coordinated research and development and production activities to design and produce new products in a timely manner in order to meet the requirements of our customers, to have better control over the quality of our products, and to enhance our cost effectiveness, thereby increasing our overall competitiveness.

Due to the ever changing nature of the consumer electronics industry, we place a strong emphasis on research and development which allows us to continuously develop innovative high quality products, working closely with our customers in the initial design of the cable assembly and connector related components they require for use in their new products and meet their quality and delivery requirements. We also focus our research and development efforts on ways to reduce the cost and increase the manufacturing efficiency of our existing products while investing significant resources in developing new products. To further strengthen our research and development capability, our research and development staff within the engineering department located in each key manufacturing facility will only focus on improving the quality of existing products and increasing manufacturing efficiency while research and development of new types of products will be carried out in dedicated research and development centers. Major research and development projects that we undertook during

BUSINESS

the Track Record Period include, among others, those related to high speed parallel data cable, data transmission line, wireless communication signal coaxial cable, high-frequency signal transmission wire and preparation method, and power supply signal cable. Our current research and development projects for new products include specialty power cable, high speed cable, environmentally friendly low smoke halogen-free insulating materials, solar connectors and automotive wiring harness products. According to Frost & Sullivan we are one of the first Chinese manufacturers to develop and produce one-piece shield plug (一體式屏蔽插頭) and high speed cable (高速平衡對稱數據線纜) and, also one of the few Chinese manufacturers which have successfully developed LVDS assembly and high frequency data cable which exceeds 20 Gigabit Ethernet. For the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, our research and development expenses amounted to approximately RMB23.2 million, RMB26.3 million, RMB27.3 million and RMB12.7 million, accounting for 3.5%, 2.9%, 3.1% and 2.0% of total revenue, respectively.

In line with our initiatives to explore new potential markets and in response to increasing market demand for cable assembly and connector related products with an increasing variety of applications, in addition to our newly developed antenna products, we plan to increase our product offerings to include automotive wiring harness products, specialty power cables and solar connectors and also increase our focus on the manufacture and sale of environmentally friendly low smoke halogen-free insulating materials, a relatively new type of environmental friendly materials increasingly used for cable jacketing in the wire and cable industry. We will establish a research and development center in Weihai in December 2010, dedicated to developing new products such as automotive wiring harness and specialty power cables. The new research and development center in Suzhou expected to be operational in December 2010 would primarily be used for research and development of high frequency data type of communication cables, antennas, solar power connectors and environmentally friendly low smoke halogen-free insulating materials while the new research and development center in Taipei, Taiwan which started to be operational in September 2010 will primarily focus on antennas and connectors used in mobile handsets, notebooks, GPRS systems and network communications (including routers and network cards).

For the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, we recorded revenue of approximately RMB652.6 million, RMB898.0 million, RMB872.4 million and RMB635.7 million, respectively. For the same period, we recorded net profit attributable to owners of our Company of RMB62.7 million, RMB54.4 million, RMB88.3 million and RMB69.7 million, respectively. The decrease in revenue in 2009 as compared to 2008 was primarily due to an overall decrease in average unit selling prices of our products mainly as a result of lower average copper price in 2009, which was partially offset by an overall increase in sales volume of our products as we increased production to meet customer demand as the global economy started to recover in 2009. Net profit attributable to owners of our Company decreased in 2008 as compared to 2007 primarily due to (i) the decrease in gross profit margin and increases in bad debt provision and provision for impairment of inventories in 2008 as compared to 2007, mainly as a result of the negative impact of the economic downturn in 2008; and (ii) an increase in income tax expenses from RMB2.4 million in 2007 to RMB11.5 million in 2008 as we recognized the withholding tax of RMB6.2 million on profits to be distributed to our shareholders as dividends in 2008 pursuant to the new PRC income tax law while there was no such withholding tax in the prior year.

COMPETITIVE STRENGTHS

We consider our principal competitive strengths are as follows:

“One-stop” provider of cable assembly and connector related products with leading market share for signal cable assembly, power cord assembly and signal transmission wire & cable products in the global high-end consumer electronics industry

We offer our customers with a “one-stop” total solution for their cable assembly and connector related products needs and we are one of the leading providers of signal cable assembly and power cord assembly related products in the global high-end consumer electronics industry. According to Frost & Sullivan, in our target consumer electronic product market:

- we are the SECOND largest manufacturer of external signal cable assembly products in the world in terms of revenue for 2009 and the first half of 2010 with a market share of 20.8% and 21.8%, respectively;
- among all the notebook internal signal cable assembly manufactures in the world, we ranked FIFTH in terms of revenue for 2009 with a market share of 10.7% and THIRD in terms of revenue for the first half of 2010 with a market share of 19.0%;
- we ranked FIFTH among all the power cord assembly manufacturers in the world in terms of revenue for 2009 and the first half of 2010 with a market share of 4.1% and 5.6%, respectively; and
- among all the signal transmission wire & cable manufacturers in the world, we ranked FIFTH in terms of revenue for 2009 with a market share of 3.9% and THIRD in terms of revenue for the first half of 2010 with a market share of 7.3%.

Our cable assembly and connector related products are sold under the “Hong-lin” brand. We started to manufacture and sell our products under our own brand in 2000 and, since then, the “Hong-lin” brand has developed into a well-recognized brand of cable assembly and connector related products in the consumer electronics industry which is highly recognized by our customers, relevant industry associations and government bodies. We have successfully obtained the safety certifications for our power cord assembly products from 29 countries covering substantially all of the major target markets for our power cord assembly products.

Our management team has played a key role in our achieving our market leadership position through building a result-driven corporate culture that encourages delivering consistent and high-quality products and services, lowering costs and improving market responsiveness. Our executive Directors have in-depth industry and professional knowledge as well as extensive operating experience, technical know-how and management skills, with an average of about 17 years of relevant industry experience. Our Chairman and CEO, Mr. Chi, has over 15 years of experience in the wire & cable industry and is responsible for overseeing our overall business operation and formulating our strategic development. Mr. Chi has received numerous awards and other recognitions for his achievements, including, among others, the “Weihai City’s Outstanding Young Entrepreneurs” (威海市優秀青年企業家) award jointly awarded by Weihai City Commission of the Communist Youth League of the PRC, the Administration for Industry and Commerce of Weihai City, Weihai Broadcast TV Station, the Weihai Economic and Trade Commission, the Weihai Daily and the Young Entrepreneurs’ Association of Weihai City in 2008 and 2010 and the “Outstanding Entrepreneurs of Shandong Province (the 18th Series)” (十八屆山東省優秀企業家) award from the Selection Committee for Outstanding Entrepreneurs in Shandong Province in April 2010.

BUSINESS

We believe that our market leadership position and strong reputable brand enable us to consolidate our relationship with existing customers, continue to expand customer base and enhance our leading position in our target markets.

Strong research and development capabilities and commitment to product innovation and quality

We believe that the possession of design capability, research and development expertise and production technology to manufacture products which can meet customers' specific requirements on product performance and functions and to develop new products is a key success factor for any manufacturer of cable assembly and connector related products. As such, we place a strong emphasis on research and development and have research and development teams based in our manufacturing facilities in Weihai and Suzhou, which focus on improving our existing technology, processing techniques, production efficiency and the development of new products.

As of the Latest Practicable Date, our research and development team comprised 67 personnel with undergraduate or higher educational qualifications with the rest all having obtained other post-secondary diplomas or qualifications at the Latest Practicable Date, we held 45 registered patents and had 44 patent applications pending for registration in China and we held 3 registered patents and had 1 patent application pending for registration in Taiwan. See "Appendix VI — Statutory and General Information — Intellectual property rights".

According to Frost & Sullivan, we are one of the first Chinese manufacturers to develop and produce one-piece shield plug (一體式屏蔽插頭) and high speed cable (高速平衡對稱數據纜) and we are also one of the few Chinese manufacturers which have successfully developed LVDS assembly and high frequency data cable which exceeds 20 Gigabit Ethernet. We believe that our strong research and development capabilities and track record of product development have enabled us to become a strategic partner in the design and development of new products to many of our key customers. These relationships have allowed us to enjoy relatively higher profit margins and secure a larger market share during the initial launch of such new products after their successful development.

We believe that our reliable and high quality products are essential to maintaining our strong relationships with customers and our reputation. We have a comprehensive quality control system for raw material inspection, quality control over various production processes and final testing of finished products to ensure that our products comply with our internal quality standards and international technical specifications and satisfy requirements of our customers. To ensure our high product quality, we have acquired and used a number of high-precision and advanced equipment for testing the performance and reliability of our products. In addition, we have built up a team of quality control personnel, which totaled 155 as of 30 June 2010. As a result of our strong focus on product quality standards and controls, we have been awarded a number of certifications for our existing production facilities, including the ISO9001:2008, ISO14001:2004, ISO/TS16949:2009 and QC080000 certifications. In addition, we were awarded with the Supplier Quality Excellence Award (品質優秀供應商) by LG Electronics Nanjing Display Co., Ltd. in December 2003 and as a Grade A (on a scale of "A" to "E", with "A" being the best) supplier by Samsung in September 2008. Such Grade A grading exempted us from annual supplier review by Samsung in the following year (i.e. 2009). The Directors believe that in addition to our products quality, our research and development ability, manufacturing capacity, delivery timing accuracy and competitive pricing have also contributed to us being awarded such accolades from the abovementioned customers.

BUSINESS

Comprehensive products offering

We provide our target customers with a “one-stop” total solution for their wire, cable and connector related products needs. We have developed an extensive product portfolio, comprising external signal cable assembly, internal signal cable assembly, power cord assembly, wire & cable (primarily for signal transmission purpose), and connector products focusing on the high-end global consumer electronics industry. We have also developed and started manufacturing of wireless antenna products for signal transmission use in notebooks, routers and mobile handsets in 2010, further increasing the range of our product portfolio. In addition, we offer a comprehensive range of products of different specifications and varieties within each key product type.

We also provide our customers with customized product solutions that address their specific needs and requirements. We believe that our comprehensive product offerings and product customization ability differentiate ourselves from many other cable and wire product suppliers who do not offer such comprehensive product offerings. We believe that our ability to provide a “one-stop” total solution for our customers enables us to attract a lot of high profile and industry leading customers and allows us to compete effectively with other suppliers of cable and wire products in the selection process of strategic suppliers by our customers.

Vertically integrated and cost efficient business model

We adopt a vertically integrated production process starting from the production of our own plastic materials, drawing of our own copper, and processing of wire & cable products into finished signal cable assembly and power cord assembly products. For production of our connector products, we are able to conduct key processes such as product design and development, stamping and plastic mold design, metal stamping, plastic injection and final product assembly in house.

We believe that our vertically integrated business model allows us to enhance our overall competitiveness through:

- the ability for us to conduct highly coordinated research and development and production activities to design and produce new products in a timely manner in order to meet the requirements of our customers;
- lowering our overheads and production costs and further enhancing our overall cost effectiveness;
- the exercise of better control over overall product quality and ensuring the timely delivery of our products; and
- the establishment of standard production systems which improve our production efficiency.

Solid customer base and strategically located production facilities

We are a strategic partner and major supplier of signal cable assembly, power cord assembly, wire & cable, and connectors product to many of our key customers. We have maintained strong and long-term relationships with a number of leading global equipment manufacturers in the consumer electronics industry. We have been selected as a core supplier for a number of our products to Samsung, LG, Eastman Kodak, Amphenol, Haier, Hisense, Quanta, Compal, Qisda, TPV Technology, Wistron, Innolux, ZTE and Inventec. As of 30 June 2010, we have a total of 42 customers who have had business relationship with us for over three years, accounting for 72.2%, 71.6%, 71.7% and 64.1%

BUSINESS

of our revenue for the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, respectively.

We understand that our customers, especially those leading global brand name and non-brand name equipment manufacturers in the consumer electronics industry, normally only maintain a small pool of qualified suppliers to ensure a stable and high quality supply of parts either to their own factories or to their contract manufacturers. The selection criteria and qualification process to become a qualified supplier to each of our customers is stringent, comprehensive, rigorous and lengthy involving extensive assessment of operational scale, research and development capabilities, management team and systems, and testing. We have been successfully qualified by our customers and we do not believe such qualification can be attained by many of our competitors who lack scale and research and development capabilities. We believe the quality of our existing customer base attests to our production capability and product quality and provides assurance for future potential customers.

We have strategically located our key manufacturing facilities in Weihai, Suzhou, Wuhan and Shenzhen, which are major consumer electronics manufacturing and/or distribution hubs in China where many of our customers are located. Our proximity to these important customers enables us to provide a more timely response to customer requirements and better services in terms of customer communications, understand their latest product development strategies, provide prompt technical support and maintain closer collaboration with such customers as compared to many of our international competitors who tend to locate their manufacturing facilities in Guangdong Province and focus their research and development work in their home countries outside of China.

Our services to our customers are well supported by our strong manufacturing capabilities. We believe that we possess the manufacturing know-how to customize production solutions to meet varying customers' needs. Many of our production equipment and machineries are assembled and customized internally according to specifications designed by our research and development team to enhance our production capacities.

In addition, our production lines are able to easily accommodate the production of different types of cable assembly and connector related products on the same production lines. Our scale of production and flexible production lines enable us to achieve economies of scale enhancing our price competitiveness, and allow us to respond faster to the changing demands of our customers to capture new business opportunities and fulfill new production needs quickly.

BUSINESS STRATEGIES

Further strengthen our leading market position and increase our market share

We intend to further strengthen our leading market position through (i) further strengthening our research and development capabilities, (ii) development of new products, and (iii) expansion of our production capacity.

Further strengthening our research and development capabilities

We will continue to expand our research and development capability. In addition to further strengthening our research and development of existing products through our research and development staff within the engineering departments based in our manufacturing facilities, we will, through our new research and development centers in Weihai, Suzhou and Taipei, develop cable

BUSINESS

assembly and connector related products for signal transmission purpose for new markets. Our new research and development centers in Weihai and Suzhou are expected to be fully operational in December 2010, respectively while our research and development center in Taipei started to be operational in September 2010. The focuses of our research and development activities are (i) automotive wiring harness and specialty power cables in Weihai, (ii) high frequency communication cables, antennas, solar connectors and environmentally friendly low smoke halogen-free insulating materials in Suzhou and (iii) antennas and connectors for mobile handsets, notebooks, GPRS systems and network communications (including routers and network cards) in Taipei.

We believe our strong research and development capabilities and strong track record of successful new product development are essential to our success and for us to become a competitive candidate as an exclusive or a selected research and development partner to our customers. Through working closely with our customers on the initial design and development of new products, we may gain market share and enjoy higher profit margin during the initial launch of the new products. To strengthen our research and development capabilities and distinguish ourselves from our competitors, we intend to continue our investment in product design and develop and implement more cost-effective manufacturing techniques. We will also continue to place an emphasis on the recruitment of high-caliber and experienced research and development personnel as we expand our research and development capabilities through our new research and development centers in Weihai, Suzhou and Taipei.

Development of new products

A key objective of our growth strategy is to expand the scope of our business by broadening our product portfolio to take advantage of new opportunities. In particular, we intend to focus on the design and development of antennas, automotive wiring harness, specialty power cables, solar connectors and environmentally friendly low smoke halogen-free insulting materials. Our plan to launch these products is as follows:

- **Antennas:** Through our Shenzhen subsidiary, we now have the design and other technological abilities and manufacturing capacity required for the volume production of wireless antennas mainly for use in notebooks, routers and mobile handsets and we plan to use our Taipei research and development center (which started to be operational in September 2010) for development of new antenna products. We have started to manufacture and sell wireless antennas for notebooks, routers and mobile handsets in 2010.
- **Automotive Wiring Harness Products:** We plan to develop our automotive wiring harness products by building our own production facilities and/or making future strategic acquisitions. We expect to begin the volume manufacturing by the first half of 2011.
- **Specialty Power Cables:** Our specialty power cables are a special type of power cables that are anticorrosion and heat resistant and will be used mainly in ships, trains, wind power generation and solar power generation. We plan to commence the volume manufacturing and sell specialty power cables under our own brand in Weihai and Chongqing by the second half of 2011.
- **Solar Connectors:** Our solar connectors will be used mainly to connect wafer in the solar power generation systems. We plan to commence the volume manufacturing and sales of the solar connectors by the second half of 2011.

BUSINESS

- Low Smoke Halogen-Free Insulating Material: Low smoke halogen-free insulating materials is a relatively new type of environmental friendly materials used for cable jacketing and because of its relatively positive attributes over standard plastic materials, the Directors believe that such environmentally friendly low smoke halogen-free insulating materials would be increasingly being applied in the cable assembly industry. We plan to commence the volume manufacturing of environmentally friendly low smoke halogen-free insulating materials by the end of 2010.

Expanding our production capacity

We will continue to expand our production capacity to cater for the growing demand from our customers and to realize potential economies of scale. We have identified a site in Chongqing which we plan to use for building production plants primarily for the manufacture of LVDS type of notebook internal signal cable assembly, power cord assembly, and wire & cable products and expect to complete its construction and commence commercial production by 2011 and 2012, respectively. We have also identified a site in Huizhou, Guangdong which we plan to use for building production plants primarily for the manufacture of antennas and signal transmission wire & cable and expect to complete its construction and commence commercial production by 2012. We have also identified a new site in Wuhan where we plan to relocate our existing facilities in Wuhan to and expand our existing production plants for external signal cable assembly and power cord assembly products. Specifically, we currently aim to achieve the following production capacity expansion targets:

	For the year ended 31 December			Expansion plan
	2010	2011	2012	
● External signal cable assembly (million units)	90-110	140-160	190-210	<ul style="list-style-type: none"> • install additional production lines in our production facilities in Wuhan and the increase in production capacity is expected to be completed by the third quarter of 2011 • establish new production plants in our production facilities in Dezhou and the increase in production capacity is expected to be completed by the third quarter of 2011
● Internal signal cable assembly – LVDS assembly (million units)	40-50	60-70	80-90	<ul style="list-style-type: none"> • install additional production lines in our production facilities in Dezhou and the increase in production capacity is expected to be completed by the third quarter of 2011 • establish new production plants in Chongqing in the first half of 2011 • install production lines in our production facilities in Chongqing and commence production of internal signal LVDS cable assembly by the first half of 2011
— FFC assembly (million units)	5-10	25-30	40-50	<ul style="list-style-type: none"> • set up new production plants and install production lines in our production facilities in Suzhou by the first half of 2011

BUSINESS

	For the year ended 31 December			Expansion plan
	2010	2011	2012	
<ul style="list-style-type: none"> ● Power cord assembly (million units) 	70-90	130-150	220-250	<ul style="list-style-type: none"> • install additional production lines in our production facilities in Weihai and the increase in production capacity is expected to be completed by the third quarter of 2011 • install additional production lines in our production facilities in Wuhan and the increase in production capacity is expected to be completed by the third quarter of 2011 • establish new production plants in Chongqing by the first half of 2011 • install production lines in our new production facilities in Chongqing and commence production of power cord assembly by the first half of 2011
<ul style="list-style-type: none"> ● Wire & cable (million meters) 	1,280-1,380	1,450-1,550	1,750-1,850	<ul style="list-style-type: none"> • set up new production plants in our production facilities in Suzhou and Huizhou by the first half of 2011 • install production lines in our new production facilities in Chongqing and commence production of wire & cable products by the first half of 2011 • install new production lines for signal transmission wire & cable products, in particular high frequency communication cable in our new production facilities in Huizhou by the first half of 2012
<ul style="list-style-type: none"> ● Connectors (million units) 	150-200	450-550	700-850	<ul style="list-style-type: none"> • set up new production plants and install production lines in our production facilities in Suzhou by the first half of 2011

Leveraging our close relationship with reputable customers to further develop existing and new markets for our products

Our close relationships with a number of leading global brand name and non-brand name equipment manufacturers in the consumer electronics industry provide us opportunities to further develop our current and new markets for our products. Leveraging on such customer relationships, we intend to expand our business with our existing customers by becoming a qualified supplier of product types which our customers do not currently source from us or those which we have newly developed. Furthermore, many of our products, such as HDMI and USB Series of our external signal cable assembly products, can be used in other end-products including, among others, TV, digital camera and DVD player. As such, by leveraging our status as a strategic or other core supplier for leading global equipment manufacturers in the consumer electronics industry, we intend to expand the target markets for some of our products, thus creating new demand for our products.

BUSINESS

In addition, as we further expand the market penetration for our connector products by continuing to focus on offering them as part of our “one-stop” total solution along with our cable assembly and wire & cable products, we expect the contribution of our connector products to our total revenues to increase over time in the foreseeable future.

Expand our existing customer base by leveraging on our Taipei subsidiary to focus on leading and sizable consumer electronic products equipment manufacturers in Japan, Europe and North America

We expect that the Listing will enhance our reputation as a leading manufacturer of cable assembly and connector related products and, coupled with our experience in serving global leading well-known customers in the consumer electronics industry, will help us solicit business from more large brand name or non-brand name equipment manufacturers in the consumer electronics industry and other industries. Our current customer base consists of a mix of global and local consumer electronics manufacturers located primarily in Korea, Taiwan and China. We have recently established a subsidiary in Taipei, Taiwan to expand our sales and marketing efforts to the overseas markets, focusing on Japan, Europe and North America. As Taiwan is a major market in the global information technology industry, especially in the notebooks and PC sectors, we believe that our Taipei subsidiary will provide us with the access to Taiwan’s large and ready pool of talent and industry knowledge that we require for expansion in our target overseas markets. We believe that these markets present us with significant growth potential and we intend to develop our business relationships with and sell our products to leading and sizeable consumer electronics manufacturers in these markets either through our own sales force in the area or local agents.

Pursue opportune acquisition opportunities to complement our business development focuses and strengthen our research and development capabilities

We intend to evaluate opportune acquisition opportunities that could increase our production capacity, complement our product portfolio including but not limited to our existing and/or to be newly developed products, bring us new customer relationships or improve our technological expertise. Although we have not identified any acquisition targets currently, we will continue to seek to acquire, invest in, or form joint ventures or strategic alliances with, companies that we believe can provide proprietary and innovative production and engineering techniques, technologies or other advantages to our core business and new business development focuses. We believe that, upon the Listing, our status as a public company will help us identify more acquisition opportunities and provide us with a relatively strong financing capability to complete any acquisition.

Attract and retain skilled and experienced professionals

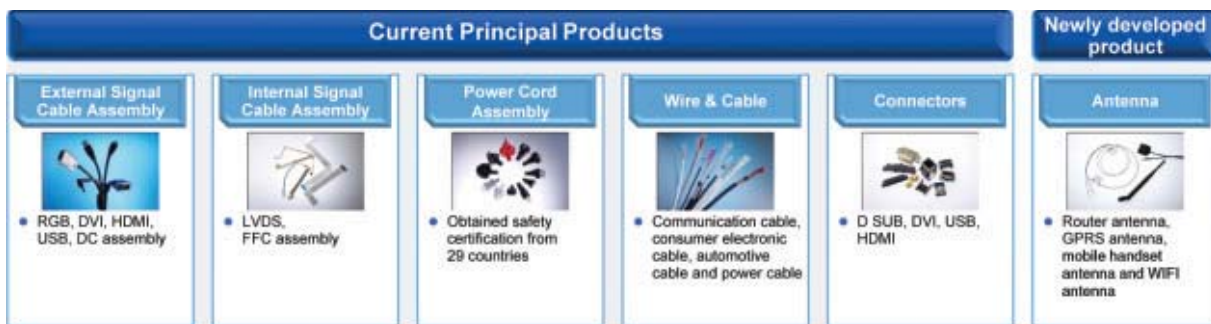
We believe that the recruitment, training and retention of skilled and experienced professionals are essential to the success of our business and our future business expansion. We plan to seek to recruit and retain domestic and international management and engineering talents by offering competitive compensation packages including bonus programs, share option schemes, performance incentives, and education and training allowances. We believe that our emphasis on training is an important factor in attracting and retaining employees. In this respect, we aim to offer periodic in-house training programs as well as to provide financial support to our employees seeking to attend external vocational programs. With skilled and well-trained professionals and other employees who are

BUSINESS

committed to their work, we should be able to enhance our production efficiency, improve our research and development capability and effectively implement our growth strategies.

OUR PRODUCTS

We are principally engaged in the design, development, manufacture, marketing and sale of a broad line of cable assembly and connector related products mainly for use in the high-end consumer electronics industry. Our products consist primarily of five product groups, namely, external signal cable assembly, internal signal cable assembly, power cord assembly, wire & cable products (primarily for signal transmission purpose) and connectors. We offer our customers with a comprehensive line of products for each of our product type. We have also developed and started manufacturing of wireless antenna products for signal transmission use in notebooks, routers and mobile handsets in 2010.



We commenced the manufacturing of signal cable assembly products in 1997 and have since become a leading producer of signal cable assembly, power cord assembly and wire & cable related products for our target consumer electronics market. According to Frost & Sullivan, an independent market research and consulting company, in our target global high-end consumer electronics market which amounted to about US\$560.5 billion or represented about 82.3% of the global electronics market in 2009 (total size in terms of revenue amounting to about US\$681.0 billion in 2009), (i) we are the second largest manufacturer of external signal cable assembly products in the world in terms of revenue for 2009 and the first half of 2010 with a market share of 20.8% and 21.8%, respectively; (ii) among all the notebook internal signal cable assembly manufactures in the world we ranked fifth in terms of revenue for 2009 with a market share of 10.7% and third in terms of revenue for the first half of 2010 with a market share of 19.0%; (iii) we ranked fifth among all the power cord assembly manufacturers in the world in terms of revenue for 2009 and the first half of 2010 with a market share of 4.1% and 5.6%, respectively; and (iv) among all the signal transmission wire & cable manufacturers in the world, we ranked fifth in terms of revenue for 2009 with a market share of 3.9% and third in terms of revenue for the first half of 2010 with a market share of 7.3%. We commenced the manufacturing of board-side connectors for sale to external customers only in 2007.

BUSINESS

The following table sets forth the revenue breakdown information by product groups for the periods indicated:

	For the year ended 31 December						For the six months ended 30 June			
	2007		2008		2009		2009		2010	
	Revenue (RMB'000)	% of revenue	Revenue (RMB'000)	% of revenue	Revenue (RMB'000)	% of revenue	Revenue (RMB'000) (Unaudited)	% of revenue (Unaudited)	Revenue (RMB'000)	% of revenue
External signal cable assembly . . .	314,932	48.2	427,241	47.6	322,490	37.1	159,799	43.6	160,359	25.2
Internal signal cable assembly . . .	72,281	11.1	83,941	9.3	126,630	14.5	42,735	11.7	137,354	21.6
Power cord assembly . . .	59,726	9.2	115,284	12.8	170,156	19.5	69,819	19.0	112,810	17.8
Wire & cable . . .	142,218	21.8	173,446	19.3	172,069	19.7	64,374	17.6	153,212	24.1
Connectors	1,441	0.2	23,086	2.6	36,145	4.1	16,752	4.6	20,376	3.2
Others	62,030	9.5	75,001	8.4	44,906	5.1	13,087	3.5	51,569	8.1
Total:	<u>652,628</u>	<u>100.0</u>	<u>897,999</u>	<u>100.0</u>	<u>872,396</u>	<u>100.0</u>	<u>366,566</u>	<u>100.0</u>	<u>635,680</u>	<u>100.0</u>

External Signal Cables Assembly

External signal cable assembly products are signal connecting cables mainly used externally in notebooks, computers, monitors, TVs, mobile handsets and digital cameras and can transmit digital, analog and audio-frequency signals with such functional advantages as high transmission rate and highly effective in anti-electromagnetic interference. Our external signal cable assembly products include five product types, namely, RGB assembly, DVI assembly, HDMI assembly, USB assembly and DC assembly. Typically, the performance of external signal cable assembly products is mainly measured by their data transmission speed and the bandwidth such products are capable of. The higher the data transmission speed or bandwidth is, the better performance the external signal cable assembly has whereas for products with standard data transmission speed and bandwidth such as USB assembly, the technical capabilities can be measured by the maximum length of the cables.

BUSINESS

The following table sets forth a brief description of each type of our major external signal cable assembly products. As indicated in the note to the table below, some of the general applications described in the table currently are not our key markets.

<u>Product Types</u>	<u>Product Descriptions</u>	<u>Key Attributes of Our Products</u>	<u>General Applications</u>
RGB assembly	A RGB assembly product is assembled with D SUB connector and cable and is used in connecting the VGA interface equipment, which is a form of interface used in graphic cards to transmit analog signals.	We adopt the one piece shielding structure, being our patented product, in our RGB assembly which has improved the anti-electromagnetic interference performance.	TV and personal computer
DVI assembly	A DVI assembly product is assembled with DVI connector and cable. The DVI assembly product uses the international interface standard which is widely used in personal computer, DVD player, HDTV, HD projectors and such other equipment.	The transmission rate for single-link DVI interfaces may reach 4.9 Gbps. It may support resolution of 1920*1080 or 1600*1200 while the transmission rate for double-link DVI interfaces may reach 9.9 Gbps and may support resolution of 2560*1600.	TV and personal computer
HDMI assembly (HDMI 1.1 and HDMI 1.4)	A HDMI assembly product is assembled with HDMI connector and cable. HDMI assembly may provide data transmission bandwidth up to 5 Gbps and transmit audio signals and high resolution video signals without compression. At the same time, no digital/analog or analog/digital conversion is needed before the signal transmission, so that the best-quality transmission of audio and video signals can be achieved.	The longest transmission distance of our products is 15 meters which is sufficient for transmitting the 1080p video signal and 8-channel audio signal. We are able to produce HDMI 1.4 assembly with a transmission rate of 10.3 Gbps.	TV, personal computer [†] , digital camera, mobile [†] and DVD player

BUSINESS

<u>Product Types</u>	<u>Product Descriptions</u>	<u>Key Attributes of Our Products</u>	<u>General Applications</u>
USB assembly (USB 1.0; USB 2.0; and USB 3.0)	A USB assembly product is assembled with USB connector and cable. USB assembly is used between a computer and add-on devices, such as audio players, joysticks, keyboards, telephones, scanners and printers.	USB 3.0 supports a data transmission speed of 4.8 Gbps which is ten times faster than that of USB 2.0. We are able to produce USB 3.0 assembly with a length of 5 meters in 30 AWG while other characteristics meet the requirements of the industry standard.	Digital camera, mobile and personal computer
DC assembly	A DC assembly product is assembled with DC cort set and cable and is used to supply direct current power.	The yaw rate for our DC assembly can reach 2,000 and the breakage rate at a yaw rate of 2,000 is less than 30%. We apply advanced core wire soldering technology to ensure that the soldered core wire for our DC assembly has a high level of firmness. For cables with a 90 degree angle, instead of cutting, we use twisting technique, which may prolong the product life by 30%.	Notebook, mobile [†] and TV [†]

Note:

[†] Such application(s) currently are not our key markets.

Internal Signal Cable Assembly

Internal signal cable assembly products are signal connecting cables mainly used internally between the main board and LCD monitor in notebooks, mobile handsets and digital cameras and can transmit video and audio-frequency signals with such functional advantages as high transmission rate and good shielding effect. Our internal signal cable assembly products primarily include three types, namely, LVDS cable assembly for use in notebooks, harness for use in household electrical appliances and flexible flat cable (FFC) assembly for use in LCD and LED TV. We have focused on the production of LVDS cable assembly since 2008. In July 2009, we also commenced the production of FFC assembly. Typically, the technical capabilities of internal signal cable assembly products are mainly measured by the diameter of the wire & copper (generally the thinner the better), the pitch (referring to the distance from a point on the screw thread to a corresponding point on the next thread measured parallel to the axis of the thread) between the two wires (generally the smaller the better) and anti-swinging capability as measured by yaw rate.

BUSINESS

The following table sets forth a brief description of each type of our major internal signal cable assembly products. As indicated in the note to the table below, some of the general applications described in the table currently are not our key markets.

Product Types	Product Descriptions	Key Attributed of Our Products	General Applications
LVDS (mini-coaxial cable assembly and slim-wire harness assembly)	LVDS assembly is a relatively new technology, using the low voltage differential signals and rapid transmission time, and can achieve the high speed of data transmission from 100 Mbps to 1 Gbps. Our mini-coaxial cable assembly and slim-wire harness assembly products have advantages such as high transmission rate, good impedance control and high yaw rate.	For the mini-coaxial cable assembly, we adopt the impulsive hot-bar soldering machines for processing of 42#(OD0.3mm) coaxial cables and the yaw rate is at least 25,000 times. As for slim-wire harness assembly, we adopt the fully automatic crimping machine for riveting 36# (OD0.32mm) teflon wire and the yaw rate is at least 25,000 times.	Notebook and digital products [†] such as mobile handsets and digital cameras
FFC assembly (LCD and LED TV FFC cable and LCD Monitor FFC cable)	An FFC assembly product is assembled with FFC connector and cable. FFC is small and of high density and has strong features to ensure stable quality with free-choice of lead quantity and space between each lead for easy joining, has low production cost and can improve production efficiency.	The space range of each lead of the FFC is from 0.3 mm to 2.54 mm. The impedance control of FFC can reach 100+/-5Ω and the dimensional tolerance is 0.01mm.	CD [†] , VCD [†] and DVD players [†] , LCD TV, LED TV, auto acoustics [†] , printing machine [†] , vidicon [†] , digital camera [†] and digital control fixture [†]

Notes

[†] Such application(s) currently are not our key markets.

Power Cord Assembly

A power cord assembly product is assembled with power supply connector and power cable and is used to supply electricity to consumer electronic equipment products. Our power cord assembly products are currently generally used for monitors display units, LCD TVs and notebooks and have received safety certifications from the relevant authorities in 29 countries and other jurisdictions, including, among others, CCC (China), CUL (US), BSI (UK), BSMI (Taiwan), KC (Korea), PSE (Japan), SAA (Australia), CE (Europe), GOST (Russia), IRAM (Argentina), SABS (South Africa), PSB (Singapore), SII (Israel), UC (Brazil), STQC (India), HK (Hong Kong), ISC (Cambodia) and TIS (Thailand). Our power cord assembly products are able to satisfy the requirements of customers from across all the major continents of the world.

BUSINESS

Wire & Cable

Wire & cable is the medium for transmission of signals and electricity current, and wire & cable products are also the raw materials to be assembled with connectors for the production of the cable assembly products. Our wire & cable products primarily include four types, namely, communication cable, consumer electronic cable, automotive cable and power cable. Typically, the technical capabilities of wire & cable products are mainly measured by the high frequency, the diameter of the wire, the use of environmental friendly plastic materials and other special requirements, including the capability of cold resistance, heat resistance, high pressure resistance and corrosion resistance.

The following table sets forth a brief description of each type of our major wire & cable products:

<u>Product Types</u>	<u>Product Descriptions</u>	<u>Key Attributed of Our Products</u>	<u>General Applications</u>
Communication cable (coaxial cable; interconnect pair cable;) high speed cable (SFP+); and communication power cable)	Communication cables are a type of high frequency data cables. The SFP+ copper cable, being one kind of high speed cable, can meet and exceed 10 Gigabit Ethernet.	Our communication cables have a relatively high frequency for attenuation. We have patented solution for surge at a high frequency. Skew delay for our high speed communication cables is 5ps/M.	TV, server, communication and control system
Consumer electronic cable (RGB cable HDMI, SATA, DVI, E-SATA, 1394, Displayport; USB2.0 and USB3.0, mobile charger cable; and hook-up wire)	Consumer electronic cables are a type of high-definition data cables.		TV, monitor, personal computer, notebook and mobile handsets

BUSINESS

<u>Product Types</u>	<u>Product Descriptions</u>	<u>Key Attributed of Our Products</u>	<u>General Applications</u>
		Our consumer electronic cables have a relatively high frequency for attenuation. Skew delay for our HDMI, SATA, DVI, E-SATA, 1934 Displayport, USB 2.0 and USB 3.0 communication cables is 20ps/M. We also use internally manufactured environmentally friendly low smoke halogen-free insulating materials for the production of our mobile handset charger cables and hook-up wires.	
Automotive cable	Automotive cables include various kinds of automotive cables each meeting different national standards.	Our automotive cables meet the national standards of Japan, Germany, the United States and China. We use internally manufactured plastic materials and environmentally friendly low smoke halogen-free insulating materials for the production of our automotive cables.	Automotive products
Power cable	Power cables are the connecting cables supplying electricity to consumer electronics and equipment and include various kinds of power cables each meeting different national standards, mainly including the Chinese, American, European and Japanese flexible power cables.	Our power cables meet the safety standards of many jurisdictions. We use internally manufactured plastic materials and halogen-free materials for the production of our power cables.	TV and other consumer electronics

BUSINESS

Connectors

Connectors are adopted to connect two electronic ports to transmit power or signals, are used to maintain the non-occurrence of signal distortion and energy loss changes and are used in general consumer electronic, electrical engineering and communication products. Connectors can be divided into two types, which are board-side connectors and terminal connectors. Terminal connectors are used by being welded into cables while board-side connectors are used in electronic and electrical products by being welded into internal Printed Circuit Board (PCB). All of our connectors for external sale are board-side connectors while we use terminal connectors for internal assembly only. Typically, the technical capabilities of connectors products are mainly measured by the pitch (generally the smaller the better) and the impedance control capability.

The following table sets forth a brief description of each type of our major board-side connector products. As indicated in the note to the table below, some of the general applications described in the table currently are not our key markets.

<u>Product Types</u>	<u>Descriptions</u>	<u>General Applications</u>
D SUB connector	A D SUB connector is the interface for graphic cards' output of analog signals. The analog VGA interface is also used for connection between computers and external display equipment.	Monitor, TV, personal computer [†] and notebook
DVI connector	A DVI connector is the interface for video frequency output of display equipment with the functional advantage of better display quality than D SUB connector. DVI connectors can be further processed into the DVI assembly.	Monitor, personal computer and notebook
USB connector	A USB connector is a data transmission interface commonly used for data transmission in the consumer electronics industry. USB connectors can be further processed into the USB assembly.	Consumer electronics
HDMI connector	An HDMI connector is a high quality multi-media interface and is currently a widely used multi-media interface for applications in the consumer electronics industry. HDMI connectors can be further processed into the HDMI assembly. The technical capabilities of the HDMI connector are mainly indicated by the features of coplanarity and the true position.	TV [†] , notebook and set-top box

Note:

[†] Such application(s) currently are not our key markets.

BUSINESS

PRODUCTION

We generally design, develop, manufacture and assemble the products we sell. We also utilize contract manufacturers for certain production processes for a portion of our products, such as the stripping, soldering, assembly or molding of external signal cable assembly products and the assembly of internal signal cable assembly products. The production processes we outsource to contract manufacturers are generally labor intensive and relate to the technically simple processes in our production chain. We believe that utilization of contract manufactures allows us to hire fewer employees and reduce our overall costs. As of the Latest Practicable Date, we had 55 contract manufacturers. We do not rely on any of these contract manufacturers for production of our products as it is easy to find replacement in the market.

Production Planning and Process

We formulate our annual production plan based on the annual production forecasts of our key customers. Pursuant to our production plan and the then inventory level, we procure raw materials. The actual monthly production schedule, including among other things, the quantity and specifications of the products, is generally confirmed based on the purchase orders from our customers.

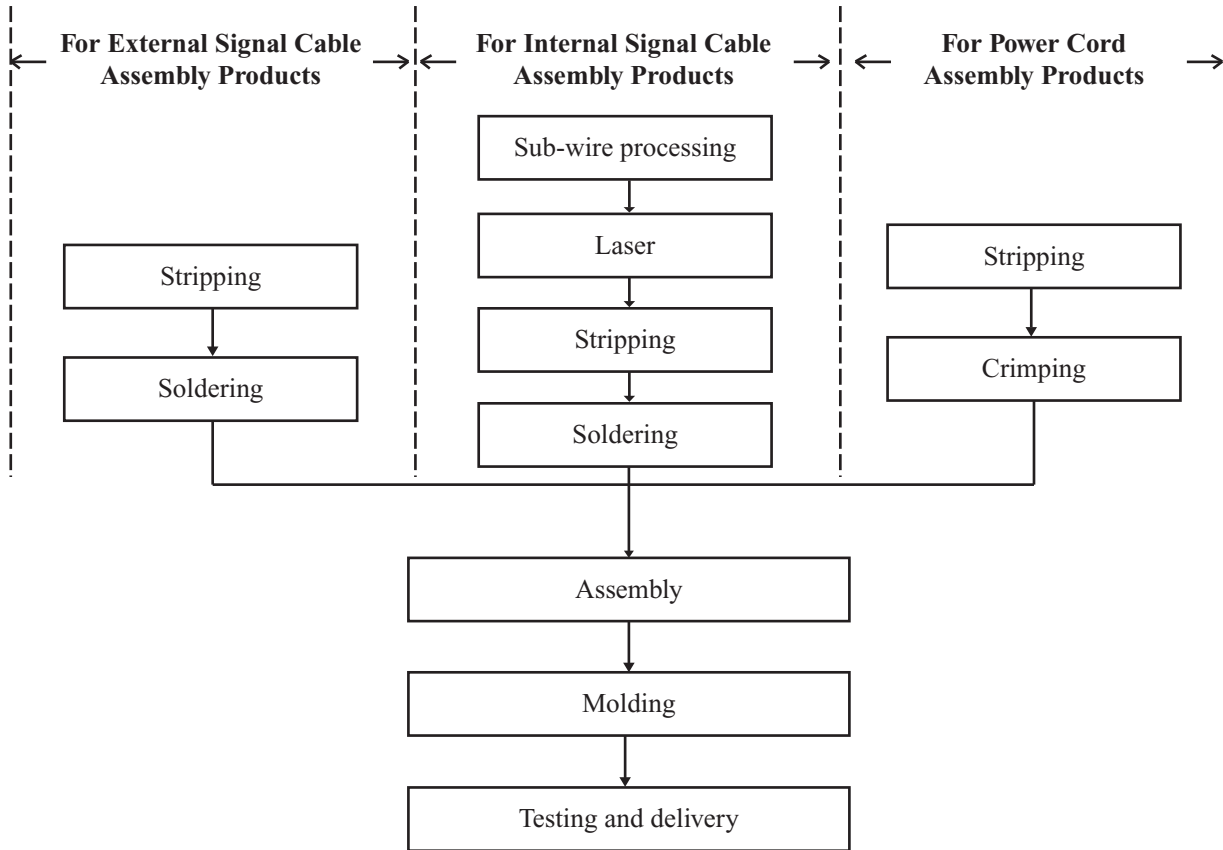
When planning the monthly production schedule, we also assess and determine whether and to what extent that third-party contract manufacturing services would be required. We determine the quantity of the products and the production services to be outsourced from contract manufacturers based on our production plan. We typically provide production and testing equipment for use by our contract manufacturers and deploy our own quality control personnel at the contract manufacturers' production sites to ensure that their manufacturing services and products meet our standards. The production processes we outsourced to contract manufacturers are generally technically simple and serve ancillary production purposes, including stripping, preparation work for soldering (wire-twisting and tinning), and front-end processing for assembly (shield assembly), and for products so outsourced to contract manufacturers, we typically carry out further production processes in house, including soldering, assembly, molding, and testing and delivery. We conduct quality testing of such products to ensure that their quality meets the requirements and standards prescribed by our customers. The outsourcing of the production processes of our products to contract manufacturers is typically pre-approved by the relevant customers. We generally enter into long-term processing service contracts with our contract manufacturers, who typically charge us processing fees for their services. For the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, we paid processing fees of approximately RMB8.3 million, RMB16.9 million, RMB33.2 million and RMB29.4 million to our contract manufacturers, respectively.

We generally operate a vertically integrated production process for all of our products, comprising the production of our own plastic materials, drawing of own copper, and processing of wire & cable products into finished signal cable assembly and power cord assembly products while for production of our connector products, we are able to conduct key processes such as product design and development, stamping and plastic mold design, metal stamping, plastic injection and final product assembly in house.

BUSINESS

Assembly Products Production Process:

The following chart illustrates the general production processes of our external signal cable assembly, internal signal cable assembly and power cord assembly products.



External Signal Cable Assembly Production Process:

Stripping (去皮)

Stripping is a process by which the outer coat of the cables (insulating layer) is taken away by stripping machines in accordance with the product processing requirements. The conductors may be used for connecting other components upon stripping.

Soldering (焊接)

Soldering is a process to make the conductors and the electricity conducting components closely connected by using the soldering equipment and the lead-free solder wire in accordance with the product design requirements.

Internal Signal Cable Assembly Production Process:

Sub-wire processing (副線加工)

Sub-wire processing is the front-end processing of the product shape (including cutting contracts, product molding and certain other pre-processed steps).

BUSINESS

Laser (鐳射)

Laser is a process to adopt CO2 laser know-how to peel off the component wires.

Stripping (去皮)

Stripping is a process by which the outer coat of the cables (insulating layer) is taken away by stripping machines in accordance with the product processing requirements. The conductors may be used for connecting other components upon stripping.

Soldering (焊接)

To effect the function of signal transmission, the tinned component wires and the connectors are welded by applying the impulsive hot-bar soldering technology.

Power Cord Assembly Production Process:

Stripping (去皮)

Stripping is a process by which the outer coat of the cables (insulating layer) is taken away by stripping machines in accordance with the product processing requirements. The conductors may be used for connecting other components upon stripping.

Crimping (壓接)

Crimping is a process by using the crimping equipment, dies and blades to closely connect the conductors with the electricity conducting components in accordance with the characteristics of products (including pull force and conditions).

Common Production Process:

Assembly (組裝)

Various parts and components are assembled together in accordance with the product design requirements.

Molding (成型)

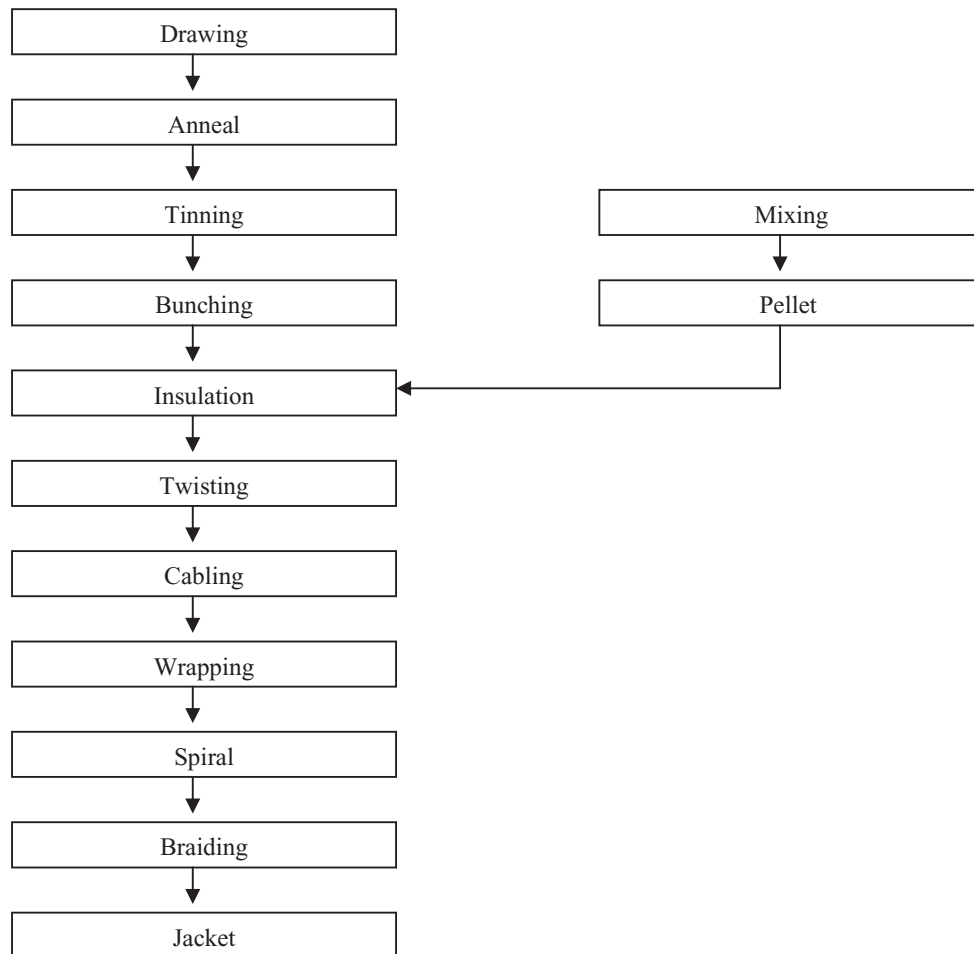
Molding is a process to inject the heat-shrinkable plastic into the injection molding machine for heating until the temperature falls below the melting point, and the plastic is then injected into the mould cavity upon which a certain pressure is applied, with the shaped product taken out from the mould upon cooling.

Testing and delivery (檢測和發運)

The socket is put into the testing instrument for testing the products with respect to breakdown voltage, voltage withstand, insulation and impedance in accordance with the safety standard testing parameters. Upon passing the test, the products are then delivered in compliance with packaging specifications as required by the customers.

Wire & Cable Production Process:

The following chart illustrates the general production processes of our wire & cable products.



Drawing (拉絲)

Drawing is a process by which the copper wires are pulled through one or more drawing machines and stretched into wires of smaller diameters. After drawing, the copper wires are hardened and brittle.

Anneal (退火)

To ensure optimum elongating properties, the drawn copper wires are heated to a certain temperature and are then crystallized by cool water so as to soften the wires and increase their flexibility to meet the required manufacturing standards.

Tinning (鍍錫)

Tinning is to coat a layer of tin on the surface of copper wires by putting copper wires into melted tin and dies in order to improve the soldering capacity of wires and cables.

Bunching (銅絞)

In order to improve the softness and flexibility of cables for easy installation, copper wires are twisted together for making the cables and wires.

Insulation (芯押)

Insulating materials such as plastic materials are fed into an extrusion machine, died and extruded evenly and tightly onto the single wire, stranded copper wires or other metal wires under the requisite temperature, pressure and speed.

Twisting (對絞)

Two core wires are twisted together in order to maintain the stability of signal pairs of pairing cables.

Cabling (集合)

The cabling process involves the joining of the component wires into a cabled assembly and these component wires are normally stranded into round shapes. The cabling process is similar to the conductor stranding process. As part of the cabling process, the cable is also filled with fillers to ensure it is smooth and round in shape, after which it is bound in a tight and compact manner.

Wrapping (包帶)

The cables are wrapped with a layer of, among others, aluminum composite tape or paper tape, polyester tape for shielding, insulating, moisture-proof and certain other functions.

Spiral (纏繞)

Spiral is a kind of shield by using copper wires or other metal wires to wind around the core wires or cables (upon stranding) in the same direction for shielding of electromagnetic fields.

Braiding (編織)

Braiding is a kind of shield by using copper wires or other metal wires to wind around the core wires or cables (upon stranding) in a crossover manner for shielding of electromagnetic fields.

Jacket (外被)

For protecting the cables from being damaged, an even layer of material is extruded from plastic materials and other materials by an extruder machine at a specific temperature, pressure and speed to cover the cables upon stranding or shielded cables.

Mixing (混合)

Mixing is the first step in production of plastic materials, that is, to mix all raw materials evenly, including powder, fire resistant agent, plasticizing agent, coloring powder and such other additives to ensure even and stable performance.

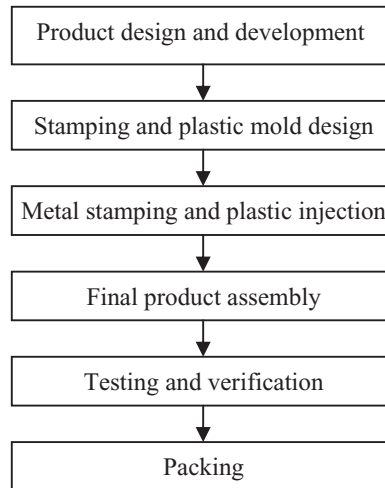
BUSINESS

Pellet (造粒)

Pellet formation is to evenly compound the mixed raw materials under a certain temperature, pressure, speed and certain other conditions before extruding the mixture for cutting into pellets for packaging.

Connectors Production Process:

The following charts illustrate the general production processes of our connector products.



Product design and development (產品設計開發)

The major steps in product design and development include 2D and 3D designs and the analog analysis of the products designed in accordance with the customer's requirements and specifications.

Stamping and plastic model design (衝壓、塑膠模具設計)

When the product designed is completed, stamping and plastic model design will conduct the design of the dies for all components in accordance with the product design drawings.

Metal stamping and plastic injection (五金衝壓、塑膠成型)

Metal stamping: metal injection are set on the punch first and the metal materials (coiled materials) will be put into the dies before continuous punching, pressing and material feeding through the dies and the metal components (such as contracts, iron cases) can be produced.

Injection of plastic units: plastic dies are set in the injection molding machine first and the plastic raw materials (plastic pellets) will be injected into the plastic dies by the injection molding machine. Upon temperature increase and cooling in around or less than one minute, the dies will be opened by the injection and molding machine and the injection-shaped plastic unit can be taken out.

Final product assembly (成品組裝)

The general steps of the final products assembly include cutting each set of contracts or iron cases, pressing the contracts into the plastic by tools, folding/breaking the contracts, installation of iron

BUSINESS

cases, pressing-in of iron cases, checking the evenness and smoothness of welded ends of products and testing of electricity conduction.

Testing and verification (檢驗)

All the finished products are tested in respect of the dimensions and performance in the process of assembly.

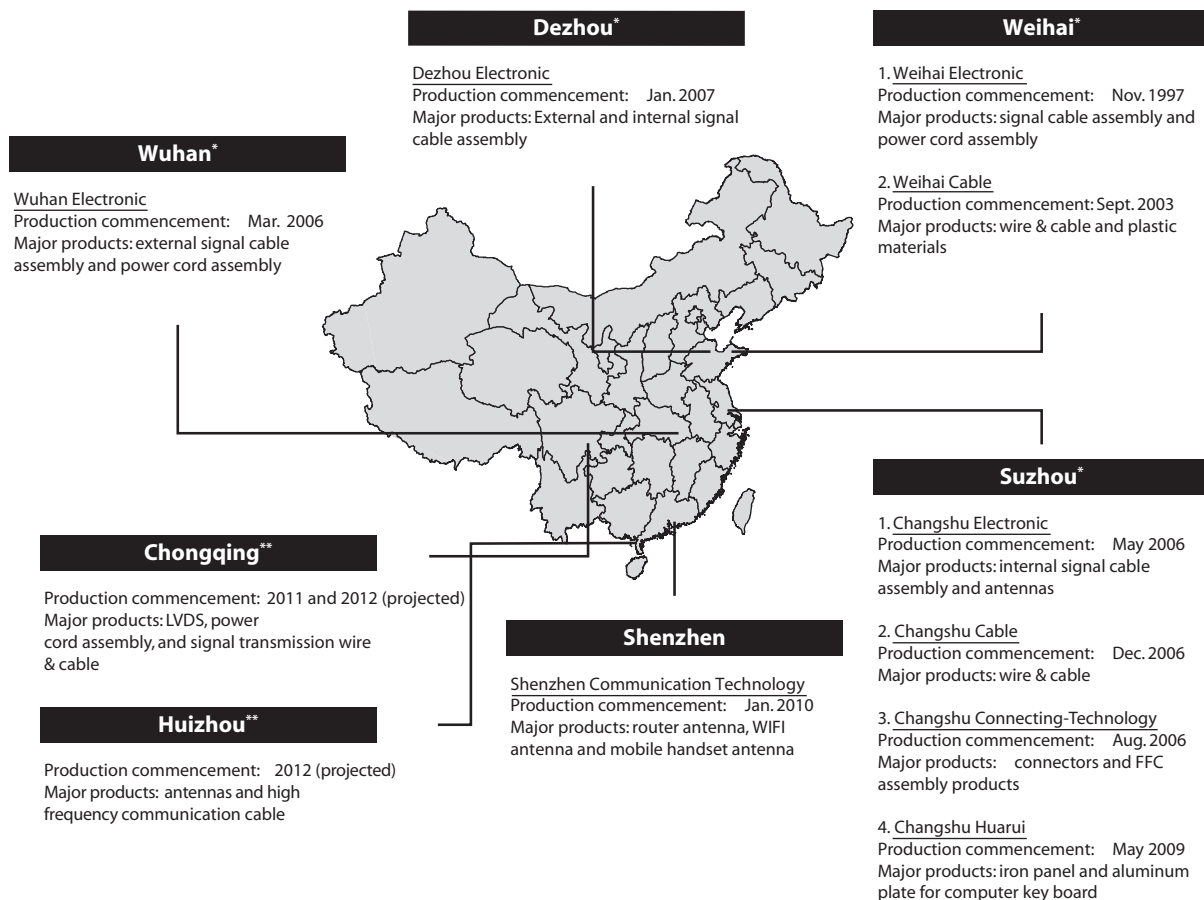
Packing (包裝)

The conforming products upon assembly are packed and be ready for delivery.

BUSINESS

Production Facilities and Equipment

We have production facilities in Weihai and Dezhou of Shandong Province, Suzhou of Jiangsu Province, Wuhan of Hubei Province and Shenzhen of Guangdong Province. We are also in the process of planning to build up our production facilities primarily for the manufacture of LVDS type of notebook internal signal cable assembly, power cord assembly and signal transmission wire & cable in Chongqing as well as our production facilities primarily for the manufacture of antennas and high frequency communication cable in Huizhou of Guangdong Province. We believe that our strategically located operations in China enable us to be near the production bases of our target customers in the Bohai Rim, the Yangtze Delta and Southern China so that we can better understand and address their rapidly changing needs and meet their product delivery requirements in a timely and efficient manner. The following map shows the locations of our production facilities throughout China.



Notes:

* We will be increasing production capacity at these production facilities. For details, please refer to “Business Strategies — Expanding our production capacity” under the “Business” section.

** To be newly established production facility.

BUSINESS

The following table sets forth the standard and actual production capacity, and utilization rate information of our production facilities, by each product group, for the periods indicated.

	For the year ended 31 December									For the six months ended 30 June		
	2007			2008			2009			2010		
	Actual production	Standard production capacity ⁽¹⁾⁽²⁾	Utilization rate (%) ⁽⁴⁾	Actual production	Standard production capacity ⁽¹⁾⁽²⁾	Utilization rate (%) ⁽⁴⁾	Actual production	Standard production capacity ⁽¹⁾⁽²⁾	Utilization rate (%)	Actual production	Standard production capacity ⁽¹⁾⁽²⁾	Utilization rate (%) ⁽⁴⁾
External signal cable assembly (‘000 unit)	58,216	72,470	79.8	74,627	103,540	71.3	75,238	90,370 ⁽⁵⁾	78.0	41,519	49,350	84.0
Internal signal cable assembly (‘000 unit)	22,719	26,210	86.7	8,554	11,230 ⁽⁶⁾	76.2	20,370	25,500	79.9	26,132	32,580	80.2
Power cord assembly (‘000 unit)	12,234	22,370	54.7	24,235	36,140	67.1	47,841	63,960	74.8	27,232	39,650	68.7
Wire & cable (million meters) ⁽³⁾	441	584	75.4	578	712	81.2	689	928	74.3	489	672	78.7
Connectors (‘000 unit)	42,185	60,120	70.2	124,568	170,870	72.9	146,507	204,410	71.7	66,589	89,780	74.2

Notes:

- (1) The standard annual production capacity is calculated as the sum of the production capacity for each of the key products in each of our product groups.
- (2) The standard annual production capacity for signal cable assembly and power cord assembly is calculated based on the assumption that the machines are operated 10 hours per day and 25 days per month.
- (3) The production of different types of wire & cable and connectors share the capacities of the same production lines, which are designed to allow for a degree of flexibility so that we are able to respond faster and more flexibly to the changing demands of our customers. The standard annual production capacities for wire & cable and connectors are based on our annual production plan with such allocation of capacities of the production lines to produce each type of the products, as we formulated after taking into consideration of the production forecasts and planned schedule of our key customers.
- (4) The utilization rates of our production facilities fluctuated during the Track Record Period. The utilization rates for our external and internal signal cable assembly production facilities were lower in 2008 and 2009 as compared to 2007 and the first half of 2010 as the amounts of customer purchase orders were relatively lower for the second half of 2008 and the first half of 2009 due to the impact of the global financial crisis. As for our power cord assembly products, we expanded our production capacities in the relevant periods according to our production plans and this resulted in relatively lower utilization rates for the overall production of our power cord assembly products as new production facilities need lead-in time to ramp up to its designed capacity, and the utilization rates for our power cord assembly production facilities increased in 2008 and 2009 as compared to 2007 primarily because we expanded production as we obtained safety certifications for our power cord assembly products from an increasingly number of jurisdictions and therefore were able to increase production to meet increased customer demand. As for our wire & cable products, as the global economy started to recover in 2009, we purchased equipment and conducted facilities maintenance and upgrading for our wire & cable production lines in preparation for the planned increase in production of this product type and, as a result, the utilization rate of our wire & cable production facilities was lower in 2009 as compared to other relevant periods due to lead-in time required to ramp up to its designed capacity.
- (5) The decrease in standard production capacity in 2009 for external signal cable assembly as compared to 2008 was because we started to use the production facilities of Changshu Electronic for the exclusive manufacturing of internal signal cable assembly in 2009 whereas prior to that, such production facility was used for manufacturing both external and internal signal cable assembly.
- (6) The decrease in standard production in 2008 for internal signal cable assembly as compared to 2007 was because we made a strategic decision to focus on the production of LVDS assembly for notebook use due to its higher technical requirements and profit margins and reduced production of Harness product, which previously was our only type of internal signal cable assembly product. Due to higher technical requirements involved in the production of LVDS assembly, the number of units being produced decreased correspondingly.

In order to enhance our production capacity and efficiency, we are committed to investing in advanced production machineries and equipment, including procuring various machineries and equipment from overseas. Key machineries and equipment that we use in our production process include, among others, skin-foam-skin insulation line (皮泡皮串聯線), cut-ray machine (裁伐機), TPE pelleter (TPE造粒機組), ø15 Teflon extruder (ø15Teflon押出機), ø65 type auto-extruding line (ø65自動押出生產線) and Jingli high speed punching machine (京利高速沖床).

Maintenance

We carry out regular inspection and maintenance on the production facilities throughout the year. We have internal procedures for conducting inspection and maintenance on our production

BUSINESS

facilities on a daily, weekly, monthly, quarterly and/or annual basis according to the characteristics and requirements of particular equipment and machineries so as to ensure their proper functioning. Our daily, weekly and monthly inspection and maintenance are generally conducted for a particular set of equipment or production line while our quarterly and annual maintenance overhauls are carried out for the whole production facility at a particular location. During the Track Record Period and up to the Latest Practical Date, we did not experience any material or prolonged suspension of operation due to machinery, equipment or other facility failures.

Quality Control

We need to maintain high quality standard for our products and minimize defects and returns of defective products in order to maintain our status as a core supplier for many of our major customers and obtain their orders for our products on a continuous basis. To this end, we have implemented a set of stringent production and quality testing and checking procedures designed to ensure that our products meet or often exceed the relevant industry standards and/or customer quality requirements. Furthermore, we have made significant investments in procuring high precision testing equipment, such as network analyzer, ICP and GS-MS, for the purposes to ensure that the testing and checking of our product quality is conducted according to the rigorous technical criteria.

We rely on in-house production and strict control of our production process to ensure the quality of our products. We have strengthened our quality control capacity by recruiting more quality assurance personnel. As of 30 June 2010, we have a total of 155 quality assurance personnel located in our facilities. From sourcing of raw materials, production and packaging of our finished product prior to delivery, we strictly monitor and control the quality of our operations. Our quality assurance team also actively engages in product design, ensuring production considerations are addressed at an early stage of the design process and minimizing the number of products that fail our quality control tests. In order to monitor our production quality and ensure that our products meet all our internal benchmarks and customers' specifications, our quality control staff carry out quality control inspection throughout the production process, including:

- ***Quality control for raw materials and components.*** We only purchase raw materials and components from suppliers who have passed our quality and reliability assessments and have been admitted to our list of qualified vendors. We carry out laboratory analysis and tests of the properties and chemical composition of the raw materials (including copper materials, plastic materials, iron materials and other materials) on a sampling basis. Before the raw materials are applied in the production process, a sample of each type of raw materials will be examined physically and chemically to ensure that their quality meets the specifications and standards of our products. We return to suppliers any raw materials that do not pass our inspection. We also periodically assess our suppliers, and those who fail our evaluation are removed from our qualified vendor list.
- ***Quality control during production.*** We test our semi-finished products at various stages of the production process to ensure their quality and compliance with all internal benchmarks before continuing on to the next stage of the production process.
- ***Final testing before delivery.*** After the production process is finished, we perform thorough inspections to ensure that customers' specifications are met prior to delivery of our products.

BUSINESS

Our products and production facilities have received the following certifications:

- **Safety certifications:** Our power cord assembly products have received safety certifications from the relevant authorities in 29 countries and districts, including but not limited to CCC (China), UL/CSA (US), BSI (UK), BSMI (Taiwan), KC (Korea), PSE (Japan), SAA (Australia), CE (Europe), GOST (Russia), IRAM (Argentina), SABS (South Africa), PSB (Singapore), SII (Israel), UC (Brazil), STQC (India), HK (Hong Kong), SIRIM (Malaysia), ISC (Cambodia) and TIS (Thailand).
- **Industrial association certifications:** Our HDMI assembly, USB assembly and DVI products have received the certifications from relevant industrial associations, namely HDMI Licensing, LLC, USB Implementer Forum, Inc., Digital Display Working Group and Serial ATA International Organization, as our such products have met the specifications and standards prescribed by these industrial associations.
- **Quality and environmental management certifications:** Our products and production facilities have received 4 types of quality and environmental management certifications, including the ISO9001:2008 certification, ISO14001:2004 certification, QC080000 certification and ISO/TS 16949:2009 certification.

Due to our strong emphasis on product quality and our stringent product quality controls, we have been able to meet or even exceed the product specifications and quality standards required by our customers on a continuous basis. During the Track Record Period and up to the Latest Practical Date, we did not have any product recall or third party claim for any damage or loss sustained arising from defective products and sales return due to products defects or other quality problems were insignificant. For the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, total sales return amount was approximately RMB573,000, RMB901,000, RMB886,000 and RMB549,000, respectively.

RESEARCH AND DEVELOPMENT

Product life cycles are generally short in the consumer electronics product industry that we serve and our customers have increasingly focused on improving the speed in ramping up the production of new products and bringing such products to market. Accordingly, one major focus of our research and development efforts is to continuously enhance our design, processing and other technical abilities to enable us to work closely with our customers in the initial design of the cable assembly and connector related products they require for use in their new products and meet their quality and delivery requirements. We also focus our research and development efforts on ways to reduce the cost and increase the manufacturing efficiency of our existing products while investing significant resources in developing new products.

In addition, we have focused, and will continue to focus, on designing, developing and customizing advanced equipment and high-precision testing apparatuses as well as making significant improvements on our molding tools and processing technologies to enable us to manufacture products that meet the technical standards prescribed by our customers.

Major research and development projects that we undertook during the Track Record Period include, among others, those related to high speed parallel data cable, data transmission line, signal coaxial cable, high-frequency signal transmission wire and preparation method, and power supply signal cable. Our current research and development projects relate to such products or materials as

BUSINESS

specialty power cable, high speed cable, environmentally friendly low smoke halogen-free insulating materials, solar connectors, antennas, and automotive wiring harness products.

We have research and development teams in our engineering departments based in our manufacturing facilities in Weihai and Suzhou, which focus on upgrading existing technology and processing techniques, improving production efficiency and developing new products. In addition, we are in the process of further developing our research and development infrastructure by building research and development centers dedicated to the development of new products. We have recently established a research and development center in Taipei and are in the process of setting up our research and development centers in Weihai and Suzhou. We expect our research and development center in Weihai and Suzhou to be ready for operation in December 2010, respectively, while our research and development center located in the Neihu Technology Park in Taipei started to be operational in September 2010. Due to the highly developed computer and other electronics industries in Taiwan, we expect to gain access to the internationally leading technologies for connectors and antennas through our research and development base in Taipei. Going forward, our research and development teams based in our manufacturing facilities will focus on upgrading existing technology and processing techniques and improving production efficiency. The focuses of each of our research and development centers include:

- Weihai: design, engineering and manufacturing technologies related to automotive wiring harness products and specialty power cables.
- Suzhou: design, engineering and manufacturing technologies related to high frequency communication cables, antennas, solar connectors and environmentally friendly low smoke halogen-free insulating materials.
- Taipei: design, engineering and manufacturing technologies related to antennas and connectors used in mobile handsets, notebooks, GPRS systems and network communications (including routers and network cards).

We are one of the first Chinese manufacturers to develop and produce one-piece shield plug (一體式屏蔽插頭) and high-speed parallel paired data cable (高速平衡對稱數據線纜) and, according to Frost & Sullivan, we are one of the few Chinese manufacturers who has successfully developed LVDS assembly and high frequency data cable which exceeds 20 Gigabit Ethernet.

As of the Latest Practicable Date, we had a total of 143 personnel specialized in research and development with an average experience of over 5 years in the industry. Among all of our research and development personnel as of the Latest Practicable Date, 67 personnel have obtained an undergraduate degree or have higher educational qualifications with the rest all having obtained other post-secondary diplomas or qualifications. We have established different research and development teams to meet our different product groups. For example, as of the Latest Practicable Date, we have 46 personnel in our external signal cable assembly product and power cord assembly product team, 27 personnel in our internal signal cable assembly product team, 43 personnel in our wire & cable product team, 22 personnel in our connector product team and 5 personnel in our antenna product team. The technological expertise and innovative ideas of our research and development personnel have enabled us to obtain 45 registered patents and file 44 pending patent applications in China and we held 3 registered patents and had 1 patent application pending for registration in Taiwan as of the Latest Practicable Date. In addition to one-piece shield plug and high speed cable mentioned above, our other key patents and patent applications include, among others, the computer combination hub with power switch (帶電源開關的計算機組合接插頭), bolt for computer data line (電腦數據線連接螺栓), signal coaxial

BUSINESS

cable (信號同軸電纜), data connecting line (數據連接線), high-frequency signal transmission wire and preparation method (高頻信號傳輸線及其製備方法) and power supply signal wire (可提供電源的信號線). For the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, our research and development expenditures were approximately RMB23.2 million, RMB26.3 million, RMB27.3 million and RMB12.7 million, respectively.

The following table sets forth a breakdown of our research and development expenses for the periods indicated:

	<u>For the year ended 31 December</u>			<u>For the six months ended 30 June</u>	
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2009</u>	<u>2010</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u> (Unaudited)	<u>RMB'000</u>
Staff costs	8,344	11,114	6,422	4,320	4,517
Depreciation	2,657	3,116	2,855	1,405	1,153
Material costs	8,613	8,299	14,134	3,259	4,409
Others ⁽¹⁾	3,538	3,751	3,867	3,228	2,656
Total:	<u>23,152</u>	<u>26,280</u>	<u>27,278</u>	<u>12,212</u>	<u>12,735</u>

Note:

(1) Others primarily relate to testing expenses, certification fees and other miscellaneous expenses.

CUSTOMERS

We sell substantially all of our external signal cable assembly, internal signal cable assembly, power cord assembly, wire & cable, and connector products to equipment manufacturers or manufacturing services providers primarily in the consumer electronics industry, who typically incorporate our products into their products or systems. Our major customers include leading global brand name and non-brand name equipment manufacturers in the worldwide consumer electronics markets such as Samsung, LG, Eastman Kodak, Amphenol, Haier, Hisense, Quanta, Compal, Qisda, TPV Technology, Wistron, Innolux, ZTE and Inventec.

We have been selected as a core supplier for a number of our products to Samsung, LG, Eastman Kodak, Amphenol, Haier, Hisense, Quanta, Compal, Qisda, TPV Technology, Wistron, Innolux, ZTE and Inventec. For the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, total sales to these customers (determined on the basis that sales to all the member companies of a group company are combined as sales to one customer) amounted to approximately RMB284.5 million, RMB407.1 million, RMB449.5 million and RMB321.5 million, accounting for 43.6%, 45.3%, 51.5% and 50.6% of total revenue, respectively. Of such customers, LG, TPV Technology, Samsung, Compal, Quanta and Haier were among our ten largest customers during the Track Record Period. We believe that dedication to product diversification, tailor-made product configuration, strong research and development capabilities, and high quality of standard placed on our products have enabled us to provide “one-stop” total solutions to our customers, strengthen the relationship with our existing customers and further expand our customer base. In terms of total number of customers, our customers increased from 68 as at the end of 2007 to 97 as at the end of 2008, 124 as at the end of 2009, and 147 as at the end of June 2010.

We have established strategic collaborative relationships with many of our key customers, which are primarily large brand name or non-brand name equipment manufacturers in the consumer electronics industry. For each of our key customers, we also typically supply a wide range of products.

BUSINESS

Our strategic collaborative relationships with these key customers provide us with a number of significant advantages, including:

- we may be frequently selected by these customers to be involved in the initial design of the cable assembly and connector related products they require for their new products, thus gaining the opportunities to become a core supplier for these customers;
- we have the opportunities to understand the product design and technical needs of our customers and identify the general trends of our customers' industries; and
- we are well-positioned to increase the number of different products that we supply to them.

In addition, strategic collaboration with our key customers enhances our ability to maintain high quality, design and other technological standards and improves our industry standing and reputation, which we believe should be helpful to our efforts in expanding our customer base.

The following table sets forth major customers for each of our product groups primarily based on their total purchases from us during the Track Record Period.

Product Type	Major Customers
● External signal cable assembly	Samsung, LG, Eastman Kodak, Qisda, Compal, Innolux and TPV Technology
● Internal signal cable assembly	Samsung, Quanta, Compal and Inventec
● Power cord assembly	Samsung, LG, Compal, Quanta, Innolux, Haier, Hisense and TPV Technology
● Wire & cable	Samsung, LG, Amphenol, ZTE, Tianjin Yamato Denki Electric Industry Co., Ltd, Phoenix Contact GmbH & Co. KG, Guangdong Galanz Group Co., Ltd. and Volex Intc. Suzhou Co., Ltd.
● Connectors	LG, TPV Technology and Compal

BUSINESS

Most of our international customers have their procurement units and/or manufacturing facilities based in China and depending on our customers' preferences and requirements, we would enter into sales contract with their Chinese subsidiaries and deliver our products to their manufacturing facilities based in China. The following table sets forth, for the periods indicated, an analysis of our revenue by geographical location of the entities to which we issued invoices, irrespective of the headquarter of our end customers or the final destination of the goods:

	For the year ended 31 December						For the six months ended 30 June			
	2007		2008		2009		2009		2010	
	Revenue (RMB'000)	% of revenue	Revenue (RMB'000)	% of revenue	Revenue (RMB'000)	% of revenue	Revenue (RMB'000) (Unaudited)	% of revenue (Unaudited)	Revenue (RMB'000)	% of revenue
China, not including										
Hong Kong	474,877	72.8	636,776	70.9	643,096	73.7	257,430	70.2	508,117	79.9
Korea	138,168	21.2	136,849	15.2	115,827	13.3	72,472	19.8	105,238	16.6
Hong Kong	—	—	70,076	7.8	53,924	6.2	12,374	3.4	4,442	0.7
Other countries and areas	39,583	6.0	54,298	6.1	59,549	6.8	24,290	6.6	17,883	2.8
Total:	<u>652,628</u>	<u>100.0</u>	<u>897,999</u>	<u>100.0</u>	<u>872,396</u>	<u>100.0</u>	<u>366,566</u>	<u>100.0</u>	<u>635,680</u>	<u>100.0</u>

We generally enter into framework sales agreements with our customers, which generally have an initial term of not exceeding 3 years, to establish a supplier-customer relationship while all sales are conducted through purchase orders which set out the specific terms for a particular sale. The key terms of such framework sales agreements include (i) the procedures for purchase orders by customers, (ii) the pricing clause which requires the fixing of the unit price prior to the production of our Company and provides that the parties may renegotiate reasonable adjustments to the pricing in the event of changes in raw material (copper) prices, exchange rates and production efficiency, (iii) the product quality clause which requires that our Company shall establish the internal quality system to ensure product quality, (iv) the method for payment, (v) the parties' confidentiality obligations regarding the product design and technologies involved, and (vi) the procedures and schedules for product delivery, examination and acceptance, return and disposal of defective products. The framework sales agreements do not include guaranteed purchase volume and purchase price provisions. The Directors confirm that we entered into framework sales agreements with all our customers (including our five largest customers) during the Track Record Period. Our key customers also typically provide us with monthly non-binding forecasts on a regular basis of the quantities of the products that they expect to procure from us. Our pricing policy takes account of a number of factors, including cost of raw materials and production, cost of transportation, product specification, size of order, customer relations and relevant market conditions. We typically arrange to deliver our products to the locations designated by our customers and the transportation cost is part of the price for any purchase order from our customers. For any deliveries to a destination that is near our production facility, we normally use our own trucks to make the deliveries. For other deliveries, we generally utilize third party logistics and transportation companies for transporting the products to the destinations designated by our customers. Our customers generally pay the purchase prices for our products in RMB or US dollars with bank acceptance notes, letters of credit or accounts transfer. We generally give our customers 60 to 180 days' credit upon issuance of invoice, although credit terms may vary based on our historical relationships with, and assessment of the creditworthiness of, each customer. We continuously monitor the status of the outstanding accounts receivable due to us from each customer.

BUSINESS

For the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, our five largest customers accounted for 56.2%, 44.9%, 41.5% and 39.4% of our revenue, respectively, while the largest customer accounted for 25.3%, 19.6%, 16.6% and 13.0% of our revenue, respectively, for the same periods. None of the Directors, their respective associates or shareholders who hold more than 5% of our issued share capital prior to the completion of the Global Offering has any interest in any of our five largest customers.

SALES AND MARKETING

We manage our business relationships with customers through our sales and marketing activities. We plan and organize our marketing activities primarily based on our business areas and major product lines. Each of our business departments sets overall marketing strategies related to its business areas and product types and analyzes the general market dynamics and other conditions while our subsidiaries implement the relevant marketing strategies within their respective regions and focus on carrying out marketing activities for the products they manufacture and sell. As part of our marketing activities, we selectively participate in industry exhibitions related to our target markets, including, for example, Shenzhen Electronics Fair, Global Tronics, Taipei International Electronics Show and Electronica.

We market and sell our products directly to large brand name and non-brand name equipment manufacturers and other companies mainly in the consumer electronics industry. As of 30 June 2010, we had a sales and marketing force of more than 89 personnel focusing on sales and customer coverage and services. Our sales and marketing personnel regularly contact our existing and potential customers about our current product lines and product development plans. Our sales and marketing personnel generally visit our existing customers once every one or two weeks while also frequently contacting them via emails, phone calls or other meetings. With respect to target potential customers, our designated sales and marketing personnel generally visit them on a monthly basis while also maintaining contact with them via emails and phone calls. In addition, our sales and marketing personnel also assist many of our key customers to complete in-depth evaluations on us and our products before such customers approve us their supplier for any particular products according to their internal procedures.

As an important part of our sales and marketing activities, we endeavor to deliver superior services for our customers. We deploy sales and customer service personnel onsite at the production facilities of our key customers to provide dedicated customer coverage and services for such customers on a real-time basis. These dedicated sales and customer service personnel gather feedback on the products we supplied to the relevant customer and assist us to understand and respond to its product design and other demands. In addition, through our own sales personnel or third party sales agents, we maintain and develop relationships with and deliver services to our customers in selected cities in China and various other countries and jurisdictions, including primarily Korea, Japan and Taiwan.

For the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, the expenses we incurred for sales and marketing amounted to approximately RMB14.8 million, RMB18.9 million, RMB20.5 million and RMB12.9 million, accounting for 2.3%, 2.1%, 2.3% and 2.0% of total revenue, respectively.

BUSINESS

SUPPLIERS

We purchase from third parties raw materials and components necessary to produce our products. These include primarily copper materials, plastic materials, iron materials and other materials. Our suppliers of raw materials must undergo our internal evaluation process based on a variety of quality and other standards. In addition, a number of advanced machineries and equipment, including, for example, network analyzer and time domain reflectometer, were imported directly from overseas or processed and assembled by suppliers in China with parts and components made overseas. See “— Production — Production Facilities and Equipment”. In addition, a significant portion of wire & cable products required for the production of our cable products were manufactured internally during the Track Record Period.

We have established long-term business relationships with our key suppliers for stable supply and timely delivery of high quality raw materials and components. During the Track Record Period, we did not experience any major difficulties in procuring raw materials necessary for the manufacture of our products. In addition, we endeavor to source each type of our raw materials from at least a few different suppliers and refrain from relying on a single supplier or group of suppliers for any type of our key raw materials. Our suppliers typically offer us credit terms of up to 90 days from the time when the supplies are received by us. The payment terms with our suppliers vary and payment are mainly made through bank transfer or issuing bank bills in RMB or US dollars.

Copper materials account for a large portion of our raw material costs. For the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, copper materials accounted for approximately 63.9%, 59.7%, 57.8% and 57.9%, respectively, of our raw material costs. In line with market practice, the prices for the copper we source from our suppliers are typically linked to the prices quoted by the LME (for overseas sourcing) or the SHFE (for domestic sourcing). As a result, our raw material costs are subject to the fluctuations of copper prices in the relevant copper futures markets. We have managed such price risks primarily through matching the purchase prices for our copper materials with the price terms of our customers’ purchase orders. Such adjustment to selling price linked to the prices of copper is normal market practice in our industry and its terms are stated explicitly in sale contracts we enter into with our customers. In the event that any of our customers requires a fixed cost for copper materials in their purchase orders, we have tried to hedge against the related copper price risk exposure through entering into derivative transactions, principally copper futures contracts. See “— Management of Copper Hedging Transactions”.

For the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, purchases from our top five suppliers together accounted for approximately 42.1%, 36.0%, 32.4% and 39.4%, respectively, of our total purchases of raw materials and components, while the largest supplier accounted for approximately 12.6%, 9.6%, 14.9% and 18.4%, respectively.

None of our Directors or their respective associates or shareholders who own more than 5% of our issued share capital immediately prior to the completion of the Global Offering has any interest in any of our five largest suppliers.

MANAGEMENT OF COPPER HEDGING TRANSACTIONS

For the purposes of controlling and managing the impact of the fluctuations of copper price on our raw material costs, profits and business operations, we have engaged and will continue to engage primarily in copper futures transactions to hedge against our copper price risk exposures mainly

BUSINESS

associated with the customers' purchase orders that require a fixed costs of copper materials, which may not be effectively covered by our matching the purchase prices of our copper materials with the pricing of our products. See "— Suppliers". As a matter of policy, we do not engage in copper hedging transactions for speculative purposes. For the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, investment loss or gain in respect of such derivative instrument was nil, approximately RMB4.6 million loss, RMB3.0 million gain and RMB1.8 million loss, respectively.

We have established the Futures Transaction Working Group, which, pursuant to the authority delegated by our Board of Directors, is responsible for formulating business strategies and policies for our copper futures transactions both annually and on an ad hoc basis, in particular, during the period when copper prices undergo significant fluctuations. The Futures Transaction Working Group is primarily consisted of our senior management members and other managerial personnel with significant experience on copper procurement and futures transactions, including Mr. Chi, our Chief Executive Officer (acting as the Chairman of the Futures Transaction Working Group), Mr. Jiang Taike, our Vice Chief Executive Officer and the general manager of our wire & cable department, Mr. Mao Wanjun, the vice general manager of Weihai Cable and our respective heads of the procurement department of Weihai Electronic and Weihai Cable. Under the supervision of the Futures Transaction Working Group, the Department of Procurement of our Company is responsible for the routine management and execution of our copper futures transactions. Our futures transaction personnel are required to have relevant experience. The Department of Procurement is composed of our procurement manager, procurement officers and futures business officers with significant operational experience on copper procurement and futures transactions. Our procurement manager has more than ten years of industry experience and our futures business officers have more than 3 years of industry experience. All business proposals formulated by the Department of Procurement as endorsed by the Futures Transaction Working Group are submitted to the Board for consideration and approval. Based on the experience of the personnel in the Department of Procurement and the approval mechanism of their plans, our Directors consider that the Department of Procurement is capable of formulating the operational plans for copper futures hedging transactions and selecting the futures brokerage companies.

We have established extensive internal control and risk management procedures for our copper futures transactions. Key procedures include, among others:

- (1) The Department of Procurement formulates the operational plans for our copper futures transactions and such plans shall be approved by the Futures Transaction Working Group;
- (2) The Department of Procurement selects the futures brokerage companies with good business reputation and solid business capabilities and financial condition for approval by the Futures Transactions Working Group as approved brokerage companies for our copper futures transaction. The Department of Procurement monitors any developments and changes related to the financial conditions and creditworthiness of such approved brokerage companies;
- (3) Within the specified limits imposed by our Board, the Futures Transaction Working Group sets the monthly amount of the total copper futures contracts based on our production plans;
- (4) The copper futures transactions may only be executed based on the authorizations approved by the chairperson of the Futures Transaction Working Group. Such authorization sets forth the authorized transactional personnel and the types and maximum amount of the transactions that such personnel may engage in;

BUSINESS

- (5) Our execution personnel of copper futures transactions prepares the report of daily transaction and settlement details and submit such report to the members of the Futures Transaction Working Group, the designated risk management personnel and the accounting personnel on a daily basis. The designated risk management personnel is responsible for independently reviewing the report to ensure that the transactions have been conducted in compliance with our internal control and risk management procedures. Any non-compliance is required to be reported to our Chief Executive Officer;
- (6) We have also established procedures for reporting internally any significant or unusual copper price fluctuations, non-compliance by our personnel of any operating and other procedures for our copper futures transactions, failure of our futures brokerage companies to meet our standards, large position of our outstanding copper futures contract that may present significant risks to us, and potential legal risks.

INVENTORY MANAGEMENT

We monitor and control our inventory level so as to facilitate smooth production, avoid stock-out and reduce the risk of over-stocking and accumulating obsolete stock. We utilize our enterprise resource planning, or ERP, systems to keep and produce inventory data. We generally determine our inventory of raw materials and components and finished products based on the amount of the purchase orders that our customers plan to place with us and our procurement cycle for raw materials and components.

We periodically give each supplier a rolling raw materials and components demand forecast so that these suppliers may plan and prepare inventory according to such forecasts. We place purchase orders for raw materials and components as close as possible to the required time of delivery, depending on our production requirements and the type of raw materials or components.

Finished products are warehoused after undergoing our quality inspection and testing procedures and meeting our quality requirements. The finished product packages will be checked and numbered by personnel in charge of product delivery according to customer delivery notice and packing note. When the finished product packages are packed according to customer's requirements or otherwise, the finished products will then be delivered to the locations designed by customers.

We have a stock-take policy to manage the stock-taking process and discrepancy reporting. Our routine stock-taking is conducted on a monthly basis. For the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, the provision we made for inventory impairment amounted to approximately nil, RMB4.5 million, RMB1.3 million and nil, respectively. We assess periodically if the inventories have been suffered from any impairment and made provision for inventories during 2008 and 2009 as the actual realizable values of the inventories are lower than their net realizable values at that moment. During the year ended 31 December 2008, due to the significant decrease in copper price starting in the third quarter of 2008 as a result of the impact of the global economic downturn, the anticipated realizable selling prices of our products (which is linked to prevailing copper prices) that were produced with copper materials we purchased in prior periods at relatively high prices were estimated to be lower than their costs and accordingly, we made inventories provision of RMB4.5 million in 2008. During the year ended 31 December 2009, we produced certain products in anticipation of the requirements of a customer to achieve better utilization of our extra production capacity; however, due to the product upgrading of that customer, the anticipated purchase

BUSINESS

order for these products was not fulfilled by the customer and our estimation of the selling price of these products was revised downwards and thus, we made inventories provision of RMB1.3 million in 2009 with reference to the carrying value of such specific inventories.

COMPETITION

Even though we sell most of our products in China, our major competitors in the signal cable assembly and power cord assembly product markets are mainly Taiwanese enterprises. In the signal transmission wire & cable market, our main competitors in addition to Taiwanese enterprises also include Japanese and Hong Kong enterprises whereas for connector products, our main competitors include American, Japanese and Taiwanese enterprises. Taiwanese companies that we compete principally with include Foxconn Technology Co., Ltd., Hotron Precision Electronic Industrial Co., Ltd., Glory Mark Hi-Tech (Holdings) Limited, Advanced Connectek Inc., Wanshin Electronic Co., Ltd., I-Sheng Electric Wire & Cable Co., Ltd., Longwell Company, Taiwan Line Tek Electronic Co., Ltd., Well Shin Technology Co., Ltd., COPARTNER Technology Corporation and Space Shuttle Hi-Tech Co., Ltd. Almost all of our main competitors have production facilities based in China. According to Frost & Sullivan, an independent market research and consulting company, in our target global high-end consumer electronics market, which amounted to about US\$560.5 billion or represented about 82.3% of the global consumer electronics market in 2009 (total size in terms of revenue amounting to about US\$681.0 billion in 2009), (i) we are the second largest manufacturer of external signal cable assembly products in the world in terms of revenue for 2009 and the first half of 2010 with a market share of 20.8% and 21.8%, respectively; (ii) among all the notebook internal signal cable assembly manufactures in the world, we ranked fifth in terms of revenue for 2009 with a market share of 10.7% and third in terms of revenue for the first half of 2010 with a market share of 19.0%; (iii) we ranked fifth among all the power cord assembly manufacturers in the world in terms of revenue for 2009 and the first half of 2010 with a market share of 4.1% and 5.6%, respectively; and (iv) among all the signal transmission wire & cable manufacturers in the world, we ranked fifth in terms of revenue for 2009 with a market share of 3.9% and third in terms of revenue for the first half of 2010 with a market share of 7.3%. According to Frost & Sullivan, the global external signal cable assembly and power cord assembly markets catering to the consumer electronics industry and the global notebook internal signal cable assembly market are dominated by a few players with the top five players capturing about 85.3%, 90.3% and 90.6% of market share respectively in 2009 and 86.2%, 94.2% and 94.1% of market share respectively in the first half of 2010 whereas the global signal transmission wire & cable market is fairly concentrated, with the top five players capturing about 54.0% and 71.0% of market share respectively in 2009 and the first half of 2010.

Our Directors believe that competition in cable assembly and connector related products for the global consumer electronic product markets is primarily based on technology, pricing, quality of products, research and development and production capability to meet customers' requirements and after-sales services. Our Directors believe that we can compete with international competitors because of our competitive pricing ability, high quality and comprehensive range of products, our research and development and production ability to continually meet customers' requirements, and extensive knowledge of local laws and regulations. Our Directors believe that we have distinct advantages over local domestic competitors particularly as a result of our more superior research and development capability, our ability to provide "one-stop" solutions to meet our customers' needs and our production scale.

BUSINESS

MAJOR AWARDS, CERTIFICATIONS AND MEMBERSHIPS

As of the Latest Practicable Date, we had been granted the following major awards, certifications and memberships:

Award/ Certifications/ Membership	Awarding/ Issuing Organization	Date of Issue	Term of Validation
Advanced Enterprise with Enthusiasm in Public Welfare, Charity Donation and Supporting New Rural Construction in 2009 (2009 年度熱心公益慈善捐助及支持新農村建設先進企業)	Working Committee of Weihai City's Chinese Communist Party Commission, for the Economic and Technical Development Zone (中共威海市委經技區工委) Administrative Committee of Weihai Economic and Technical Development Zone (威海經濟技術開發區管委) ⁽¹⁾	January 2010	N/A
Advanced Technology Enterprise for Weihai Electronic (高新技術企業-威海市泓淋電子有限公司)	The Science and Technology Bureau of Shandong Province (山東省科學技術廳) ⁽²⁾ The Finance Bureau of Shandong Province (山東省財政廳) ⁽²⁾ The State Tax Bureau of Shandong Province (山東省國家稅務局) ⁽²⁾ The Local Tax Bureau of Shandong Province (山東省地方稅務局) ⁽²⁾	December 2008	December 2008 to December 2011
Technology Research Center for High-frequency Signal Transmission Project of Shandong Province (山東省高頻信號傳輸工程技術研究中心)	The Science and Technology Bureau of Shandong Province (山東省科學技術廳) ⁽²⁾	February 2008	N/A

Notes:

(1) It is one of the departments of the Government of Weihai Economic and Technical Development Zone.

(2) It is one of the departments of the Government of Shandong Province.

REAL PROPERTY

As of 31 August 2010, our factories, dormitories and offices have a total gross floor area of approximately 172,255.8 sq.m. For details of our properties, please refer to the Property Valuation Report set out in Appendix IV to this prospectus.

Our Owned Properties

As of 31 August 2010, we held seven properties in Weihai, Dezhou and Suzhou, which consist of: (i) the eight parcels of land with a total site area of approximately 299,807.1 sq.m.; (ii) the buildings with a total gross floor area of approximately 160,578.8 sq.m.; and (iii) the buildings under construction with a total expected gross floor area of approximately 81,742.7 sq.m. upon completion. We have obtained all the relevant long term land use right certificates and building ownership certificates for our owned properties.

Our Leased Properties

As of 31 August 2010, we leased a total of four properties with a total gross floor area of 11,677 sq.m. in Weihai, Wuhan and Shenzhen from Independent Third Parties. Among them, 2,000

BUSINESS

sq.m. in Weihai are used as plants, 7,027 sq.m. in Wuhan are used as plants and dormitories, and 2,650 sq.m. in Shenzhen are used as plants and dormitories.

As of the Latest Practicable Date, we are not provided with building ownership certificates of the abovementioned four leased properties by relevant landlords as required under relevant PRC laws and regulations, with which we can prove the landlords' legal title and ownership to these properties. Our PRC legal advisor, Deheng Law Firm, is of the opinion that, in the event that any third party raises a claim adverse to our interests in the leased properties, the properties leasing agreements might be determined as invalid by PRC courts in the future. As a result, we may be required to cease our occupation and usage of the above properties and that production operations at these plants would be temporarily affected during the relocation process.

As for the leased property in Weihai, we have obtained the written confirmation from the local real estate and building authorities that the leased property was constructed by the lessor, there is no dispute as to its title and the lessor is in the process of applying for the building ownership certificate. Additionally, the property lease agreement has been filed and registered with the local real estate and building authorities. Our PRC legal advisor, Deheng Law Firm, is of the opinion that, in the event that we have to relocate due to the lessor's lack of ownership certificate or disputes relating to the ownership of the leased property, we shall have right to claim for compensation from the lessor for all losses we incur in relation to the relocation.

As for the leased properties in Wuhan, we have obtained the letters of commitment from two lessors in which they guarantee that if we have to relocate due to the lack of ownership certificates or disputes of ownership rights, they will compensate us for any losses we incur. Furthermore, we have also obtained the written confirmation from the local real estate and building authority in Wuhan that the local registration process for the property lease has not started yet and therefore, we cannot file and register our property lease agreement in Wuhan.

As for the leased property in Shenzhen, the relevant property lease agreement has been filed and registered with the local real estate and building authorities in Shenzhen. In the event that we have to relocate due to the lessor's lack of ownership certificate or disputes relating to the ownership of leased property, we shall have right to claim for compensation from the lessor for all losses we incur in relation to the relocation.

Based on the foregoing, our PRC legal advisor, Deheng Law Firm, is of the opinion that the property lease agreements with relevant lessors are executable and the risk that those agreement may be determined to be invalid by PRC courts is minimal. Our Directors believe those leased properties without proper ownership certificates are not crucial to our business operations in terms of revenue and profit contribution and will not have a material adverse impact on our operations. In Weihai, we have recently purchased a parcel of land with a floor area of 33,397 sq.m. to build new production plants. Upon the completion of the new plants in November 2010, all facilities in leased properties in Weihai will be relocated to the new plants. We have entered into a letter of intent with a district government in Wuhan, Hubei Province in August 2010 to purchase a parcel of land with a floor area of approximately 66 mu to build new production plants. Once the new plants and dormitories are completed, the facilities and people in leased properties will be relocated to the new site. We expect to finalize purchase of the piece of land in Wuhan by the first quarter of 2011 and that the relocation to the new site in Wuhan to be completed by the second half of 2011. In addition, in Shenzhen, if we have to

BUSINESS

relocate, due to the availability of alternative premises, we are confident that we can easily find another place in Shenzhen under reasonable terms where we can relocate our operations to.

INTELLECTUAL PROPERTY

We rely on internal confidentiality requirements and other protections of our technical know how to maintain our technical advantages in technology, product design and production processes. We also expect to rely on patents and copyrights to protect our proprietary technologies. Our employees, in particular, those involved in our research and development projects and other related activities, are required to comply with our internal confidentiality requirements. Our technicians who work in our research and development center and the technical departments at our head office and each of our subsidiaries are required to sign agreements acknowledging that we own the rights to all technologies, inventions, trade secrets, works of authorship, developments and other processes generated in connection with their employment with us or their use of our resources or relating to our business or our property and that they must assign any ownership rights that they may claim in those works to us. We have also included confidentiality clauses in our sales and purchase contracts with some customers.

As of the Latest Practicable Date, we have obtained 45 patents in China and filed applications for 44 other patents with the Patent Office of the SIPO. In addition, we have registered three trademarks and filed applications for seven other trademarks with China's Trademark Office of the SAIC.

As of the Latest Practicable Date, we have obtained three patents and filed applications for one patent Intellectual Property Office in Taiwan. In addition, we have filed applications for nine trademarks with Intellectual Property Office of Ministry of Economic Affairs in Taiwan.

Furthermore, as of the Latest Practicable Date, we have filed applications for three trademarks with Hong Kong Trademark Registry of the Intellectual Property Department of Hong Kong, and we have registered 1 trademark in Korea.

For further details, please see "Appendix VI — Statutory and General Information — Intellectual property rights".

INSURANCE

We currently maintain insurance coverage on our fixed assets and other properties, plant and equipment, inventory and employee social security. We do not maintain insurance for business interruption or product liabilities. We consider that our insurance coverage is consistent with relevant industry practice. During the Track Record Period and up to the Latest Practicable Date, we had not received any material claims from our customers or end-users of our products regarding any of our products or encountered any major production interruptions.

ENVIRONMENTAL, HEALTH AND SAFETY MATTERS

Environmental Matters

Our operations are subject to various PRC environment related laws and regulations, including the PRC Environmental Protection Law (1989) (中華人民共和國環境保護法), the PRC Environmental Impact Assessment Law (2003) (中華人民共和國環境影響評估法), Measures for the

BUSINESS

Control of Pollution from Electronic Information Products and Corresponding Standards (2007) (電子信息產品污染控制管理辦法) and the PRC Production Safety Law (2002) (中華人民共和國安全生產法).

Our operation activities generate little waste water or other wastes and therefore the cost of compliance with applicable environmental protection rules and regulations during the Track Record Period was non material and given that our operations including our production activities are expected to remain largely the same going forward, we expect our cost of compliance to remain non material. Our production activities are conducted in accordance with the environmental protection procedures and requirements that meet the standards of the ISO14001 and QC080000 environmental management systems as well as the directive on the toxic and hazardous substances, or RoHS, issued by the European Union in 2003 to exercise control over the toxic and hazardous materials used in certain electronic products. ISO14001 standard, which represents the core set of standards used by companies for designing and implementing an effective environmental management system to assist companies in reducing their negative impact on the environment. It does not dictate absolute environmental performance but serves instead as a framework to assist companies in developing their own environmental management system. In summary of the requirements of the ISO14001, a company is required to establish an environmental management system by implementing organizational structure, setting up environmental policy, management programs and trainings, effective procedures, monitoring measurements and maintaining timely review system. QC080000 standard is designed to achieve an effective control over the toxic and hazardous substances through the implementation of effective management system. In summary of the requirements of the QC080000, a company is required to identify and quantify hazardous or other substances restricted by the statutory and regulatory requirements that are included in the product and its production processes and implement an effective plan to reduce or eliminate hazardous substances, including managing the trail of use, inclusion and disposal of subject substances. We have obtained ISO14001 and QC080000 certifications for environmental management systems for all of our production facilities except for Changshu Electronic in respect of ISO14001 and Weihai Cable in respect of QC080000, respectively.

Our PRC legal advisor, Deheng law firm, is of the opinion that, the aforesaid certificates are not compulsory certificates regulated by PRC laws in order for enterprise to engage in production of products similar to that of the Group, and the Directors confirm that Changshu Electronic and Weihai Cable, depending on their needs, can decide whether to apply for such certification or not. Whilst the Directors consider obtaining such certifications to be positive for overall corporate image and customers' confidence, the decision on whether to apply for such certification would ultimately depend on whether our customers requested for us to be certified in such areas before they purchase products from us. As the customers of Changshu Electronic and Weihai Cable have not specifically requested for each company to obtain such certifications, the Directors considered it is not necessary for Changshu Electronic and Weihai Cable to obtain the ISO14001 or QC080000, respectively.

Our production operations are also subject to regulations and periodic monitoring by the State Environmental Protection Administration of the PRC and the relevant local environmental protection authorities. Under the relevant PRC laws and regulations, we are required to submit an environmental impact assessment to the local environmental protection bureau for approval before undertaking construction of any new production facility or major expansion or renovation of an existing production facility. If any of our facilities is found to have engaged in activities that severely polluted or endangered the environment, the relevant authorities may impose penalties on us, as well as require us to restore the environment or remedy the effects of the pollution. Any failure to so restore or remedy within the prescribed time could result in our licenses being terminated.

BUSINESS

Our PRC legal advisor, Deheng Law Firm, is of the view, that we comply with applicable laws and regulations on environmental protection in all material respects and that, during the Track Record Period and up to the Latest Practicable Date, we were not in breach of such laws and regulations in any material respect. As of the Latest Practicable Date, we had not been subject to any material fines or legal action involving non-compliance with any relevant environmental regulations. As of the Latest Practicable Date, we were not involved in any threatened or pending action against us by any environmental regulatory authority in any of the jurisdictions in which we operate.

Health and Safety Matters

We are subject to various safety laws and regulations in the PRC including the PRC Labor Law (中華人民共和國勞動法), the PRC Labor Contract Law (中華人民共和國勞動合同法), the Production Safety Law of the PRC (中華人民共和國安全生產法) and other related regulations, rules and provisions issued by the relevant governmental authorities from time to time. Our operations are also subject to occupational health and safety regulations set by the Ministry of Labor and Social Security and the relevant local government occupational health and safety authorities.

For the purposes of ensuring compliance with the applicable law and regulations, our human resources department, which is responsible for the formulation and implementation of human resources policies, will from time to time make adjustment, if necessary, to our human resources policies to accommodate material changes to relevant labor and safety laws and regulations to ensure their compliance. In addition, we have established a production safety committee (the “Safety Committee”) which is responsible for production safety and labor health and safety matters within our Group. The Safety Committee is consisted of the heads of our various departments and our in-house legal personnel. The Safety Committee members meet regularly to review our operations safety measures and production safety standards to ensure our production safety policies comply with the requirements of the applicable laws and regulations. We also seek legal advice from outside counsel on labor and safety related compliance matters as and when required.

In an effort to ensure the safety of our employees, we implement operational procedures and safety standards for our production process, including fire safety, warehouse safety, work-related injuries, electricity safety, and emergency and evacuation procedures. We provide our employees with occupational safety education and training to enhance their awareness of safety issues. We also carry out equipment maintenance on a regular basis to ensure their smooth and safe operation.

The Directors confirm, and our PRC legal advisor, Deheng Law Firm, is of the view, that we comply with the applicable health and safety laws and regulations in all material respects, and that, during the Track Record Period and up to the Latest Practicable Date, we were not in breach of such laws and regulations. We have not encountered any safety-related accidents that had any material impact on our operations during the Track Record Period and up to the Latest Practicable Date.

BUSINESS

EMPLOYEES

We had 741, 906, 1,074 and 1,056 employees as of 31 December 2007, 2008 and 2009 and 30 June 2010, respectively. A breakdown of our employees by function as of the dates indicated is set forth below:

	As at 31 December						As at 30 June	
	2007		2008		2009		2010	
	Number of employees ⁽¹⁾	% of total	Number of employees ⁽¹⁾	% of total	Number of employees ⁽¹⁾	% of total	Number of employees ⁽¹⁾	% of total
Manufacturing	238	32.1	263	29.0	331	30.8	305	28.9
Sales and marketing	68	9.2	86	9.5	89	8.3	89	8.4
General and administration	243	32.8	324	35.8	383	35.7	364	34.5
Research and Development	84	11.3	97	10.7	114	10.6	143	13.5
Quality control	108	14.6	136	15.0	157	14.6	155	14.7
Total:	<u>741</u>	<u>100.0</u>	<u>906</u>	<u>100.0</u>	<u>1,074</u>	<u>100.0</u>	<u>1,056</u>	<u>100.0</u>

Note:

⁽¹⁾ The number of the employees set forth herein excludes the contract workers that were provided to us by independent third party contract worker providers through their contractual arrangements with us.

As of 31 December 2007, 2008 and 2009 and 30 June 2010, we had 2,081, 1,500, 1,965 and 5,121 contract workers, respectively. We have engaged a significant number of such contract workers primarily because we believe that it is more efficient for us to utilize third party contract worker providers which specialize in recruiting personnel for labor intensive and non-essential production processes and other activities for sizeable manufacturing companies like us while we can use our internal resources to focus on recruiting and retaining technical and other personnel for essential production processes. Pursuant to our contractual arrangements with contract worker providers, all of whom are Independent Third Parties, for the services of each contract worker, we pay the salary of the workers and the management fee charged by the independent third party contract worker service providers, who are responsible for the salary, social insurance and other benefits of such contract worker. We use these contract workers primarily for manufacturing activities and our back office work. Our PRC legal advisor, Deheng Law Firm, has advised us that, pursuant to the Employment Contract Law, where a third party contract worker provider does not duly pay the salary, social insurance and other benefits to the contract workers, the contract worker provider and the relevant employer (our Group in this case) shall assume joint and several liabilities for such payments. Notwithstanding the above, our PRC legal advisor, Deheng Law Firm, is of the opinion that the risk exposed to our Group relating to such liability is remote for the following reasons: (a) pursuant to our agreement with all of our third party contract worker providers, our Group transfers the salaries to the contract workers directly to ensure their receipt by such workers; (b) our Controlling Shareholders have agreed to indemnify our Group should such liability arise; (c) our Group and our Controlling Shareholders upon their having indemnified our Group against such liabilities, are entitled to claim against the contract worker providers for compensation pursuant to our agreement with the relevant contract worker providers; and (d) as of 30 September 2010, our Group has not received any such claim from the contract workers.

As advised by our PRC legal advisor, Deheng Law Firm, our use of contract workers through the contractual arrangements with third party contract worker providers as described above is in compliance with the relevant laws and regulations of the PRC. The number of contract workers as of 30 June 2010 increased substantially as compared to 31 December 2009 primarily because (i) we significantly expanded our production capacities, including adding a number of production lines for

BUSINESS

our internal signal cable assembly, RGB assembly, DVI assembly and other products in the first half of 2010. See “— Production Facilities and Equipment”; and (ii) we took on additional contract workers in May and June 2010 in order to provide them training in advance in preparation for the planned increase in production in the second half of the year as our customer purchase orders typically increase in the second half of each year as well as for the planned expansion of production capacity in 2011. For the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, the salaries for contract workers we paid amounted to approximately RMB20.2 million, RMB24.1 million, RMB21.8 million and RMB36.3 million, respectively, while the management fees related to such contract workers we incurred amounted to approximately RMB2.2 million, RMB2.7 million, RMB2.3 million and RMB3.6 million, respectively.

In order to maintain quality, knowledge and skill levels of our employees, we place a strong emphasis on training. We provide training to our employees periodically, including introductory training for new employees, technical training, professional and management training, team-building and communications training.

We have adopted the employee incentives aimed at motivating our employees and retaining talent, which include the Share Option Scheme. For details of the Share Option Scheme, please see “Statutory and General Information — Share Option Scheme” in Appendix VI to this prospectus.

Our staff costs (including salaries and other compensation for our employees) for the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010 were RMB60.5 million, RMB71.4 million, RMB81.5 million and RMB74.6 million, respectively.

There is the workers’ union within our Company. We have not experienced any significant difficulty in recruiting employees nor have we had any significant staff compensation or labor disputes during the Track Record Period neither have we witnessed or expect such demand for pay raise from our employees or contract workers as a direct result of labor unrest witnessed at several PRC based manufacturing companies recently. Accordingly, we continue to determine our wages according to prevailing market wage rate in respective locations as well as performance of such employees and contract workers for the foreseeable future in order for us to remain competitive. We consider our relations with our employees to be good.

We are also subject to various labor laws and regulations in the PRC including the PRC Labor Law (中華人民共和國勞動法), the PRC Labor Contract Law (中華人民共和國勞動合同法), the Interim Regulation on the Levy of Social Insurance Premiums (社會保險費徵繳暫行條例), the Regulation Concerning the Administration of Housing Fund (住房公積金管理條例) and other related regulations, rules and provisions issued by the relevant governmental authorities from time to time.

According to the above mentioned laws, regulations, rules and provisions, we must enter into labor contracts if labor relationships are to be established between our employees and our PRC subsidiaries. We are also obliged to provide our employees with welfare schemes including pension insurance, medical insurance, injury insurance, unemployment insurance, childbirth insurance and housing fund contribution. We have not paid, or have not been able to pay, certain past social insurance or housing fund contributions for and on behalf of some of our employees before June 2010 in strict compliance with the relevant PRC regulations due to differences in local regulations, inconsistent implementation or interpretation by local authorities in the PRC, different levels of acceptance of the social security system by employees, as well as insufficient knowledge on our part

BUSINESS

regarding social insurance and housing system. Some employees were from rural areas outside of the area where the Group locates (“rural workers”) and their residence registrations are with the villages from which they came. The relevant local government authorities have different policies regarding social security contribution schemes for rural workers, who migrate from place to place, which makes it difficult for rural workers to transfer their social security registrations to other localities and continue their social security contributions (including recognizing contributions already made under previous registrations). Some of these rural workers are reluctant to participate in social security contribution schemes on the basis that the financial burden of participation outweighs the corresponding benefits, primarily because contributions of pension insurance, medical insurance and unemployment insurance are required to be paid by employees as well as employers, and their inability to transfer contributions previously made by them. In addition, we have not been able to pay housing provident fund contributions for our employees in circumstances where employees have not been willing to make corresponding contributions.

According to the confirmations received from relevant PRC authorities in Weihai, Changshu of Suzhou, Dezhou, Wuhai and Shenzhen in charge of administration of social insurance and housing funds, our PRC subsidiaries and our senior management have not been and will not be imposed any administrative penalty or subjected to any punitive or other measures in relation to such non-compliance. In addition, our PRC legal advisor, Deheng Law Firm, is of the view that, (i) as long as we make contributions of social insurance and housing funds within the deadline notified by the relevant government authorities and unless they consider our contributions to be not sufficient and notify us to do so, we shall not be subject to any penalty; (ii) in the event that we do not make contributions within the notified deadline, we may be subject to a late payment fee of 0.2% of the total outstanding amount per day, calculated from the date on which the relevant social insurance contribution amount become overdue until the date that full payment is made, and a fine of up to a maximum of RMB50,000 in total in respect of non-payment of housing fund contributions; and (iii) the possibility that the Group will be requested by the relevant administrative authorities to make up the balance of unpaid social insurance and housing fund which happened before 30 June 2010 or be imposed with administrative penalty is minimal. Since we have paid the social insurance and housing fund contributions in respect of all the qualified employees since June 2010 and have set aside approximately RMB5.4 million as provision for the outstanding social insurance and housing fund contributions, the above non-compliance would not have any material adverse effect on our operations.

In addition, an indemnity undertaking from the Controlling Shareholders has been obtained to pay any excess contribution if the amount of the provisions made in respect of the overdue contributions is insufficient to cover the outstanding contributions. In accordance with applicable laws and regulations, employers may not unilaterally pay their portion of the contribution to the relevant authority in circumstances where an employee’s portion of the contribution has not been paid. Therefore, for those related employees, who are no longer employed by us, we will not be able to complete the requisite procedures for the payment of the outstanding contributions; however, if they voluntarily opt to make the payments for their own portion of the overdue contributions, and request us to make up for such past overdue contributions as employer, we undertake to pay the contributions in accordance with the requisite regulatory procedures.

Our Directors confirmed that all PRC subsidiaries, pursuant to relevant PRC laws and regulations, opened the accounts of social insurance and housing fund by June 2010 and have paid the full amount of social insurance and housing fund to the accounts for the benefit of all qualified employees in a timely manner since then. To ensure on-going compliance, a particular personnel has

BUSINESS

been designated to take charge of the supervision and examination of our compliance with social insurance and housing fund related regulatory requirements and communicate, on a monthly basis with relevant regulatory authorities and our PRC legal advisor with a view to keep abreast of any changes of the relevant regulations or other related regulatory developments. The relevant new regulatory requirements would be circulated, in the form of internal memo, regularly to relevant staff at all departments and subsidiaries of the Group to ensure on-going compliance and the abovementioned designated personnel shall also be responsible for reviewing compliance related work done and compliance records by all relevant departments and subsidiaries across the Group.

NON-COMPLIANT BILL FINANCING

Background

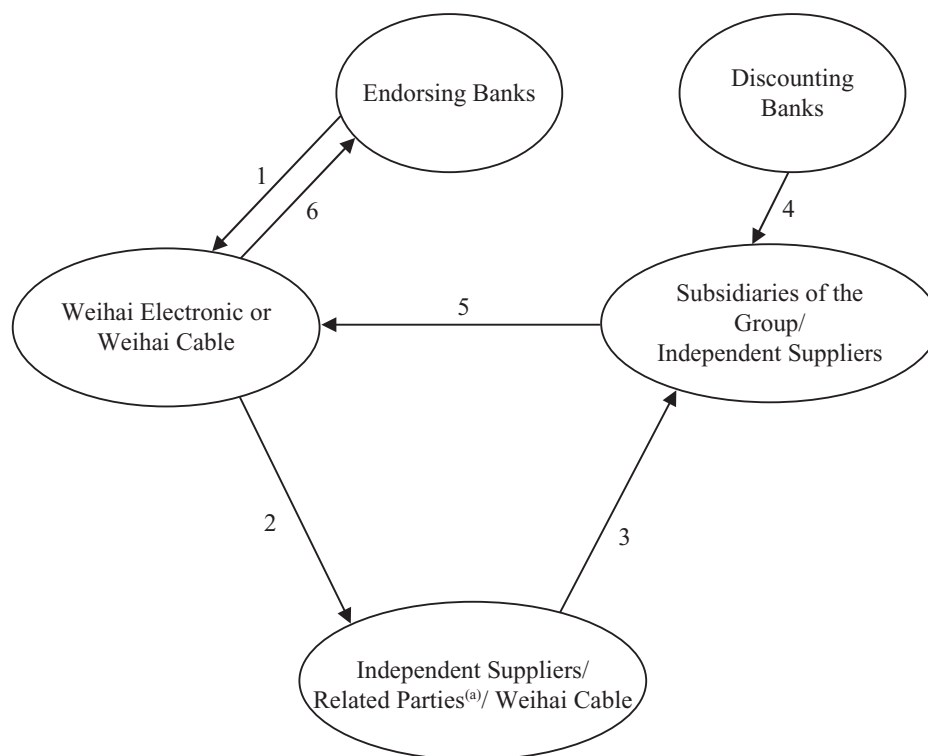
Between July 2005 to June 2009, we entered into credit agreements or maximum mortgage agreements with three local branches of national commercial banks in China pursuant to which such banks (the “endorsing banks”) agreed to provide credit within stipulated limits with one-year term. The credit agreements or maximum mortgage agreements generally include provisions relating to the limit, terms and types of credit facilities, including the issuance of bank acceptance notes, to be granted by the banks and the guarantees required for such credit facilities. Within the stipulated credit limits, we can issue bank acceptance notes to our suppliers as payments for our purchases of supplies.

In order to issue such bank acceptance notes, we are typically required to enter into bank acceptance agreements (銀行承兌協議) with the endorsing banks, which require the presentation of the purchase contracts to support the issuance of such bank acceptance notes. The bank acceptance agreements generally include provisions relating to the terms of the bank acceptance notes, including payment terms and arrangements related to the required deposits. Under these agreements, we are generally required to make initial deposits with the endorsing banks in amounts of at least 30% of the face amount of the bank acceptance notes to be issued by us. In 2007, 2008 and 2009, the aggregate initial deposits for the issuance of such non-compliant bank acceptance notes were approximately RMB6.9 million, RMB21.3 million and RMB14.8 million, respectively. These acceptance notes are due within two to six months. Under these agreements, on or before the maturity date, we pay the remaining balance of the face amount of the bank acceptance notes to the endorsing banks. At any time prior to the maturity date, the bank acceptance notes may be presented, together with the related purchase contracts, by the relevant suppliers to PRC banks for discounting and payment. These relevant suppliers will obtain an amount equal to the face amount of the bank acceptance notes after deducting discounted interest. At maturity, the bank acceptance notes may be presented to the endorsing banks for settlement. Our Directors have confirmed that all required initial deposits were maintained with the endorsing banks at all times during the Track Record Period and all remaining amounts of the bank acceptance notes issued by us during the same period were paid to the endorsing banks on or before their maturity dates.

As the discounted interest rates of bank acceptance notes are normally lower than the prevailing interest rates for short-term bank loans, to take advantage of these lower interest rates, we obtained funding for our business operations through issuing such bank acceptance notes (but within the credit limits stipulated by the endorsing banks and supported by the initial deposits made by us) to relevant suppliers (including independent suppliers, related parties or Weihai Cable) but using the proceeds for the purposes other than the payment for the purchases from these suppliers (the “non-compliant bill financing”). Please refer to the chart below for an illustration of the mechanics in such non-compliant

BUSINESS

bill financing. Notwithstanding the use of such non-compliant bill financing, the Directors confirm that during the Track Record Period, the actual amount of our total purchases from these relevant suppliers was greater than the amount of non-compliant bill financing. See “— Effects on our financial position”. In respect of the non-compliant bill financing, we would pay for the cost to discount the respective bank acceptance notes earlier than maturity and would incur such cost as interest expenses in our financial statements during the relevant periods. The Directors believe that bank acceptance notes and commercial short term loans may not be directly comparable with each other as the Group may not use commercial short term loan as a direct substitute for any bank acceptance notes it had obtained from the endorsing banks through non-compliant bill financing. However, for illustration purpose only, an analysis of interest that indirectly applied to the Group through use of such arrangement as compared to short-term bank loans available to the Group is presented as follows: the discounted interest rates of bank acceptance notes in 2007, 2008 and 2009 were 5.25%, 5.99% and 1.98%, respectively, whereas the prevailing interest rates for short-term bank loans in the same period were 8.51%, 8.83% and 6.83%, respectively. Accordingly, the interest expenses incurred by the Group through the use of the bill financing arrangement in 2007, 2008 and 2009 were RMB0.3 million, RMB1.1 million and RMB0.3 million, respectively, and the interest presumably saved by the Group through the use of such arrangement was RMB204,000, RMB936,000 and RMB789,000, respectively. The following flow chart illustrates the mechanics of the non-compliant bill financing:



Notes:

- (a) Mainly included Yu Shun Rong, which supplied raw materials to Weiwei Electronic and Weiwei Cable. The Directors confirm that no funding is obtained through the Group with the non-compliant bill financing.
- (1) Overall credit limit was granted by endorsing banks and subsequent bank acceptance agreements were entered into between Weiwei Electronic or Weiwei Cable and endorsing banks upon presentation of purchase contracts. The required initial deposits were recorded under “bank deposits” in the consolidated statement of financial position.
- (2) Bank acceptance notes were issued to independent suppliers or related parties or Weiwei Cable (when the Group sourced internally from Weiwei Cable) for making the payment based on the purchase contracts presented upon deposit of 30% of the face amount of the bank acceptance notes. The issued bank acceptance notes were recorded in “bills payable” with a corresponding debit entry in “trade payables” to the independent suppliers or related parties in the consolidated statement of financial position.

BUSINESS

- (3) The bank acceptance notes were endorsed by independent suppliers or related parties to one of the Group's PRC subsidiaries. The endorsed bank acceptance notes were recorded in "bills receivable" with a corresponding credit entry in "trade payables" to the independent suppliers or related parties in the consolidated statement of financial position. If the bank acceptance notes were issued to Weihai Cable, Weihai Cable would endorse them to independent suppliers. The endorsed bank acceptance notes were recorded in "bills payable" with a corresponding debit entry in "trade payables" to the independent suppliers in the consolidated statement of financial position.
- (4) The Group's relevant subsidiaries or independent suppliers presented the bank acceptance notes to the discounting banks (any authorized domestic banks in the PRC, including the endorsing banks) for discounting. The discounted receipts and relevant finance cost incurred by subsidiaries of the Group were recorded in "bank balances and cash" in the consolidated statement of financial position and "finance costs" in the consolidated statement of comprehensive income respectively. A corresponding credit entry was made to "bills receivables" in the consolidated statement of financial position.
- (5) The Group's relevant subsidiaries or independent suppliers refunded the amount received from discounting the bank acceptance notes to Weihai Electronic or Weihai Cable. Amounts refunded by subsidiaries of the Group represented intra-group fund transfers while for those discounted and refunded by independent suppliers, the discounted receipts and relevant finance cost incurred were recorded in "bank balances and cash" in the consolidated statement of financial position and "finance costs" in the consolidated statement of comprehensive income respectively. A corresponding credit entry was made to "trade payables" in the consolidated statement of financial position.
- (6) On or prior to the maturity date of the bank acceptance notes, Weihai Electronic/Weihai Cable repaid the balance of the face amount of the bank acceptance notes to the endorsing banks. The "bills payable" recorded in step 2 and step 3 would have been settled upon repayment of such remaining balance.

We used the non-compliant bill financing arrangements to fund a portion of our business operations from July 2005 to June 2009^(b), and all bank acceptance notes involved in such non-compliant bill financing were fully settled by December 2009. Our Directors have confirmed, and our PRC legal advisor, Deheng Law Firm, is of the opinion that neither fraudulent activities nor false documents (such as falsified contracts or receipts) were involved in obtaining such non-compliant bill financing. The endorsing banks in their confirmations have also confirmed the same. In addition, the endorsing banks have confirmed that they did not incur any loss as a result of our business activities with them.

The respective suppliers were willing to engage in the non-compliant bill financing arrangements because of their long-standing business relationship with us, with the intention to assist us to conduct our business. The Directors confirmed that independent suppliers did not receive any amount as rebate or other incentives for assisting us in connection with the non-compliant bill financing activities and that the Group has not been involved in any non-compliant trade financing activities for the benefit of the above-mentioned related parties and independent suppliers during the Track Record Period.

As part of our preparation for our initial public offering, we were advised by our PRC legal advisor, Deheng Law Firm, that while the relevant bill financing was conducted in compliance with the terms and conditions under the relevant agreements with the endorsing banks, but because the purpose of the financing was not for the purpose of the payment for the underlying subject transaction, such bill financing was not in compliance with the PRC Negotiable Instruments Law (中華人民共和國票據法) (in particular Article 10 which states that bank acceptance notes shall be issued on the basis of actual underlying transactions) and certain banking regulations promulgated by the PBOC, including the Measures for the Implementation of the Administration of Negotiable Instruments (票據管理實施辦法), the Measures for Payment and Settlement of Accounts (支付結算辦法) and the Notice of the People's Bank of China on Certain Improvements to the Negotiable Instruments Systems (中國人民銀行關於完善票據業務制度有關問題的通知). Since then, our Directors recognized that the non-compliant bill financing constituted a breach of the relevant PRC laws and regulations and became

^(b) The first bank acceptance note was issued on 29 July 2005 and the last one was issued on 19 June 2009.

BUSINESS

fully aware of the consequences of the past non-compliant actions regarding the non-compliant bill financing. We ceased conducting the non-compliant bill financing in June 2009 and fully settled all bank acceptance notes involved in the non-compliant bill financing in December 2009.

Effects on our financial position

In 2007, 2008 and 2009, the aggregate amount of the bank acceptance notes issued by us, which was used for purposes other than the payment for the purchases from relevant suppliers, was approximately RMB22.9 million, RMB71.0 million and RMB49.5 million, respectively, whereas the aggregate amount of related actual purchases (including VAT)⁽¹⁾ from the relevant suppliers was approximately RMB100.9 million, RMB116.6 million and RMB79.9 million, respectively. The funding for our business operations obtained from the banks through such non-compliant bill financing in 2007, 2008 and 2009 was estimated to be approximately RMB14.9 million, RMB49.7 million and RMB34.6 million, respectively.⁽²⁾ Based on relevant prevailing interest rates of short-term bank loans, we estimated, for illustration purpose only, that our savings in interest payments from the non-compliant bill financing arrangements were approximately RMB204,000, RMB936,000 and RMB789,000 in 2007, 2008 and 2009, respectively. As of 31 December 2007, 2008 and 2009, the year-end balance of the non-compliant bill financing was approximately RMB9.8 million, RMB14.7 million and nil, respectively.

We had unutilized banking facilities of approximately RMB48.3 million, RMB124.3 million and RMB162.5 million as of 31 December 2007, 2008 and 2009, respectively⁽³⁾. We maintained bank balances and cash and restricted bank balances of approximately RMB39.1 million, RMB58.4 million, and RMB115.2 million, respectively, as of 31 December 2007, 2008 and 2009. In addition, we borrowed new bank loans of approximately RMB210.4 million, RMB393.1 million and RMB544.4 million, respectively, in 2007, 2008 and 2009. Since the full settlement of all outstanding bank acceptance notes involved in the non-compliant bill financing arrangements in December 2009, we have demonstrated that we have sufficient funding to support our business operations based on our operating income, adequate credit facilities and established relationships with PRC commercial banks and our ability to raise capital. Based on the foregoing, our Directors consider that we would have had sufficient funding for our business operations in 2007, 2008 and 2009, assuming that there were no such non-compliant bill financing activities during the same period.

Subsequent actions undertaken by us and our Directors

Our Directors have received advice from Deheng Law Firm, our PRC legal advisor, and Protiviti, an independent internal control advisor, covering matters related to, among other things, the

- (1) The amounts of purchases reported to the relevant PRC tax bureau for VAT and Enterprise Income Tax (EIT) purposes, which are the same as the amounts included in our financial statements, reflect actual purchase amounts with valid VAT invoices. Since the overstated amounts of the non-compliant bill financing arrangements were not actual purchases and there were no purchase VAT invoices issued by the relevant suppliers, we would not have any input VAT available to credit against the output VAT levied on sales. As such, the overstated amounts of the non-compliant bill financing arrangement shall have no impact on our VAT input claim. With respect to EIT, as only actual purchases with valid VAT invoices were included in our cost of sales, the overstated amounts of the non-compliant bill financing arrangement shall have no impact on our EIT liability.
- (2) Since substantially all of the bank acceptance notes issued by us were due in six months and we normally deposited at least 30% of the face amount of such bank acceptance notes in the endorsing banks, the funding for our business operations obtained through non-compliant bill financing on an annual basis was estimated to be 70% of the amount of the non-compliant bill financing.
- (3) The amount of the unutilized banking facilities represented the difference between the aggregate amount of granted credit limits available to our Group, including the credit limits provided by the endorsing banks under the credit agreements and credit limits provided by other banks, and the aggregate amount of utilized banking facilities during the relevant periods. If we had not been engaged in the non-compliant bill financing arrangements described above, the amount of banking facilities made available to us by the banks may have been different during that period.

BUSINESS

legal implications arising from the non-compliant bill financing activities, internal controls system and corporate governance. Save for Mr. Chi and Mr. Jiang Taike who were involved in the authorization of the non-compliant bill financing arrangements and Mr. Li Jianming who were involved in the execution of such arrangements at the relevant times, none of the Directors or senior management was involved in the non-compliant bill financing arrangements. Mr. Chi, Mr. Jiang Taike and Mr. Li Jianming all confirmed that they have not obtained any personal benefit directly or indirectly from the non-compliant bill financing. All Directors have confirmed that they fully comprehend their obligations and duties to take rectifying measures and to prevent the non-compliant bill financing or other non-compliant activities from happening again in the future. Our Directors have also undertaken that our Group will not engage in non-compliant bill financing or other non-compliant activities in the future. We have also taken a series of actions to address and rectify this issue. See “— Strengthening our internal control system and corporate governance measures” for details.

Legal opinion from our PRC legal advisor

To obtain an assessment of the potential legal implications of such non-compliant bill financing for us, our Directors and senior management, we have sought legal advice from our PRC legal advisor, Deheng Law Firm. On the basis that (i) the total amount of such non-compliant bill financing did not exceed the total credit limits granted by the relevant banks; (ii) our Directors and senior management were at all relevant times acting in the best interests of our Company; (iii) we paid all amounts due to the endorsing banks in full and on time; (iv) all bank acceptance notes involved in the non-compliant bill financing were fully settled by December 2009, our PRC legal advisor has advised us that (1) due to the fact that the relevant banks and third parties have not incurred any losses, we will not have any liability under any civil claims arising from such non-compliant bill financing, (2) our Directors and senior management will not be personally liable for any civil claims, and (3) there are no relevant PRC laws or regulations, nor are there any relevant rules promulgated by the PBOC or the China Banking Regulatory Commission (中國銀行業監督管理委員會) (“CBRC”) imposing administrative or criminal liability in respect of such non-compliant bill financing. In particular, pursuant to Article 3 of the PRC Criminal Law (中華人民共和國刑法) and Article 4 of the PRC Administrative Penalty Law (中華人民共和國行政處罰法) describing the principles of “a legally prescribed punishment for a specified crime” and “administrative penalty decided by statutory regulations,” there is no legal basis for any PRC regulatory authority to impose administrative or criminal liability on us, our Directors or senior management in relation to the overstated bill financing. Our PRC legal advisor, Deheng Law Firm, has advised us that there is no legal basis for any PRC regulatory authority to impose administrative or criminal liability on us, our Directors or senior management in relation to the non-compliant bill financing. Similarly, our PRC legal advisor, Deheng Law Firm, is also of the opinion that, based on the foregoing analysis, there is no legal basis for any PRC regulatory authority to impose any civil, administrative or criminal liabilities on third party suppliers for their involvements in such non-compliant bill financing activities and as such the possibility that these third party suppliers being subject to any legal liabilities due to the non-compliant bill financing is very minimal. These legal opinions are consistent with the written confirmations we obtained from the relevant parties and government agencies as further discussed below.

The Company’s PRC legal advisor, Deheng Law Firm, is of the opinion that, pursuant to the Negotiable Instruments Law (票據法) and other applicable laws and regulations, it is not provided that PBOC or CBRC has authority to impose any administrative punishment on the enterprises involved in non-compliant bill financing. The regulatory authorities having jurisdiction over our Group, namely Jinan Branch of PBOC and Shandong Bureau of CBRC, have respectively issued a confirmation in

BUSINESS

which each of them has confirmed that they will not impose any administrative punishment on or take any punitive or other measures against the Group's PRC subsidiaries, our Directors or senior management involved in the non-compliant bill financing. In addition, the relevant banks have also confirmed that they did not incur any loss arising from the non-compliant bill financing activities and hence waived their right to take any legal actions against Weihai Electronic, Weihai Cable, their shareholders, directors or senior management involved in the non-compliant bill financing. Therefore, Deheng Law Firm is of the opinion that the possibility that the endorsing banks are subject to penalty from the relevant government authorities as the result of non-compliant bill financing is very minimal and so is the possibility for any potential claim against the Group to be made by the endorsing banks, in particular, in respect of the interest presumably saved by the Group as the result of the non-compliant bill financing.

Confirmations from relevant endorsing banks

Since certain of our agreements with the endorsing banks involving non-compliant bill financing provide that the issuance of bank acceptance notes should be made based on actual purchases and transactions, in June 2010, we met with the branch presidents and/or customer relation managers of the endorsing banks and subsequently obtained such banks' written confirmations (the "Confirmations") that in connection with our business activities with them prior to December 2009, (i) our payments to them related to non-compliant bill financing were made in full and on time; (ii) they did not incur any losses as a result of our business activities with them; (iii) they will not take any legal action against us, our Directors and senior management; (iv) the bill financing arrangements will not impact any future bank credit facilities that may be granted by the banks to us, and (v) the endorsing banks have prior knowledge that the proceeds could be used by the Company for purposes other than repayment of the relevant purchases. The Company has confirmed that each of the three endorsing banks has consented to and approved the relevant bill financing when entering into bank acceptance agreements with us based on the purchase contracts we presented and confirmed that neither fraudulent activities were involved nor loss was incurred to them as the result of our business activities with them. They have also confirmed that we did not engage in any fraudulent action towards these endorsing banks in connection with the non-compliant bill financing activities.

Confirmations from and consultation with relevant government agencies

In June 2010, we, together with our PRC legal advisor, initiated meetings and consulted with the Jinan Branch of the PBOC and the Shandong Bureau of the CBRC, regarding our non-compliant bill financing. The PBOC is responsible for drafting the PRC Negotiable Instruments Law and other relevant laws and regulations, and the CBRC is the regulatory authority overseeing commercial banks and their operations in China. Our PRC legal advisor has advised us that the PBOC and CBRC are the only two regulatory authorities who may determine whether there is any breach of PRC laws and regulations, or impose any liability, in relation to the non-compliant bill financing. Since Weihai Electronic and Weihai Cable were incorporated in Shandong Province, the Jinan Branch of the PBOC and the Shandong Bureau of the CBRC are the two appropriate government agencies that we should approach and consult with regarding this matter. Notwithstanding the fact that such non-compliant bill financing was not in compliance with the Negotiable Instruments Law and relevant regulations of the PRC as disclosed above, on the basis that the non-compliant bill financing activities did not result in any loss to the relevant banks or any other third party, the relevant government agencies deemed the non-compliant bill financing to be an "immaterial breach of law." Article 27(2) of the Administrative Penalty Law of the PRC states that "penalties may be waived for immaterial breaches of law that have

BUSINESS

been rectified promptly with no serious consequence caused.” Accordingly, the Shandong Bureau of the CBRC confirmed in its written letter dated 13 June 2010 and the Jinan Branch of the PBOC confirmed in its written letter dated 1 June 2010 that the banking regulatory authorities are not required to impose any administrative penalty to companies in relation to their non-compliant bill financing under the current PRC laws and regulations, and they would not impose any administrative penalty or take any punitive or other measures against our Group’s PRC Subsidiaries and senior management involved in the non-compliant bill financing. These written confirmations represent the government agencies’ view and assessment of actions to be taken by them on issues related to the non-compliant bill financing. As of the date of this prospectus, we have not received any notice of formal investigation or inquiry regarding the non-compliant bill financing from these agencies.

The Confirmations were officially and duly issued by the three endorsing banks and Shandong Bureau of CBRC and Jinan Branch of PBOC respectively. Our PRC legal advisor, Deheng Law Firm, is therefore of the opinion that the issuance of confirmations was duly made by relevant bodies with the appropriate authority in compliance with applicable regulatory and administrative procedures and the confirmations are legal and valid. The Sponsor confirmed that, based on the above opinion of Deheng Law Firm, it is of the view that the confirmation issued by the three endorsing banks, Shandong Bureau of the CBRC and Jinan Branch of the PBOC were by the relevant regulatory bodies with appropriate authority over this issue.

BUSINESS

Strengthening our internal control system and corporate governance measures

Since June 2009, we have formulated and adopted a series of specific internal guidelines and corporate governance measures, such as requiring specific approval of each bank acceptance note supported by the actual transaction records, to ensure no similar incidents will occur in the future and that all future financings are properly supported by actual transactions and also used only for the designated purpose of paying for the purchase of goods from suppliers. In April 2010, we engaged Protiviti, an independent internal control advisor, to examine our overall internal control system. We particularly asked Protiviti to examine our internal control policies and procedures in relation to our capital management. See “Business — Internal Control”. Protiviti commenced its review of our internal control system, including internal control policies and procedures over issuing, recording and management of bank acceptance notes, in May 2010. Rectifying measures and status of rectification work performed by us are:

Rectifying measures	Status of rectification work
<ul style="list-style-type: none">● setting up mechanism to ensure that the duties of bill financing related matters are properly segregated, such as separating the administrative functions of the issuance of bank acceptance notes from our internal approval of such bank acceptance notes;	<ul style="list-style-type: none">● Completed in June 2009
<ul style="list-style-type: none">● setting up mechanism to ensure that management approval is required for each bank acceptance note supported by the actual transaction records (such as contracts and payment note);	<ul style="list-style-type: none">● Completed in June 2009
<ul style="list-style-type: none">● setting up mechanism to perform reconciliation and stocktake on the bank acceptance notes, review the stocktake result and notes summary by the financial manager and report the results to the Audit Committee on a monthly basis;	<ul style="list-style-type: none">● Mechanism to perform stocktake completed in July 2010. The control of reporting to Audit Committee will be implemented after the Listing
<ul style="list-style-type: none">● compiling a bank acceptance note training material (with the assistance of Protiviti and Deheng Law Firm) for circulation to all Directors and relevant personnel of the Group; and	<ul style="list-style-type: none">● Completed in August 2010
<ul style="list-style-type: none">● providing relevant training to all newly joined Directors or relevant personnel of the Group.	<ul style="list-style-type: none">● In progress

In addition, we have retained Protiviti, an independent internal control and risk consulting company, to review and test our bill financing activities periodically for compliance with the policies upon the Listing and provide reports for our Audit Committee to review and approve.

Since May 2010, Protiviti has been reviewing our internal control policies and procedures over issuing, recording and management of bank acceptance notes. During the review, Protiviti noted a control deficiency and found that the Company had not performed stocktaking on the bank acceptance notes on a regular basis. Protiviti recommended that the relevant finance personnel at each subsidiaries

BUSINESS

of the Group perform stocktaking on the bank acceptance on a weekly basis and record the results accordingly for the inspection of a relevant finance supervisor at each subsidiaries of the Group who will then perform independent inspection on the stocktake results. Both the finance personnel who performs the stocktake and the financial supervisor are required to sign off on the stocktake record. In addition, the stocktake record will be reviewed by the finance manager of the Company at the headquarter level on a monthly basis. Protiviti confirmed that during its follow-up review in July 2010, Protiviti noted that the Company has remediated this control deficiency by already putting in place the above recommended checks and controls by Protiviti. Protiviti also recommended that the results of the review be reported to the Audit Committee on a monthly basis. Such review by the Audit Committee will be implemented upon the Listing as Protiviti has recommended. Protiviti will perform follow-up review on this matter following the Listing of the Company.

In the report issued by Protiviti to us on 8 July 2010, based on the sample test, saved as above, Protiviti did not identify (i) any current deficiencies of internal control over bank acceptance notes or (ii) any bank acceptance notes issued by us since 19 June 2009, which involved any non-compliant bill financing activities.

To ensure compliance with all applicable laws and regulations and our internal control systems are up-to-date and function properly, we will continue to engage Protiviti for at least the next 12 months after the Listing to (i) conduct verifications of our newly implemented internal control mechanisms and measures on a quarterly basis; and (ii) examine and monitor our bank acceptance notes activities on a quarterly basis and provide its report on our internal control to our Audit Committee. Our Audit Committee will also report internal control matters related to compliance issues to our Corporate Governance Committee.

Indemnity from Controlling Shareholder

Our Controlling Shareholder has agreed to indemnify us against any losses, liabilities and expenses, relating to any claim brought by the banks, regulatory authorities or any other third party in relation to the non-compliant bill financing.

INTERNAL CONTROL

We focus on enhancing our internal control and risk management systems. Our Board of Directors and senior management assume the overall responsibilities for overseeing the implementation of our internal control procedures and other measures throughout our company. In an effort to further improve our internal control, we engaged, Protiviti, an independent internal control advisor, for an initial review of our overall internal control system in May 2010. The scope of work of the review conducted in May 2010 included a review of our internal control over key business processes, including, among others, financial reporting, sales, procurement, inventory management and fixed asset management. In the report issued by Protiviti to us, Protiviti did not identify any material weakness or deficiency in our internal control system, and recommended a number of actions to be taken to further improve our existing internal control process.

In accordance with Rule 3A.15(5) of the Listing Rules, the Sponsor by relying primarily on the works of Protiviti, has made a formal statement to the Stock Exchange that having made reasonable due diligence inquiries, including interviewing Protiviti to understand its assessment of the Company's current internal control systems and discussing with Protiviti the contents of its internal control reports with regards to non-compliant bill financing, it has reasonable grounds to believe, and does believe,

BUSINESS

that the Company has established procedures, systems and controls (including accounting and management systems) which are adequate and effective.

LEGAL PROCEEDINGS

In July 2009, Shanghai Anhong Construction & Engineering Co., Ltd. (“Shanghai Anhong”) (上海安宏建设工程有限公司), an Independent Third Party contracted by Weihai Electronic for the construction of various plants and dormitory buildings in Weihai, brought a lawsuit against Weihai Electronic in the People’s Intermediate Court of Weihai, claiming for the overdue payment of construction service fees and interest in a total amount of approximately RMB7.8 million (including RMB7.7 million of overdue construction service fees and RMB0.1 million of delay interest thereof (the “Claims”)) which Weihai Electronic had not paid due to its claim of quality defects in Shanghai Anhong’s construction service. The construction was completed in January 2009 and the total cost of RMB43.4 million was recorded as the Group’s property, plant and equipment as of 31 December 2009. The plants and dormitory buildings in Weihai have been in use by the Group since January 2009. As at 31 December 2009, the Group has paid construction cost of RMB36.6 million to Shanghai Anhong and accrued unpaid construction payable to Shanghai Anhong of RMB6.8 million. The Group recorded a construction cost payable of RMB6.8 million in its consolidated financial statements as at 31 December 2009 instead of RMB7.7 million because RMB0.9 million was already paid but not yet received by Shanghai Anhong at the time the lawsuit was filed and such receipt was subsequently acknowledged by Shanghai Anhong. In September 2009, Weihai Electronic counterclaimed that Shanghai Anhong was in breach of the construction contract due to the delay in completion of the construction for 212 days and quality defects and requested for liquidated damages of approximately RMB2.1 million and Weihai Electronic’s legal expenses related to this legal proceeding. Such legal proceeding is currently pending for trial in the People’s Intermediate Court of Weihai.

Pursuant to the order of the People’s Intermediate Court of Weihai, both Shanghai Anhong and Weihai agreed to appoint a third party accounting firm to perform an independent audit in respect of the volume of construction work conducted by Shanghai Anhong. Our PRC legal advisor, Deheng Law Firm, has advised us that the PRC court will determine the final construction payable to Shanghai Anhong with reference to such firm’s report.

Based on the advice of our PRC legal advisor, Deheng Law Firm, and the facts or evidences presented to the court during the hearing and mediation, our Directors are of the view that our Group have valid grounds to defend Shanghai Anhong’s claims. Accordingly, the Group has accrued the construction costs of the plants and dormitory buildings of RMB6.8 million and did not accrue the delay interest of RMB0.1 million relating to the Claims in the consolidated financial statements.

Notwithstanding the above, given the size of the claim involved in the litigation, even in the unlikely event that the Company loses the counterclaim, the Directors confirmed that there will be no impact on the Company’s operational position and given that the full RMB6.8 million amount has already been accrued in the accounts as of 31 December 2009, there will be no further adverse impact on the Company’s financial position.

As of the Latest Practicable Date, the People’s Intermediate Court of Weihai has not yet rendered any decision on the parties’ claims, and the parties’ dispute remains unresolved.

Save as disclosed above, as of the Latest Practicable Date, there are no legal proceedings or arbitrations, pending or threatened, against us that could have a material adverse effect on our business, financial condition or results of operations.