

ZOOM TECHNOLOGIES INC
Form 10-Q
May 16, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934

FOR THE QUARTER ENDED MARCH 31, 2011

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934

For the transition period from _____ to _____

Commission file number 0-18672

ZOOM TECHNOLOGIES, INC.

(Exact name of Registrant as Specified in its Charter)

Delaware

(State or Other Jurisdiction of Incorporation or Organization)

51-0448969

(I.R.S. Employer Identification Number)

Headquarters:
Sanlitun SOHO, Building A, 11th Floor
No.8 Worker Stadium North Road
Chaoyang District, Beijing, China 100027

U.S. correspondence office:
c/o Ellenoff Grossman & Schole LLP

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150 East 42nd Street
New York, NY 10017

(Address of principal executive offices including zip code)

(917) 609-0333

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report) Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES NO

Applicable only to corporate issuers:

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: The number of shares of common stock, par value \$0.01, outstanding as of May 6, 2011 is 15,879,757.

Note: PDF provided as a courtesy

Zoom Technologies, Inc.
and Subsidiaries

FORM 10-Q

For March 31, 2011

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PART I — FINANCIAL INFORMATION

ITEM 1 Consolidated Financial Information - (unaudited)

ZOOM TECHNOLOGIES, INC., AFFILIATES & SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	March 31, 2011	December 31, 2010
ASSETS		
(Unaudited)		
Current assets		
Cash and equivalents	\$ 2,083,812	\$ 6,374,103
Restricted cash	13,588,802	13,503,122
Accounts receivable, net	44,495,684	21,740,642
Inventories, net	1,972,753	1,955,458
Other receivables and prepaid expenses	450,453	432,205
Advance to suppliers	24,936,495	32,776,983
Notes receivable	426,630	746,922
Due from related parties	15,944,358	19,056,574
Deferred tax assets, net	100,000	103,419
Total current assets	103,998,987	96,689,428
Property, plant and equipment, net	4,672,562	4,949,920
Research and development contracts in progress	551,125	531,617
Construction in progress	898	-
Construction in progress deposit - related parties	9,852,841	9,790,700
Intangible assets	575,466	525,458
Goodwill	10,360,306	8,498,897
TOTAL ASSETS	\$ 130,012,185	\$ 120,986,020
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Short-term loans	\$ 24,591,791	\$ 21,945,664
Notes payable	25,479,064	25,318,370
Accounts payable	1,871,020	1,488,548
Accrued expenses and other payables	1,239,942	1,170,952
Advance from customers	545,167	301,014
Taxes payable	5,604,154	4,711,893
Interest payable	35,753	25,027
Dividends payable	603,142	599,338
Due to related parties	3,227,926	2,884,340
Total current liabilities	63,197,959	58,445,146
Long-term payables	580,000	580,000
Long-term loan	17,654	-
TOTAL LIABILITIES	63,795,613	59,025,146
COMMITMENTS		
STOCKHOLDERS' EQUITY		
Preferred stock: authorized 1,000,000 shares, par value \$0.01 none issued and outstanding as of March 31, 2011	-	-
Common stock: authorized 35,000,000 shares, par value \$0.01	158,393	152,739

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Issued 15,840,937 shares and outstanding 15,839,257 shares; and Issued 15,275,572 shares and outstanding 15,273,892 shares at March 31, 2011 and December 31, 2010, respectively		
Shares to be issued	300	557
Subscription receivable	-	(61,200)
Deferred expenses	(243,493)	(227,226)
Additional paid-in capital	40,429,952	38,204,403
Treasury shares: 1,680 shares at cost	(7,322)	(7,322)
Statutory surplus reserve	688,724	682,528
Accumulated other comprehensive income	1,214,584	964,206
Retained earnings	20,811,550	19,030,933
	<hr/>	<hr/>
TOTAL STOCKHOLDERS' EQUITY	63,052,688	58,739,618
Noncontrolling interest	3,163,884	3,221,256
	<hr/>	<hr/>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 130,012,185	\$ 120,986,020
	<hr/>	<hr/>

The accompanying notes are an integral part of these consolidated financial statements.

ZOOM TECHNOLOGIES, INC., AFFILIATES & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME AND OTHER COMPREHENSIVE INCOME
(UNAUDITED)

	Three Months Ended March 31	
	2011	2010
Net revenues	\$ 58,611,686	\$ 50,979,269
Cost of goods sold	52,262,817	46,801,015
Gross profit	6,348,869	4,178,254
Operating expenses:		
Sales and marketing	208,539	44,076
General and administrative	1,266,191	904,641
Research and development	1,635,204	-
Non-cash equity-based compensation	307,469	369,659
Total operating expenses	3,417,403	1,318,376
Income from operations	2,931,466	2,859,878
Other income (expenses)		
Interest income	104,261	187
(Loss) on disposal of fixed assets	(8,368)	-
Other income	15,225	-
Interest expense	(359,028)	(257,626)
Exchange (loss)	(16,172)	(155)
Other expenses	(80,581)	(14,853)
Total other income (expenses)	(344,663)	(272,447)
Income before income taxes and non-controlling interest	2,586,803	2,587,431
Income taxes	787,599	548,126
Income before noncontrolling interest	1,799,204	2,039,305
Less: Income attributable to noncontrolling interest	12,391	143,603
Net income attributable to Zoom	1,786,813	1,895,702
Other comprehensive income	230,269	388
Other comprehensive income noncontrolling interest	20,109	-
Comprehensive income Zoom Technologies, Inc.	\$ 2,017,082	\$ 1,896,090
Comprehensive income noncontrolling interest	\$ 32,500	\$ 143,603

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Basic and diluted income per common share:

Basic	\$ 0.11	\$ 0.21
Diluted	\$ 0.11	\$ 0.20

Weighted average common shares outstanding:

Basic	15,783,859	8,903,851
Diluted	16,074,096	9,257,582

The accompanying notes are an integral part of these consolidated financial statements.

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ZOOM TECHNOLOGIES, INC., AFFILIATES & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Three Months Ended March 31	
	2011	2010
Cash flows from operating activities:		
Income including noncontrolling interest	\$ 1,799,204	\$ 2,039,305
Adjustments to reconcile income including non-controlling interest to cash used in operating activities:		
Depreciation and amortization	378,531	405,019
Non-cash equity-based compensation	307,469	369,659
Provision for inventory obsolescence	(23,025)	-
Loss on disposal of fixed assets	8,368	-
Deferred tax assets	4,058	53,692
Changes in operating assets and liabilities:		
Accounts receivable	(22,243,148)	(1,636,001)
Inventories	18,162	62,518
Advances to suppliers	21,638,900	117,715
Prepaid expenses and other assets	(6,562)	16,724
Accounts payable	341,051	(771,267)
Advance from customers	241,831	2,197,215
Related parties-net	(10,873,705)	(4,472,721)
Accrued expenses and other current liabilities	958,919	470,364
Net cash used in operating activities	(7,449,947)	(1,147,778)
Cash flows from investing activities:		
Restricted cash	23	(980,100)
Purchase of property and equipment and other long-term assets	(106,534)	(14,843)
Proceeds from notes receivable	323,624	-
Cash increase due to acquisition of subsidiaries	235,112	-
Net cash provided by (used in) investing activities	452,225	(994,943)
Cash flows from financing activities:		
Issuance of shares for cash	148,910	170,490
Proceeds from short-term loans	5,531,393	18,124,528
Advance to related parties	(3,235,378)	(3,637,028)
Repayment on borrowing from related parties	-	(10,074,820)
Proceeds from (repayment on) notes payable	-	1,960,199
Collection on advance to related parties	3,287,214	272
Receipt from related parties	7,575	7,629,484
Repayments on short-term loans	(3,030,900)	(13,165,517)
Repayments on long-term loan	(2,408)	-
Net cash provided by financing activities	2,706,406	1,007,608
Effect of exchange rate changes on cash & equivalents	1,025	(2,403)
Net increase in cash and equivalents	(4,290,291)	(1,137,516)
Cash and equivalents, beginning balance	6,374,103	1,472,300
Cash and equivalents, ending balance	\$ 2,083,812	\$ 334,784

The accompanying notes are an integral part of these consolidated financial statements.

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Three Months Ended March 31

	2011	2010
SUPPLEMENTARY DISCLOSURES:		
Interest paid	\$ 347,443	\$ 292,422
Income tax paid	48,502	5,945
Non-cash investing and financing activities		
Acquisition of 29.0% of TCB by issuing 2,462,576 shares	-	4,348,247
Acquisition of 100% of CDE by issuing 484,800 shares	1,818,000	-

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
ZOOM TECHNOLOGIES, INC., AFFILIATES & SUBSIDIARIES
MARCH 31, 2011 AND 2010

NOTE 1 — ORGANIZATION AND NATURE OF BUSINESS OPERATIONS

The Acquisition

On September 22, 2009, Zoom Technologies, Inc. ("Zoom or the "Company"), pursuant to the share exchange agreement dated January 28, 2009, (amended May 12, 2009) acquired all the outstanding shares of Gold Lion Holding Limited ("Gold Lion"), a company organized and existing under the laws of the British Virgin Islands ("BVI"). In connection with the share exchange, the Company spun off its then-existing business to its stockholders, by distributing and transferring all assets and liabilities of the subsidiary and issuing shares of its then operating subsidiary as a dividend to its stockholders.

The parties to the share exchange agreement were: (1) Zoom Technologies, Inc., (2) Tianjin Tong Guang Group Digital Communication Co., Ltd., ("TCB Digital") a company organized under the laws of the People's Republic of China, ("PRC"); (3) Zoom Telephonics, Inc., or Zoom Telephonics, a wholly owned subsidiary of Zoom; (4) Gold Lion, (5) Lei (Leo) Gu, a citizen of the PRC; and (6) Songtao Du, a citizen of the PRC.

Gold Lion owns 100% of the outstanding stock of Jiangsu Leimone Electronics Co., Ltd., ("Jiangsu Leimone"), a foreign investment enterprise organized under the laws of the PRC that engages in the manufacturing, R&D, and sales of electronic components for 3rd generation mobile phones, wireless communication circuitry, GPS equipment, and related software products. Jiangsu Leimone owned 51.03% of the outstanding stock of TCB Digital; until March 31, 2010 when Mr. Gu, the Chairman & CEO of the Company, exercised his option to purchase an additional 28.97% of TCB Digital and transferred such ownership to the Company resulting in an increase in our Company's ownership of TCB Digital to 80%. Gold Lion also owns 100% of Profit Harvest Corporation Ltd, ("Profit Harvest"), a marketing and sales company organized and existing under the laws of Hong Kong.

Mr. Gu owned 70.6% of the outstanding capital stock of Gold Lion and on March 31, 2010 exercised his option to purchase an additional 29.0% of the outstanding capital stock of TCB Digital.

Mr. Du owned 29.4% of the outstanding capital stock of Gold Lion, which was pledged to Mr. Wei Cao.

On September 22, 2009, pursuant to the share exchange agreement and approval of the majority of the stockholders of the Company, the Company acquired from the Gold Lion shareholders 100% of Gold Lion for 4,225,219 shares of Company common stock. As a result of this issuance, the former Gold Lion shareholders owned 69.3% of the outstanding stock of the Company and the transaction was recorded as a reverse acquisition. Prior to the reverse acquisition, the Company had 1,980,978 shares outstanding which were recapitalized as part of the reverse acquisition. Mr. Gu, who held an option to acquire an additional 29.0% of the outstanding capital stock of TCB Digital, pursuant to the share exchange agreement and the approval of the majority of the stockholders of the Company, agreed to provide Mr. Gu the option to exchange the 29.0% interest in TCB Digital for 2,402,576 shares of our common stock. As of March 31, 2010, Mr. Gu exercised this option (See Subsidiary details).

Simultaneous with the closing of the merger, the Company issued a dividend of 100% of the issued and outstanding stock of Zoom Telephonics to its stockholders of record immediately prior to the closing. We refer to this as the "spin-off". In connection with the spin-off, the Company distributed all of its current and future assets and liabilities related to Zoom to Zoom Telephonics, subject to certain licensing rights discussed below. Zoom's stockholders immediately prior to the closing retained their existing shares in Zoom and also received an equal number of new shares in Zoom Telephonics. After the merger and the spin-off, the Company and Zoom Telephonics became independent companies.

TCB Digital and Zoom Telephonics entered into a license granting TCB Digital rights to the "Zoom" and "Hayes" trademarks for certain products and geographic regions. Zoom and Zoom Telephonics also entered into a separation and distribution agreement that allocates responsibility for obligations arising before and after the spin-off, including, among others, obligations relating to taxes.

Our former directors, entered into founder lock-up agreements pursuant to which they agreed that during the one-year period commencing on the date of closing that each will not sell, transfer, assign, pledge or hypothecate, in any calendar month, greater than 3% of the shares of our common stock sold in the previous four calendar weeks.

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On June 1, 2010, Zoom pursuant to a share exchange agreement (the "Agreement") dated April 29, 2010, acquired 100% of the shares of Nollec Wireless Company Ltd., ("Nollec Wireless") a mobile phone and wireless communication design company located in Beijing, China (the "Acquisition").

The parties to the Agreement include: (1) Zoom Technologies, Inc.;

(2) Silver Tech Enterprises, Ltd. ("Silver Tech"), a holding company founded in July 2005, organized and existing under the laws of the BVI, which owned 100% of Ever Elite Corporation, Ltd. ("Ever Elite"); (3) Ever Elite, a holding company founded in June 2007, organized under the laws of HK which owned 100% of Nollec Wireless; (4) Nollec Wireless, the operating company founded in June 2007, organized under the laws of the PRC; (5) Key Network Holdings, Ltd. ("KNH"), a BVI company, then owner of 76.8% of the outstanding stock of Silver Tech; and (6) Better Day Finance, Ltd. ("BDF"), a BVI company, then owner of 23.2% of the outstanding stock of Silver Tech.

Pursuant to the terms of the Agreement, the Company purchased 100% of the outstanding stock of Silver Tech from KNH and BDF, the existing shareholders of Silver Tech, for \$10.96 million, comprised of \$1.37 million in cash and 1,342,599 newly issued unregistered shares of common stock of Zoom valued at \$9.59 million at the weighted average closing price of shares for 10 days prior and leading up to the agreement date. At the closing of the acquisition on May 31, 2010, the Company issued 1,342,599 shares and paid \$500,000; the balance of \$870,000 in cash will be paid in six equal installments over a period of three years, of which the Company paid \$137,500 as of December 31, 2010 and \$152,500 was included in other payables and \$580,000 included in long-term payables. After the closing on June 1, 2010, Silver Tech, Ever Elite and Nollec Wireless became wholly owned subsidiaries of Zoom. We determined the acquisition of Silver Tech did not require the preparation and filing of audited financial statements of Silver Tech under Rule 3-05(b)(2)(i) of Regulation S-X.

On January 4, 2011, the Company acquired 100% ownership of Celestial Digital Entertainment, Ltd., ("CDE") a mobile platform video game development company based in Hong Kong. The consideration paid was \$1,818,000 in common shares of the Company, and the number of shares was calculated by dividing the consideration amount by the higher of i) \$3.75 per share or ii) the Volume Weighted Average Closing Price of the Company's shares for the 10 consecutive trading days leading up to the day before the date of the Share Exchange Agreement which was December 20, 2010. This resulted in the issuance of 484,800 shares to acquire CDE. CDE primarily focuses on development of video games and applications for mobile phones and mobile platforms. CDE has developed over 40 titles for the Apple iPhone and is one of the largest developers of iPhone applications in Asia. The Company's wholly-own subsidiary in Hong Kong, Profit Harvest, was the acquiring entity.

The Subsidiaries

Gold Lion was founded by Mr. Lei Gu ("Gu") in September 2002 in the BVI. Pursuant to an agreement dated June 30, 2007, Mr. Wei Cao ("Cao"), purchased from Gu 29.4% of the outstanding shares of the Company. Through a resolution of the Company on November 26, 2008, the Company's issued 705 shares to Gu and 294 shares to Mr. Songtao Du ("Du"), resulting in 1,000 issued and outstanding shares of Common Stock. Pursuant to a pledge agreement dated November 26, 2008, Du pledged his 294 shares to Cao, including all rights to such shares. As such, Gu and Cao jointly control 100% of Gold Lion.

On August 2, 2007, Gu founded Profit Harvest in Hong Kong, and in December 2008, 100% ownership of Profit Harvest was transferred to Gold Lion. Profit Harvest is the marketing arm of the company particularly for exports and subassemblies.

Pursuant to the capital injection agreement ("the CIA") by and among Tianjin Communication and Broadcasting Group Co., Ltd. ("TCBGCL"), TCBGCL Labour Union, Hebei Leimone Science and Technology Co., Ltd. ("Hebei Leimone"), Tianjin 712 Communication and Broadcasting Co., Ltd. ("712"), Beijing Depu Investment Co., Ltd. ("Beijing Depu") and other natural person shareholders on May 8, 2007 and a resolution of the shareholder's meeting on June 30, 2007, Hebei Leimone, a company controlled by Gu, acquired 25.1% of TCB Digital from TCBGCL Labour Union and various natural person shareholders for RMB9,000,000, equivalent to \$1,286,000. Pursuant to this

CIA, Hebei Leimone and Beijing Depu, the companies controlled by Gu and Cao respectively, were to invest RMB15,928,700 and RMB10,377,600 respectively in TCB Digital, bringing the total investment from Hebei Leimone and Beijing Depu to \$4,679,111 (RMB35,306,300). After this investment was made as of June 30, 2007, Hebei Leimone and Beijing Depu held 36.0% and 15.0% respectively of TCB Digital, or 51.0% ownership in TCB Digital. Pursuant to an agreement dated June 30, 2007, Cao irrevocably pledged his 15.0% interest in TCB Digital through his ownership in Beijing Depu to Gu in exchange for a 29.4% stake in Gold Lion. As of March 31, 2010, Gu exercised his option to transfer an additional 29.0% of TCB Digital to the Company. The Company issued 2,402,576 common shares to Mr. Gu and his assignees as purchase consideration and 60,000 common shares to an investment banker as compensation for this transaction. The Company's ownership interest in TCB Digital was increased to 80% as at March 31, 2010. This transaction was recorded under *SFAS No. 160 (Included in ASC 810)*

"Consolidation") "Noncontrolling Interests in Consolidated Financial Statements", an amendment of ARB No. 51. with the excess of fair value of shares over the carrying value of minority interests was charged to additional paid in capital. During the three month period ended June 30, 2010, the Company issued 2,462,576 shares.

On November 30, 2007, Gold Lion and GD Industrial Company signed a share transfer agreement, pursuant to which, GD Industrial Company transferred 60% of Nantong Zong Yi Kechuang Digital Camera Technology Co., Ltd. ("Nantong Zong Yi") for \$10,273 to the Company. In July 2008, Nantong Zong Yi changed its name to Jiangsu Leimone Electronic Co., Ltd. ("Jiangsu Leimone"). Before the acquisition, Jiangsu Leimone had no operating activities. In January 2008, the Company invested \$5,074,226 (HK\$38,800,000) in Jiangsu Leimone to increase the Company's ownership in Jiangsu Leimone to 80%. Pursuant to the share transfer agreement by and between Gold Lion and Nantong Zong Yi Investment Co., Ltd. dated November 26, 2008, the Company acquired the remaining 20% of Jiangsu Leimone from Nantong Zong Yi Investment Co., Ltd. for \$103,214 (HK\$800,000). After this transaction, the Company owned 100% of Jiangsu Leimone.

Pursuant to the share transfer agreement by and among Hebei Leimone, Beijing Depu Investment Co., Ltd and Jiangsu Leimone dated December 15, 2008, Hebei Leimone and Beijing Depu Investment Co., Ltd. transferred their 51.03% of TCB Digital to Jiangsu Leimone on December 30, 2008.

Because TCB Digital and Profit Harvest were under common control with the Company since July 2007 and August 2007, respectively, we combined their financials at historical cost with the Company from the dates the Company acquired control.

TCB Digital is a high technology company engaged in electronic and telecommunication product design, development, and manufacturing for OEM customers and for our own products under the brand name of "Leimone". TCB Digital started its business in 1999 and was originally established as an Electronic Manufacturing Service ("EMS") factory for mobile phone vendors. TCB Digital was Motorola's first independent outsource manufacturing vendor responsible for producing Motorola mobile phones in China. Moreover, TCB Digital was the first EMS factory in China to receive Motorola's International Quality Product and Qualification certificate. Since 2004, TCB Digital developed and produced GSM and CDMA mobile phones, wireless data modules and GPS equipment. Beginning in 2009, TCB Digital started to manufacture and market mobile phones under its own brand name of "Leimone"; and 2010, its product line also included 3G mobile handsets. TCB Digital is headquartered in Tianjin, China. TCB Digital's two main business operations are EMS for Original Equipment Manufacturer (OEM) customers and the design, production and sale of its own brand mobile phone products.

TCB Digital offers high quality and comprehensive EMS to both domestic and global customers, including, Samsung, Tianyu, CECT, Danahar and Spreadtrum. TCB Digital's primary products include mobile phones, wireless telecommunication modules, digital cameras, cable TV set-top boxes and GPS equipment. In addition, TCB Digital has developed various state-of-the-art mobile phones and Smartphones based on both of the main network technologies: Global System for Mobile Communications, or GSM, and Code Division Multiple Access, or CDMA, and beginning in 2010 also 3G capable products. Presently, TCB Digital markets its mobile phone products through distributors in China and also supplies GSM, CDMA and 3G mobile phones to major customers, including China Mobile Communications Corporation, or CMCC, China UNICOM and China Telecom. See "Information about TCB Digital" for more information.

Nollec Wireless primarily focuses on R&D of mobile phones, and hardware and software solutions for domestic Chinese and overseas customers. Its design team includes experienced engineers in the core technologies of wireless communication and mobile phone development. Nollec provides state of the art industrial, user inter-phase, mechanical and engineering designs and software and hardware integration. Its clients include certain domestic and international mobile phone manufacturers including Philips, Lenovo, Sonim, Gionee and Borqs.

CDE primarily focuses on development of video games and applications for mobile phones and mobile platforms. CDE has developed over 40 titles for the Apple iPhone and is one of the largest developers of iPhone applications in Asia.

NOTE 2 — BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Gold Lion Holding Ltd, its 100%-owned subsidiary Profit Harvest, its 100%-owned subsidiary Jiangsu Leimone, and its 80%-owned joint venture TCB Digital as of and for the year ended December 31, 2010 and 100%-owned subsidiary Silver Tech as of and for the seven months ended December 31, 2010. As of January 4, 2011, the Company completed its 100% acquisition of Celestial Digital Entertainment. Therefore, the consolidated financial statements as of March 31, 2011 include the balance sheets at March 31, 2011 of TCB Digital, Jiangsu Leimone, Profit Harvest, Silver Tech and CDE, and balance sheets at December 31, 2010 of TCB Digital, Jiangsu Leimone, Profit Harvest and Silver Tech; the consolidation of operating results for the three months ended March 31, 2011 of TCB Digital, Jiangsu Leimone, Profit Harvest, Silver Tech and CDE.

Basis of Presentation

The consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States of America ("US GAAP"). For the Company's operating subsidiaries of JS Leimone, TCB Digital and Nollec Wireless, the functional currency is the Chinese Renminbi ("RMB"); the functional currency of Profit Harvest is United States Dollars ("USD" or "\$") and the functional currency of Ever Elite and CDE is Hong Kong Dillars ("HKD"). However the accompanying consolidated financial statements were translated and presented in USD.

Use of Estimates

The preparation of consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the consolidated financial statements and the amount of revenues and expenses during the reporting periods. Management makes these estimates using the best information available at the time the estimates are made. However, actual results could differ materially from those results.

Risks and Uncertainties

The Company is subject to substantial risks from, among other things, intense competition associated with the industry in general, other risks associated with financing, liquidity requirements, rapidly changing customer requirements, limited operating history, foreign currency exchange rates and the volatility of public markets.

Comprehensive Income

The Company follows the provisions of ASC 220 "Reporting Comprehensive Income", previously SFAS No. 130, establishes standards for the reporting and display of comprehensive income, its components and accumulated balances in a full set of general purpose financial statements.

ASC 220 defines comprehensive income is comprised of net income and all changes to the statements of stockholders' equity, except those due to investments by stockholders, changes in paid-in capital and distributions to stockholders, including adjustments to minimum pension liabilities, accumulated foreign currency translation, and unrealized gains or losses on marketable securities.

Foreign Currency Transactions

The accounts of the Company's Chinese subsidiaries are maintained in the RMB and the accounts of the U.S. parent company are maintained in the USD. The accounts of the Chinese subsidiaries were translated into USD in

accordance with Statement of Financial Accounting Standards ("SFAS") No. 52, "Foreign Currency Translation," (codified in Financial Accounting Standards ("FASB") Accounting Standards Codification ("ASC") Topic 810) with the RMB as the functional currency for the Chinese subsidiaries. According to SFAS 52, all assets and liabilities were translated at the exchange rate on the balance sheet date, stockholders' equity is translated at historical rates and statement of operations items are translated at the weighted average exchange rate for the period. The resulting translation adjustments are reported under other comprehensive income in accordance with SFAS No. 130, "Reporting Comprehensive Income" (codified in FASB ASC Topic 220). Gains and losses resulting from the translations of foreign currency transactions and balances are reflected in the income statement.

Translations adjustments resulting from this process are included in accumulated other comprehensive income in the consolidated statement of stockholders' equity were \$1,214,584 and \$964,206 as of March 31, 2011 and December 31, 2010, respectively.

Cash and Equivalents

For Statement of Cash Flows purposes, the Company considers all cash on hand and in banks, including accounts in book overdraft positions, certificates of deposit and other highly-liquid investments with maturities of three months or less, when purchased, to be cash and cash equivalents. The Company maintains cash with various banks and trust companies located in China. Cash accounts are not insured or otherwise protected. Should any bank or trust company holding cash deposits become insolvent, or if the Company is otherwise unable to withdraw funds, the Company would lose the cash on deposit with that particular bank or trust company.

Accounts Receivable

The Company maintains reserves for potential credit losses on accounts receivable. Management reviews the composition of accounts receivable and analyzes historical bad debts, customer concentrations, customer credit worthiness, current economic trends and changes in customer payment patterns to evaluate the adequacy of these reserves. Accounts are written off against the allowance when it becomes evident collection will not occur. For the contracted manufacturing activities, our standard terms for accounts receivable from our customers are between 60 to 75 days from close of the billing cycle; and for sales of own brand phones our terms include prepaid arrangements and extending receivable to customers up to 60 days. We also offer credit terms of up to 150 days in our trading activities to a certain customer. As of March 31, 2011, management concluded that no additional reserves need to be made.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined on a weighted average basis and includes all expenditures incurred in bringing the goods to the point of sale and putting them in a saleable condition. In assessing the ultimate realization of inventories, the management makes judgments as to future demand requirements compared to current or committed inventory levels. Our reserve requirements generally increase as our projected demand requires; or decrease due to market conditions and product life cycle changes. The Company estimates the demand requirements based on market conditions, forecasts prepared by its customers, sales contracts and orders in hand.

In addition, the Company estimates net realizable value based on intended use, current market value and inventory ageing analyses. The Company writes down inventories for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventories and their estimated market value based upon assumptions about future demand and market conditions. Historically, the actual net realizable value has been close to management's estimate.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Gains or losses on disposals are reflected as gain or loss in the year of disposal. All ordinary repair and maintenance costs are expensed as incurred. Expenditures for maintenance and repairs are expensed as incurred. Major renewals and betterments are charged to the property accounts while replacements, maintenance and repairs, which do not improve or extend the lives of the respective assets, are expensed in the current period.

Depreciation for financial reporting purposes is provided using the straight-line method over the estimated useful lives of assets as set out below.

Machinery and equipment		4-6 years
Electronic equipment		4-6 years
Reconstruction of workshop and assembling line		5 years
Transportation equipment		4-6 years

10

Capitalized Interest

Interest associated with major development and construction projects is capitalized and included in the cost of the project. When no debt is incurred specifically for a project, interest is capitalized on amounts expended on the project using weighted-average cost of the Company's outstanding borrowings. Capitalization of interest ceases when the project is substantially complete or development activity is suspended for more than a brief period.

Impairment of Long-lived Assets

In accordance with ASC 360, "Property, Plant and Equipment", previously SFAS No. 144, the Company reviews the carrying values of long-lived assets, including property, plant and equipment and other intangible assets, whenever facts and circumstances indicate that the assets may be impaired. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net undiscounted cash flows expected to be generated by the asset. If an asset is considered impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less costs of disposal. The Company performed annual reviews of long-lived assets and management concluded that for year 2010 there was no impairment.

Goodwill

The Company recognizes goodwill for the excess of the purchase price over the fair value of the identifiable net assets of the business acquired. ASC 350 "Intangible Assets-Goodwill and Other", previously SFAS No. 142, an impairment test for goodwill is undertaken by the Company at the reporting unit level annually, or more frequently if events or changes in circumstances indicate that goodwill might be impaired. As of March 31, 2011 and December 31, 2010, the Company did not record any impairment of goodwill.

Revenue Recognition

The Company recognizes sales in accordance with the U.S. Securities and Exchange Commission ("SEC") Staff Accounting Bulletin ("SAB") No. 104, "Revenue Recognition in Financial Statements" (FASB ASC Topic 605), "Revenue Recognition."

The Company recognizes revenue when the following criteria are met:

- (i) persuasive evidence of an arrangement exists;
- (ii) delivery has occurred or services were rendered;
- (iii) the price to the customer is fixed or determinable and,
- (iv) collection of the resulting receivable is reasonably assured. Revenue is not recognized until title and risk of loss is transferred to the customer, which occurs upon delivery of goods, and objective evidence exists that customer acceptance provisions were met.

The Company bases its estimates on historical experience taking into consideration the type of products sold, the type of customer, and the type of specific transaction in each arrangement. Revenues represent the invoiced value of goods, net of value added tax ("VAT").

The Company does not offer promotional payments, customer coupons, rebates or other cash redemption offers to its customers. Deposits or advance payments from customers prior to delivery of goods and passage of title of goods are recorded as advanced from customers.

The Company's subsidiary, Nollec Wireless is in the mobile phone design, software integration and mobile solution R&D business, Nollec Wireless, recognizes revenue under the percentage of completion method ASC Topic 605-35-25 (Construction - Type and Production - Type Contracts) when reasonably dependable estimates can be made and all the following conditions exist:

- a. Contracts executed by the parties normally include provisions that clearly specify the enforceable rights regarding goods or services to be provided and received by the parties, the consideration to be exchanged, and the manner and terms of settlement.
- b. The buyer can be expected to satisfy all obligations under the contract.
- c. The contractor can be expected to perform all contractual obligations.

Estimates of cost to complete is reviewed periodically and revised as appropriate to reflect new information. When the current estimates of total contract revenue and contract cost indicate a loss, a provision for the entire loss on the contract is made.

Income is recognized as the percentage of estimated total income, and is determined by dividing incurred costs to date by estimated total costs after giving effect to adjustments, if any, in estimates of costs to completion based upon the most recent information. Percentage of completion is based on labor hours incurred to date divided by total estimated labor hours for the contract.

Royalty income on sales of licensed products by its customers is recorded when the customers report sales to the Company. Royalty income is reported monthly and recorded in the period in which the product is sold. The Company has the right to audit the books of the licensees.

The Company's subsidiary, CDE is in the business of video games and applications for mobile phones and mobile platforms development. Revenue is recognized in accordance with ASC 985- 605-55-125. Cost of Software Development Revenue is accounted for under ASC 985-20 to be sold, leased or otherwise marketed.

CDE capitalizes cost of development of software for hosting purpose in accordance with ASC subtopic 350-40 ("ASC 350-40"), Intangibles-Goodwill and Other: Internal-Use Software (Pre-codification: Statement of Position ("SOP") No. 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use). As such, CDE expenses all costs that are incurred in connection with the planning and implementation phases of development and costs that are associated with repair or maintenance. Costs incurred in the development phase are capitalized and amortized over the estimated product life. Since the inception of CDE, the amount of costs qualifying for capitalization has been insignificant and as a result all internally used software development costs have been expensed as incurred.

Income Taxes

The Company accounts for income taxes in accordance with ASC 740 "Income Taxes", previously SFAS No. 109. Under this method, deferred income taxes are recognized for the estimated tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts and each year- end based on enacted tax laws and statutory rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established to reduce deferred tax assets to the amount expected to be realized when, in management's opinion; it is more likely than not that some portion of the deferred tax assets will not be realized. The provision for income taxes represents current taxes payable net of the change during the period in deferred tax assets and liabilities.

Operating Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company that do not meet the capitalization criteria of ASC 840 "Leases", previously SFAS No. 13, are accounted for as operating leases. Rental payables under operating leases are expensed on the straight-line basis over the lease term.

Research and Development Costs

Research and development costs are related primarily to the development of cell phone technology, video games and applications for mobile phones and mobile platforms development. Research and development costs are expensed as incurred.

Earnings Per Share

The Company reports earnings per share in accordance with the provisions of ASC 260 "Earnings Per Share", previously SFAS No. 128. ASC 260 requires presentation of basic and diluted earnings per share in conjunction with the disclosure of the methodology used in computing such earnings per share. Basic earnings per share excludes dilution and is computed by dividing income available to common stockholders by the weighted average common shares outstanding during the period. Diluted earnings per share takes into account the potential dilution that could occur if securities or other contracts to issue common stock were exercised and converted into common stock using the treasury method.

Common stock equivalents represent the dilutive effect of the assumed exercise of the outstanding stock options and warrants, using the treasury stock method, at either the beginning of the respective period presented or the date of issuance, whichever is later, and only if the common stock equivalents are considered dilutive based upon the Company's net income (loss) position at the calculation dates.

Fair Values of Financial Instruments

ASC 820 "Fair Value Measurements and Disclosures", previously FAS 157, adopted January 1, 2008, defines fair value, establishes a three-level valuation hierarchy for disclosures of fair value measurement and enhances disclosure requirements for fair value measures. The carrying amounts reported in the balance sheets for current receivables and payables qualify as financial instruments. Management concluded the carrying values are a reasonable estimate of fair value because of the short period of time between the origination of such instruments and their expected realization and if applicable, their stated interest rate approximates current rates available. The three levels are defined as follows:

- Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the assets or liability, either directly or indirectly, for substantially the full term of the financial instruments.
- Level 3 inputs to the valuation methodology are unobservable and significant to the fair value.

The assets measured at fair value on a recurring basis subject to the disclosure requirements of ASC 820 as of March 31, 2011 are as follows:

	Carrying value	Active markets For identical Assets
	2011	(Level 1)
Cash and equivalents	\$ 2,083,812	\$ 2,083,812
Restricted cash	\$ 13,588,802	\$ 13,588,802

The Company's financial instruments include cash and equivalents, restricted cash, accounts receivable, notes receivables, other receivables, accounts payable, notes payable. Cash and cash equivalents consist primarily of high rated money market funds at a variety of well-known institutions with original maturities of three months or less. Restricted cash represents time deposits on account to secure short-term bank loans and notes payable (Note 14). Management estimates the carrying amounts of the non related party financial instruments approximate their fair

values due to their short-term nature.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash and equivalents and trade and bills receivables. As of March 31, 2011 and December 31, 2010, substantially all of the Company's cash and equivalents and restricted cash were held by major financial institutions located in the PRC, which management believes are of high credit quality. With respect to trade and notes receivables, the Company extends credit based on an evaluation of the customer's financial condition. The Company generally does not require collateral for trade receivables and maintains an allowance for doubtful accounts of trade receivables.

Notes receivable are undertaken by the banks to honor the payments at maturity and the customers are required to place deposits with the banks equivalent to certain percentage of the notes amount as collateral. These notes receivable can be sold to any third party at a discount before maturity. The Company does not maintain an allowance for notes receivable in the absence of bad debt experience and the payments are undertaken by the banks.

Non-controlling Interests

The Company follows ASC 810, previously SFAS No. 160 "Non-controlling Interests in Consolidated Financial Statements-reported in equity" for reporting non-controlling interest ("NCI") in a subsidiary. As a result, the Company reports NCI as a separate component of Stockholders' Equity in the Condensed Consolidated Balance Sheet. Additionally, the Company reports the portion of net income and comprehensive income attributed to the Company and NCI separately in the Condensed Consolidated Statement of Income. The Company also includes a separate column for NCI in the Consolidated Statement of Changes in Equity.

Statement of Cash Flows

In accordance with ASC 230, "Statement of Cash Flows", previously SFAS No. 95, cash flows from the Company's operations are calculated based upon the local currencies. As a result, amounts related to assets and liabilities reported on the statement of cash flows may not necessarily agree with changes in the corresponding balances on the balance sheet.

Recent Accounting Pronouncements

On March 5, 2010, the FASB issued ASU No. 2010-11 Derivatives and Hedging Topic 815 "Scope Exception Related to Embedded Credit Derivatives." This ASU clarifies the guidance within the derivative literature that exempts certain credit related features from analysis as potential embedded derivatives requiring separate accounting. The ASU specifies that an embedded credit derivative feature related to the transfer of credit risk that is only in the form of subordination of one financial instrument to another is not subject to bifurcation from a host contract under ASC 815-15-25, Derivatives and Hedging - Embedded Derivatives - Recognition. All other embedded credit derivative features should be analyzed to determine whether their economic characteristics and risks are "clearly and closely related" to the economic characteristics and risks of the host contract and whether bifurcation is required. The ASU is effective for the Company on July 1, 2010. Early adoption is permitted. The adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

In April 2010, the FASB codified the consensus reached in Emerging Issues Task Force Issue No. 08-09, "Milestone Method of Revenue Recognition." FASB ASU No. 2010-17 provides guidance on defining a milestone and determining when it may be appropriate to apply the milestone method of revenue recognition for research and development transactions. FASB ASU No. 2010-17 is effective for fiscal years beginning on or after June 15, 2010, and is effective on a prospective basis for milestones achieved after the adoption date. The adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

In April 2010, the FASB issued ASU 2010-13 Compensation - Stock Compensation Topic 718 "Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in Which the Underlying Equity Security Trades (a consensus of the FASB EITF)". The amendments in ASU 2010-13 clarify that an employee share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity's equity securities trades, should not be considered to contain a condition that is not a market, performance, or service condition. FASB ASU No. 2010-13 is effective for fiscal year beginning on or after December 15, 2010. Early adoption is permitted. The adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

In December 2010, the FASB issued ASU 2010-28 Intangibles - Goodwill and Other Topic 350 "When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts (a consensus of the FASB EITF)". The amendments in ASU 2010-28 modify Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts by requiring an entity to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. FASB ASU No. 2010-26 is effective for fiscal year beginning after December 15, 2010. Early adoption is not permitted. The Company is currently evaluating the effect of this ASU on the Company's consolidated financial statements.

In December 2010, the FASB issued ASU 2010-29 Business Combinations Topic 805 "Disclosure of Supplementary Pro Forma Information for Business Combinations (a consensus of the FASB EITF)". The amendments in ASU 2010-29 specify that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. ASU 2010-29 also expands supplemental pro forma disclosures under Topic 805 to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in reported pro forma revenue and earnings. FASB ASU No. 2010-29 is effective for fiscal year beginning after December 15, 2010. Early adoption is permitted. The Company adopted this ASU on January 1, 2011.

In January 2011, the FASB issued ASU 2011-01 Receivables Topic 310 "Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No 2010-20". The amendments in ASU 2011-01 apply to all public-entity creditors that modify financing receivables within the scope of the disclosure requirements about troubled debt restructurings (TDR) in ASU 2010-20. These amendments temporarily delay the effective date of disclosures about TDRs required under ASU 2010-20 for public entities. The amendments in ASU No. 2011-01 are effective immediately. The adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

In January 2011, the FASB issued ASU 2011-02 Receivables Topic 310 "A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring". The amendments in ASU 2011-02 provide additional guidance to clarify when a loan modification or restructuring is considered a troubled debt restructuring (TDR) in order to address current diversity in practice and lead to more consistent application of U.S. GAAP for debt restructurings. In evaluating whether a restructuring constitutes a troubled debt restructuring, a creditor must separately conclude that both of the following exist:

1. The restructuring constitutes a concession.
2. The debtor is experiencing financial difficulties.

The amendments to Topic 310 clarify the guidance regarding the evaluation of both considerations above. Additionally, the amendments clarify that a creditor is precluded from using the effective interest rate test in the debtor's guidance on restructuring of payables (paragraph 470-60-55-10) when evaluating whether a restructuring constitutes a TDR. ASU No. 2011-02 is effective for fiscal year beginning on or after June 15, 2011. Early adoption is permitted. The adoption of this ASU will not have a material impact on the Company's consolidated financial statements.

NOTE 3 — MERGER AND ACQUISITION

The Company acquired 100% equity in Silver Tech on May 31, 2010. As of May 31, 2010, the net assets of Silver Tech were \$2,564,160. The purchase consideration was \$10,960,000 which resulted in goodwill of \$8,395,840.

Silver Tech's subsidiary Nollec Wireless primarily focuses on R&D for mobile phones, and hardware and software solutions for domestic Chinese and overseas customers. Its design team includes experienced engineers in the core

technologies of wireless communication and mobile phone development. Nollec provides state of the art industrial, user inter-phase, mechanical and engineering designs and software and hardware integration.

The Company acquired 100% ownership of CDE on January 4, 2011. As of January 4, 2011, the net assets of CDE were \$(43,409). The purchase consideration was \$1,818,000 which resulted in goodwill of \$1,861,410.

Earnings per share - basic

\$

0.20

Earnings per share - diluted

\$

0.19

Weighted average shares - basic

9,388,651

Weighted average shares - diluted

9,742,382

The following table summarizes goodwill as of March 31, 2011 resulting from the acquisitions of Jiangsu Leimone, Silver Tech and CDE:

Jiangsu Leimone	\$	103,057
Silver Tech		8,395,840
CDE		1,861,409

Total goodwill

\$

10,360,306

There was no impairment of goodwill as at March 31, 2011 and December 31, 2010.

NOTE 4 — RESTRICTED CASH

Restricted cash was deposits in banks as collateral for the banks to issue banker's acceptances. Restricted cash may not be recovered when the secured notes payable cannot be paid (see Note 14).

NOTE 5 - ACCOUNTS RECEIVABLE

As of March 31, 2011 and December 31, 2010, the Company's accounts receivable consisted of the following:

	<u>March 31, 2011</u>
December 31, 2010	
(Audited)	
Accounts receivable	
\$	44,756,044
\$	21,849,996
Less: Allowance for doubtful accounts	(260,360)
	<u>(109,354)</u>
Accountants receivable, net	
\$	44,495,684
\$	<u>21,740,642</u>

NOTE 6 — INVENTORIES

Inventories, by major categories, as of March 31, 2011 and December 31, 2010 were as follows:

	<u>March 31, 2011</u>
December 31, 2010	
(Audited)	

Raw materials	
\$	
	956,225
\$	
	1,167,414
Low value consumables	
	-
	15,376
Finished goods	
	1,132,310
	<hr/>
	903,096
	<hr/>
	2,088,535
	2,070,510
Less: Allowance for obsolete inventories	
	(115,782)
	<hr/>
	(115,052)
	<hr/>
Inventories, net	
	\$
	1,972,753
	<hr/>
	\$
	1,955,458
	<hr/>

NOTE 7 — ADVANCE TO SUPPLIERS

As of March 31, 2011 and December 31, 2010, the Company's advance to suppliers consisted of the following:

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	March 31, 2011		December 31, 2010	
			(Audited)	
Yuechangrui	\$	4,677,079	\$	-
Media Tak Inc.		119,746		-
CEC CoreCast Technology Co., Ltd. ("CECCC")		8,104,354		7,734,980
Shenzhen Nanxin Communication Equipment Co., Ltd.		761,023		-
Shenzhen Futian District Longchengfa Electronic Co., Ltd.		608,819		-
Shenzhen Baoan District Shiyang Jixintong Commercial & Trade Co. ("SBDSJCTC")		-		6,851,051
TSINGTAO Hisense Portable Communication Tech Co., Ltd.		-		245,762
Joinwin Int., Holding Ltd		170,543		-
Shenzhen Wuxing Commercial & Trade Co.		9,886,879		3,729,695
Shenzhen Fudian District Longchengfa Electronic Commercial Co.		-		604,979
Shenzhen Sang Fei Consumer Communications Co., LTD		107,922		-
Others		500,130		555,825
		<u> </u>		<u> </u>
Total advance to suppliers	\$	<u>24,936,495</u>	\$	<u>32,776,983</u>

The Company made bank note payments to CECCC in advance of purchasing of material. The advance payments are intended to ensure preferential pricing. The amounts are advanced under such arrangements. See Note 12 for notes payable details.

The Company purchased parts for mobile phone manufacturing from SBDSJCTC which delivered those parts to the Company according to the purchase terms.

The Company purchased mobile phones from Yuechangrui which delivered those mobile phones to the Company according to the purchase terms.

The Company signed a purchase agreement with Shenzhen Wuxing Commercial & Trade Co. for the supply of components for the E33 mobile phone. The amounts are advances under such agreement.

NOTE 8 — OTHER RECEIVABLES & PREPAID EXPENSES

As of March 31, 2011 and December 31, 2010, the Company's other receivables and prepaid expenses consisted of the following:

	March 31, 2011
	December 31, 2010
	(Audited)
Advance to employees	55,353
\$	64,737
	188,058
Deposit for equipment lease	49,730
	52,254
Prepaid expenses	36,982
	154,788
Other	79,875
	154,788
Total other receivables	79,875
\$	

450,453

 \$

 432,205

The deposit for equipment lease is recoverable within one year.

NOTE 9 — PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as of March 31, 2011 and December 31, 2010 consisted of the following:

 March 31, 2011

 December 31, 2010

 (Audited)

Machinery and Equipment

\$

9,060,006

\$

9,000,562

Electronic Equipment

2,333,035

1,693,094

Transportation Equipment

176,553

175,439

Workshop reconstruction

113,423

60,755

Leasehold improvements

114,212

39

	120,516
Computer equipment	
	147,949
	-
Office equipment	
	129,520
	120,560
	12,074,698
	11,787,579
Less: Accumulated depreciation	
	(7,402,136)
	(6,837,659)
Total property, plant and equipment, net	
\$	4,672,562
\$	4,949,920

Depreciation for the three months ended March 31, 2011 and 2010 was \$372,915 and \$404,729 respectively.

NOTE 10 — RESEARCH ANDH DEVELOPMENT CONTRACTS IN PROGRESS

March 31, 2011

December 31, 2010

(Audited)

Mobile phone development projects

\$
551,125
\$
531,617

Research and development contracts in progress include cost plus profit attributable to those contracts. Cost to date is calculated based on the value of man-month engineering costs and related overhead expenses. Company's R&D cost as at March 31, 2011 and December 31, 2010 was \$1.33 million and \$1.24 million respectively while its progress billings were \$0.78 million and \$0.71 million respectively.

NOTE 11 — CONSTRUCTION IN PROGRESS DEPOSIT - RELATED PARTIES

March 31, 2011

December 31, 2010

(Audited)

Manufacturing plant

	\$
	9,852,841
	\$
	9,790,700

The Company signed an agreement with Leimone (Tianjin) Industrial Co., Ltd. ("Tianjin Leimone") to construct a manufacturing plant on June 26, 2010 for RMB 99,591,000 (\$15,063,000). The contract includes land use rights for 46,021 square meters and construction space of 21,029 square meters. As of March 31, 2011 and December 31, 2010, the amount paid to Tianjin Leimone was RMB 64,734,150 (\$9,852,841) and RMB 64,734,150 (\$9,790,700) respectively and is recorded as construction in progress deposit, as ownership of the premise will not be transferred to the Company until construction is completed.

NOTE 12 — INTANGIBLE ASSETS

As of March 31, 2011 and December 31, 2010, the Company's intangible assets were summarized as follows:

	<u>Useful life</u>	<u>March 31, 2011</u>	<u>December 31, 2010</u>
			(Audited)
Software	3 years	\$ 85,047	\$ 30,448
Domain name, logo & trade mark (from related party)	Indefinite	349,600	349,600
Patent techniques	10 years	175,691	174,583
Total cost		<u>610,338</u>	<u>554,631</u>
Less: Total accumulated amortization		<u>(34,872)</u>	<u>(29,173)</u>
Intangible assets, net		<u>\$ 575,466</u>	<u>\$ 525,458</u>

Intangible assets are stated at cost less accumulated amortization. The Company acquired domain name "zoom.com" and related logo & trade name for 80,000 shares of common stock valued \$349,600 as of the date of purchase. No amortization will be recorded for the value of the domain name. The amortization of intangible assets for the three months ended March 31, 2011 and 2010 was \$5,616 and Nil respectively. The estimated amortization for the next five

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years as of March 31, 2011 and thereafter is expected to be as follows by years:

2012	\$	45,918
2013		45,918
2014		23,602
2015		17,569
2016		17,569
Thereafter		75,290
Total	\$	225,866

NOTE 13 — SHORT-TERM LOANS

Short-term loans are due to various financial institutions which are normally due within one year. As of March 31, 2011 and December 31, 2010, the Company's short term loans consisted of the following:

	March 31, 2011	December 31, 2010
		(Audited)
Bank of China Tianjin Branch ("BOCTB"), due from March 8, 2010 to January 7, 2011 with floating interest, guaranteed by TCBGCL	\$ -	\$ 3,024,895
BOCTB, due from June 28, 2010 to June 27, 2011 with floating interest, guaranteed by TCBGCL	3,044,094	3,024,895
BOCTB, due from June 10, 2010 to June 9, 2011 with floating interest, guaranteed by TCBGCL	3,044,094	3,024,895
BOCTB, due from August 16, 2010 to August 17, 2011 with floating interest, guaranteed by TCBGCL	1,126,315	1,119,211
BOCTB, due from November 3 to August 2, 2011 with benchmark interest rate plus 10%, guaranteed by TCBGCL	4,566,141	4,537,342
BOCTB, due from December 8, 2010 to June 8, 2011, interest adjusted to the preferred interest rate as of the due date, guaranteed by Leimone (Tianjin) Industrial Co., Ltd.	1,670,063	1,659,530
Northern International Trust & Investment Co., Ltd, due from October 13, 2010 to October 12, 2011 with interest at 8.400%, guaranteed by Small & Medium Enterprises Guarantee Center Co., Ltd.	1,826,456	1,814,937
China Bohai Bank, due from June 4, 2010 to June 3, 2011 with floating interest, Guaranteed by Tianjin Zhonghuan Electronic Communication Group.	3,044,094	3,024,895
BOCTB, due from December 27, 2010 to August 17, 2011, with benchmark interest rate plus 10%, guaranteed by guaranteed by TCBGCL	1,978,660	-
BOCTB, due from January 7, 2011 to June 7, 2011 with benchmark interest rate plus 10%, guaranteed by TCBGCL	3,044,094	-
Key Network Holdings Limited, due from May 31, 2010 to June 3, 2011 with interest at 6%.	715,064	715,064
Beijing Bank Zhongguancun Haidianyuan Sub-branch, due March 15, 2012 with interest at 6.67%, guaranteed	228,307	-

NOTE 14 — NOTES PAYABLE

These notes are payable in three to six months and bear no interest. The balance of notes payable as of March 31, 2011 and December 31, 2010 consisted of the following (all were bankers' acceptances):

	March 31, 2011	December 31, 2010
		(Audited)
CECCC, honored by the BOCTB, from July 12, 2010 to January 12, 2011, secured by \$907,468 of cash in bank	\$ -	\$ 1,814,937
CECCC, honored by the BOCTB, from July 14, 2010 to January 14, 2011, secured by \$1,361,203 of cash in bank	-	2,722,405
CECCC, honored by the BOCTB, from September 14, 2010 to March 14, 2011, secured by \$1,512,447 of cash in bank.	-	3,024,895
CECCC, honored by the BOCTB, from September 16, 2010 to March 16, 2011, secured by \$2,268,671 of cash in bank.	-	4,537,342
CECCC, honored by the BOCTB, from September 17, 2010 to March 17, 2011, secured by \$1,615,294 of cash in bank.	-	3,230,588
CECCC, honored by the BOCTB, from September 19, 2010 to March 19, 2011, secured by \$2,422,941 of cash in bank.	-	4,845,882
CECCC, honored by the BOCTB, from October 9, 2010 to April 9, 2011, secured by \$1,826,456 of cash in bank.	3,652,913	3,629,874
Tianjin Tong Guang Group Electronics Science & Technology Co., Ltd., honored by the China Bohai Bank, from December 10, 2010 to June 10, 2011, secured by \$1,522,047 of cash in bank.	1,522,047	1,512,447
CECCC, honored by the BOCTB, from January 14, 2011 to July 14, 2011, secured by \$913,228 of cash in bank	1,826,456	-
CECCC, honored by the BOCTB, from January 19, 2011 to July 19, 2011, secured by \$1,369,842 of cash in bank	2,739,684	-
CECCC, honored by the BOCTB, from March 18, 2011 to September 18, 2011, secured by \$3,805,117 of cash in bank.	7,610,234	-
	6,240,392	-

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CECCC, honored by the BOCTB, from March 21, 2011 to September 21, 2011, secured by \$3,120,196 of cash in bank.				
CECCC, honored by the BOCTB, from March 22, 2011 to September 22, 2011, secured by \$943,669 of cash in bank.		1,887,338		-
Total notes payable	\$	<u>25,479,064</u>	\$	<u>25,318,370</u>

NOTE 15 — ACCRUED EXPENSES AND OTHER PAYABLES

As of March 31, 2011 and December 31, 2010, the accrued expenses and other payables of the Company were summarized as follows:

	March 31, 2011	December 31, 2010
		(Audited)
Accrued filing fees	\$ 303,657	\$ 347,558
Accrued rework cost	249,970	229,472
Accrued consulting fee	55,824	51,038
Acquisition payable*	152,500	152,500
Welfare & salary payable	374,942	271,787
Other	103,049	118,597
Total accrued expenses and other payables	\$ 1,239,942	\$ 1,170,952

*Current portion of acquisition payable related to our acquisition of Nollec Wireless on June 1, 2010 (see Note 1).

NOTE 16 — DIVIDENDS PAYABLE

In June 2007, before the Company acquired 51.0% of TCB Digital, TCB Digital decided to distribute dividends to its original shareholders of \$1,074,068 (RMB 7,862,700). The Company paid dividends of \$495,926 (RMB 3,900,000) in July 2007 to its original shareholders. The balance of dividends payable was \$603,142 and \$599,338 as of March 31, 2011 and December 31, 2010 respectively, representing the dividend payable to TCBGCL of RMB 3,962,700. The specific due date of the dividend will be negotiated between the current shareholders and original shareholders of the Company. The fluctuation of the balance of dividend payable represents the fluctuation of currency exchange rate.

NOTE 17 — RELATED PARTY TRANSACTIONS

Due from related parties

As of March 31, 2011 and December 31, 2010, due from related parties were:

	March 31, 2011	December 31, 2010
		(Audited)
Due from related parties - short term		
Tianjin Tong Guang Group Electronics Science & Technology Co., Ltd.	\$ 128,000	\$ 26,085
Beijing Leimone Shengtong Wireless Technology Co., Ltd.	224,959	232,614
Leimone (Tianjin) Industrial Co., Ltd.	11,381,666	16,338,738
	2,353,836	703,042

Beijing Leimone Shengtong Cultural Development Co.,
Ltd.

Tianjin Tong Guang Group		472,012		557,325
Shenzhen Leimone		427,832		328,694
712 (Shareholder)		<u>956,053</u>		<u>870,076</u>
Total due from related parties	\$	<u>15,944,358</u>	\$	<u>19,056,574</u>

Tianjin Tong Guang Group Electronics Science & Technology Co., Ltd. ("Electronics Science & Tech"), an entity related to the Company through a common shareholder of TCB Digital, purchased products from the Company. For the three months ended March 31, 2011 and 2010, the Company recorded revenues of \$6,271,437 and Nil from sales to Electronics Science & Tech respectively. In addition, the Company purchases raw materials from Electronics Science & Tech. For the three months ended March 31, 2011 and 2010, the Company recorded total purchases from Electronic Science & Tech of \$7,236,274 and Nil respectively.

Beijing Leimone Shengtong Wireless Technology Co., Ltd. ("Beijing Leimone") was founded by Gu, the largest shareholder of the Company. Beijing Leimone borrows money from the Company. The borrowings bore no interest and had a maturity of 12 months.

Leimone (Tianjin) Industrial Co., Ltd. ("Tianjin Leimone") was controlled by Gu, the largest shareholder of the Company. Tianjin Leimone sells raw materials to the Company. For the three months ended March 31, 2011 and 2010, the Company recorded total purchases from Tianjin Leimone of \$13,913,438 and \$11,358,591 respectively. The amount due from Tianjin Leimone represented advances of \$4,782,198 and \$9,780,893 as of March 31, 2011 and December 31, 2010 respectively. The Company also sold certain products to Tianjin Leimone. For the three months ended March 31, 2011 and 2010, the Company recorded net sales of nil and \$8,236,417 respectively. In addition, Tianjin Leimone borrowed money from the Company and these borrowings bore no interest. As of March 31, 2011 and December 31, 2010, the balance of such loans was \$6,599,468 and \$6,557,845 respectively.

The amount due from Beijing Leimone Shengtong Cultural Development Co., Ltd. ("Beijing Leimone Cultural") for short term loan granted by the Company. Beijing Leimone Cultural was controlled by Gu. The borrowing bore no interest and no maturity date.

Tianjin Tong Guang Group, a 20% shareholder of our TCB subsidiary, borrowed money from the Company. The borrowings bear no interest and have no repayment term.

712 is a minority shareholder of TCB Digital before Mr. Gu exercised the option to acquire 29.0% of TCB Digital. (See note 1.) 712 purchases raw materials from the Company. For the three months ended March 31, 2011 and 2010, the Company recorded revenues from sales to 712 of \$7,918,529 and \$1,294,629 respectively. In addition, the Company purchases raw materials from 712. For the three months ended March 31, 2011 and 2010, the Company recorded total purchases from 712 of \$9,123,356 and Nil respectively. 712 was no longer a related party of the Company after Mr. Gu exercised his option to acquire the additional 29.0% of TCB Digital in March 2010.

Shenzhen Leimone Company, Ltd., formed by individuals including our Chairman, Mr. Gu, is set up with the intention of providing manufacturing services to our Company particularly for exports. The amount of \$427,832 and \$328,649 as of March 31, 2011 and December 31, 2010 was a loan to Shenzhen Leimone for setup costs. Our Chairman, Mr. Gu, plans to personally fund the cost of equipment as his investment into Shenzhen Leimone and become the controlling shareholder of Shenzhen Leimone.

Due to related parties

As of March 31, 2011 and December 31, 2010, due to related parties was:

March 31, 2011

December 31, 2010

(Audited)

Hui Pak Kong

\$

277,244

\$

-

Tianjin Tong Guang Group Special Equipment Co., Ltd.

3,805

3,781

Gu

2,946,877

2,880,559

Total due to related parties

\$

3,227,926

\$

2,884,340

The Company borrowed money from Hui Pak Kong, the shareholder of CDE. The borrowings bear no interest and have no repayment term. As of March 31, 2011 and December 31, 2010, the balance of such loans was \$277,244 and Nil respectively.

Gu provides fund to the Company with no interest and no repayment term. As of March 31, 2011 and December 31, 2010, the balances of funds provided by Gu was \$2,946,877 and \$2,880,559 respectively.

NOTE 18 — LONG-TERM PAYABLES

	March 31, 2011	December 31, 2010
		(Audited)
Acquisition payable	\$ 580,000	\$ 580,000

Acquisition payable arose from our acquisition of Nollec Wireless on June 1, 2010 (see Note 1).

NOTE 19 — LONG-TERM LOANS

March 31, 2011

HSBC, due from January 5 2009, 2010 to January 4, 2013 with interest at 6.24%

\$

17,654

NOTE 20 — STOCKHOLDERS' EQUITY

COMMON STOCK

During the year ended December 31, 2010, 100,000 stock options held by the previous employees, executives and directors of the Company prior to the merger transaction on September 22, 2009, were exercised at the weighted average price of \$3.24 per share.

There were 100,000 shares of common stock issued to two consultants for their 12 months of service to the Company from January 1, 2010. These shares were valued at \$6.78 per share, the closing price on January 8, 2010 which was the last available price prior to the signing of agreement. The amount recorded was non-cash compensation charge of \$678,000 for the year of 2010.

We issued 15,000 shares of common stock to a consultant for his 19 months of service to the Company from June 1, 2010. The shares were valued at \$5.98 per share, the closing price on June 17, 2010 which was the date of the consulting agreement. As of March 31, 2011 and December 31, 2010, non-cash compensation expense of \$14,163 and \$33,047 respectively was recorded and deferred expenses of \$42,489 and \$56,653 respectively was recorded.

On November 28, 2010 and subsequently on December 10, 2010, the Board of Directors approved of the grant of 52,000 shares of common stock to members of the Board for their service over the next 12 months. The shares were valued as of the dates of grant. As of March 31, 2011 and December 31, 2010, non-cash compensation expense of \$46,520 and \$15,507 respectively was recorded and deferred expenses of \$124,053 and \$170,573 respectively was recorded. These shares were issued in January 2011, therefore as of December 31, 2010, these 52,000 shares were recorded as shares to be issued.

The Company issued 59,159 shares of common stock in January 2010 for the exercise of Series B warrants which were exercised during the year ended December 31, 2009 and were part of shares to be issued as at December 31, 2009.

In March 2010, 15,517 of Series A warrants were exercised at \$6 per share. After anti-dilution adjustments became applicable, another 18,000 Series A warrants were exercised in December 2010 at \$3.74 per share.

In December 2010, 13,056 Placement Agent warrants were exercised cashless resulting in the issuance of 3,665 shares of common stock. The shares were physically issued in January 2011, therefore as of December 31, 2010, these 3,665 shares were recorded as shares to be issued.

Mr. Gu, the Chairman & CEO of the Company, exercised his option to acquire 29.0% interest in TCB Digital and transfer such interest to the Company on March 31, 2010. A total of 2,402,576 shares of common stock were issued to Mr. Gu and his assignee on June 10, 2010; there were also 60,000 shares of common stock issued to a financial consultant and his assignees in connection with Mr. Gu's purchase.

On May 28, 2010, the Company sold 166,667 shares of common stock registered on Form S-3 to an accredited investor at \$6.00 per share and received \$1,000,002. As part of this transaction Company issued 6,667 warrants with an exercise price of \$6.90 per share to the placement agent which were recorded net of the value of proceeds. Legal fees incurred for this transaction were \$80,450.

On November 15, 2010, the Company closed a private placement transaction in which 2,113,664 shares of our common stock were sold at \$3.75 per share and 1,585,248 Series G warrants were issued for gross proceeds of \$7,926,240. Another 42,273 stock purchase warrants were issued to placement agents in connection with the transaction; both the Series G warrants and the placement warrants are exercisable at \$4.71 per share and expire in 5 years. The placement agents involved in the transaction were paid a 7% commission and granted 42,273 warrants exercisable at \$4.71 per share. Under terms of the securities purchase agreement, the Company is obligated to file a registration statement for the securities sold within 45 days from the date of the agreement and cause the registration statement to be declared effective within a maximum of 120 days, otherwise penalties will be assessed against the Company. A registration statement on Form S-3 was filed with the SEC on December 23, 2010 and was declared effective on January 7, 2011, and the Company fulfilled its obligation to register the securities. Legal and other fees incurred for this transaction were approximately \$470,000. The Company paid commissions of approximately \$560,000.

During the quarter ended March 31, 2011, 23,900 stock options held by the previous employees, executives and directors of the Company prior to the merger transaction on September 22, 2009, were exercised at the weighted average price of \$3.51 per share.

In January 2011, 1000 Series A warrants were exercised at \$3.74 per share.

On January 4, 2011, the Company acquired 100% of CDE by issuing 484,800 shares of our common stock to the owners of Celestial. The shares were valued at \$3.75 per share.

In March 2011, the Company contracted a consultant for 12 months of legal services which began in January 2011 for the issuance of 30,000 shares of our common stock. The shares were valued at \$3.42 per share, the closing price on March 21, 2011 which was the date of approval by the Company's Board of Directors. The amounts recorded were a) non-cash compensation charge of \$25,650 for the first quarter of 2011, and b) deferred expenses as of March 31, 2011 of \$76,950. The shares were issued in May 2011, therefore as of March 31, 2011, these 30,000 shares were recorded as shares to be issued.

WARRANTS

The Company granted Series A, B, C, D and E warrants to the accredited investors as part of its private place offering on October 16, 2009 and November 18, 2009.

Following is the brief description of warrants:

Series A Warrants

: The Series A warrants have an exercise price of \$6.00 and a term of 5 years from the issue date subject to the Exchange Cap (as defined in the agreement).

Series B Warrants

: The Series B warrants have an exercise price of \$0.01 and a term of three (3) months from the issue date provided, however, that such date shall be extended indefinitely if the warrant cannot be exercised due to the Beneficial Ownership Limitation (as defined in the agreement) or the Exchange Cap Limitation (as defined in the agreement) until the warrant can be exercised in full by the holder thereof without breaching the Beneficial Ownership Limitation (as defined in the agreement) or the Exchange Cap Limitation (as

defined in the agreement). All B Warrants were exercised in December 2009.

Series C Warrants

: The Series C warrants shall be exercisable only upon the exercise of the Series B warrants. The Series C warrants shall have an exercise price of \$6.00 and a term of 5 years from the issue date.

Series D Warrants

: The Series D warrants shall be exercisable if the Company fails to meet certain performance criteria for the year 2009. The Series D warrant shall have an exercise price of \$0.01 and a term of exercise equal to three (3) months from the date the Maximum Eligibility Date (as defined in the agreement); provided, however, that such date shall be extended indefinitely if the warrant cannot be exercised due to the Beneficial Ownership Limitation (as defined in the agreement) or the Exchange Cap (as defined in the agreement) until the warrant can be exercised in full by the holder without breaching the Beneficial Ownership Limitation (as defined in the

agreement) or the Exchange Cap Limitation (as defined in the agreement). Due to the Net Income of Zoom as reported in the Company's annual report for the year 2009 exceeding the eligibility threshold pursuant to the agreement, the Series D Warrants became ineligible for exercise.

Series E Warrants

: The Series E warrants shall be exercisable if the Company fails to meet certain performance criteria for the year 2010. The Series E warrants shall have an exercise price of \$0.01 and a term of three (3) months from the date the Maximum Eligibility Date (as defined in the agreement); provided, however, that such date shall be extended indefinitely if the warrant cannot be exercised due to the Beneficial Ownership Limitation (as defined in the agreement) until the Warrant can be exercised in full by the holder thereof without breaching the Beneficial Ownership Limitation (as defined in the agreement). Due to the Net Income of Zoom as reported in the Company's annual report for the year 2010 exceeding the eligibility threshold pursuant to the agreement, the Series E Warrants became ineligible for exercise.

The Company granted on May 6, 2010, Series F warrants to the above investors for their temporary forfeiture of their right to participate in the Company's future financings.

Series F Warrants

: The Series F warrants have an exercise price of \$6.00 and a term of 5 years from the issue date. The Company issued 375,000 F warrants to investors who participated in private placement transaction pursuant to the Securities Purchase Agreement dated October 15, 2009, to temporarily waive their right for a period of eight months to participate in a future offering of the Company. The investors originally have a period of twenty-four months ("Rights Period") in which they have the right to participate, and for providing a temporary waiver, an eight-month duration is added to the original expiration of the Rights Period.

The Company granted Series G warrants to the accredited investors as part of its private place offering on November 15, 2010.

Series G Warrants

: The Series G warrants shall have an exercise price of \$4.71 and a term of 5 years from the issue date.

Anti-dilution Adjustments for Certain Warrants: Since the private placement in November 2010 involved sales of the Company's stock at a price that activated anti-dilution provisions in the A, C, F and certain placement agent warrants, the exercise price of these warrants is adjusted to \$3.74 per share and the number of warrants eligible is multiplied by a factor of 6 / 3.74 or 1.60 with fractional shares rounding up.

The following summary represents warrants activity during the quarter ended March 31, 2011:

	<u>Number of Warrants</u>	<u>Weighted Average Exercise Price</u>	<u>Aggregate Intrinsic Value</u>
Balance, December 31, 2010	4,467,190	\$ 4.09	\$ 1,697,532
Granted	-	-	
Lapsed	-	-	
Exercised	(1,000)	\$ 3.74	
Balance, March 31, 2011	<u>4,466,190</u>	\$ 4.09	\$ 0

The following presents warrants summary as of March 31, 2011:

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Warrants Outstanding			Warrants Exercisable		
Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price	
Warrants	4,466,190	4.02 years	\$ 4.09	4,466,190	\$ 4.09

The Company determined the grant date fair value of A, C and placement agent warrants of \$3.26 per share which was calculated using the Black Scholes Options Pricing Model as follows: Stock price of \$6.87 per share, exercise price of \$6 per share, expected life of 5 years, volatility of 46.63% and discount rate of 2.37%. These warrants were recorded net off the value of proceeds.

The Company determined the grant date fair value of F warrants of \$1.51 per share which was calculated using the Black Scholes Options Pricing Model as follows: Stock price of \$5.52 per share, exercise price of \$6 per share, expected life of 5 years, volatility of 30.30% and discount rate of 2.10%. These warrants were recorded net off the value of proceeds.

The Company determined the grant date fair value of placement agent warrants of \$1.23 per share which was calculated using the Black Scholes Options Pricing Model as follows: Stock price of \$5.52 per share, exercise price of \$6.90 per share, expected life of 5 years, volatility of 30.30% and discount rate of 2.10%. These warrants were recorded net of the value of proceeds.

The Company determined the grant date fair value of G and placement warrants of \$1.04 per share which was calculated using the Black Scholes Options Pricing Model as follows: Stock price of \$3.99 per share, exercise price of \$4.71 per share, expected life of 5 years, volatility of 33.57% and discount rate of 1.51%. These warrants were recorded net of the value of proceeds.

NOTE 21 — STOCK OPTIONS

Previous Plan

Prior to the acquisition of Gold Lion, the Company issued stock options to its previous employees, officers and directors. Pursuant to terms of the Share Exchange Agreement, outstanding stock options at the closing of the acquisition will remain valid for the full life of the options regardless if the employee, officer and director will or will not remain in any capacity with the Company. There were 423,100 shares of options outstanding as of September 22, 2009, the effective date of the reverse merger between Zoom and Gold Lion, with expiration in 3 years from the date of grant and in various stages of vesting. The non-cash compensation charges of these stock options will be recorded by the spun-off subsidiary, Zoom Telephonics, and shall not be expensed by the Company.

On the closing of the acquisition, 30,000 stock options were granted to 4 exiting directors of the Company, for their anticipated cooperation with post-acquisition management, including the provision of any historical information about the Company that may be needed in future activities. Such options are exercisable at \$10.14 per share, vest in 6 months from the date of grant and will expire in 2 years. The non-cash compensation charges of these 30,000 shares of options will be expensed by the Company.

During the year ended December 31, 2010, 100,000 options held by the previous employees, executives and directors of the Company prior to the merger transaction on September 22, 2009, were exercised at the weighted average price of \$3.24 per share.

During the quarter ended March 31, 2011, 23,900 stock options held by the previous employees, executives, and directors of the Company prior to the merger transaction on September 22, 2009, were exercised at the weighted average price of \$3.51 per share.

The following summary represents options activity during the quarter ended March 31, 2011 under the previous plan.

	Under Previous Plan	Weighted Average Exercise Price	Aggregate Intrinsic Value
	<hr/>	<hr/>	<hr/>
Balance, December 31, 2010	211,650	\$ 3.25	\$ 427,612

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Granted	-	-		
Lapsed	(11,100)	-		
Exercised	(23,900)	\$ 3.51		
	<u> </u>			
Balance, March 31, 2011	<u>176,650</u>	\$ 3.20	\$	224,978

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The following represents options summary as of March 31, 2011 under the previous plan.

	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
Options	176,650	0.74 years	\$ 3.20	176,650	\$ 3.20

THE 2009 EQUITY INCENTIVE COMPENSATION PLAN

On December 10, 2009, the Company's Board of Directors ("BOD") approved and adopted the 2009 Equity Incentive Compensation Plan (the "New Plan"), and a total of 1,100,000 options were granted on the same day to current employees, executives and directors of the Company, with an exercise price of \$6.18 per share, expiration between 1 and 3 years, and vesting over the life of the options.

On November 28, 2010, the Company's BOD approved re-pricing of the outstanding options from the exercise price of \$6.18 to \$3.75 per share.

On December 1, 2010, the Company's BOD approved of the granting of 677,000 options to current employees and executives of the Company, with an exercise price of \$3.75 per share, vesting over 3 years and expiration in 3.25 years.

The following summary represents options activity during the quarter ended March 31, 2011 under the New Plan.

	Under the New Plan	Weighted Average Exercise Price	Aggregate Intrinsic Value
Balance, December 31, 2010	1,757,000	\$ 3.75	\$ 1,265,040
Granted	-	-	-
Lapsed	-	-	-
Exercised	-	-	-
Balance, March 31, 2011	1,757,000	\$ 3.75	\$ -

The following represents options summary as of March 31, 2011 under the New Plan.

	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price

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Options	1,757,000	2.09 years	\$	3.75	581,250	\$	3.75
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The Company determined the grant date fair value of 865,000 options of \$1.80 per share which was calculated using the Black Scholes Options Pricing Model as follows: Stock price of \$6.18 per share, exercise price of \$6.18 per share, expected life of 3.25 years, volatility of 39.18% and discount rate of 1.26%.

For the re-pricing of the above 865,000 options on November 28, 2010, from the exercise price of \$6.18 to \$3.75 per share, the Company determined the incremental fair value of \$0.48 per share which was calculated by taking the difference between the Black Scholes values of the new exercise price and that of the old exercise price. Other data used in the calculations include: the stock market price of \$3.54, expected of 2.28 years, volatility of 33.59% and discount rate of 0.78%.

The Company determined the grant date fair value of 235,000 options of \$1.20 per share which was calculated using the Black Scholes Options Pricing Model as follows: Stock price of \$6.18 per share, exercise price of \$6.18 per share, expected life of 1.5 years, volatility of 39.18% and discount rate of 0.78%.

For the re-pricing of the above 235,000 options on November 28, 2010, from the exercise price of \$6.18 to \$3.75 per share, the Company determined the incremental fair value of \$0.26 per share which was calculated by taking the difference between the Black Scholes values of the new exercise price and that of the old exercise price. Other data used in the calculations include: the stock market price of \$3.54, expected of 0.53 years, volatility of 33.59% and discount rate of 0.28%.

The Company determined the grant date fair value of 677,000 options of \$0.74 per share which was calculated using the Black Scholes Options Pricing Model as follows: Stock price of \$3.45 per share, exercise price of \$3.75 per share, expected life of 3.25 years, volatility of 33.42% and discount rate of 0.84%.

NOTE 22 — INCOME TAX

TCB Digital, Jiangsu Leimone and Nollec Wireless are governed by the Income Tax Law of the PRC concerning the private-run enterprises, which are generally subject to tax at a statutory rate of 25% on income reported in the statutory financial statements after appropriate tax adjustments.

Jiangsu Leimone is exempt from income tax in PRC for two years starting from the first profitable year or the year 2008, whichever is earlier, and is subject to a 50% exemption on normal income tax rate for the following three years.

Nollec Wireless is exempt from income tax in PRC for two years starting from 2008, and is subject to a 50% exemption on normal income tax rate for three years starting from 2010 and is subject to normal income tax rate from 2013.

Since Nollec has pre-tax loss for the three months period ended March 31, 2011, the Company's net income and earnings per share had no effect due to its income tax exemption.

Profit Harvest and CDE are governed by the Income Tax Law of Hong Kong, which is generally subject to tax at a statutory rate of 16.5% on income reported in the statutory financial statements after appropriate tax adjustments.

TCB Digital had pre-tax profit of \$82,608 and \$358,732 for the three months ended March 31, 2011 and 2010 respectively, while Jiangsu Leimone had pre-tax loss of \$197,098 and pre-tax profit of \$29,889 for the three months ended March 31, 2011 and 2010 respectively, while Profit Harvest had pre-tax profit of \$4,608,867 and \$2,887,075 for the three months ended March 31, 2011 and 2010 respectively, while Nollec Wireless had pre-tax loss of \$1,131,905 for the three months ended March 31, 2011, while CDE had pre-tax loss of \$37,798 for the three months ended March 31, 2011.

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The following table summarizes the temporary differences which result in deferred tax assets and liabilities as at March 31, 2011 and December 31, 2010:

	March 31, 2011
December 31, 2010	
Deferred tax assets:	
(Audited)	
Inventory impairment reserve	
\$	28,945
\$	28,763
Accrued expenses	28,866
	28,684
Inventory shortage	96,015
	95,410
Long-term investment impairment	17,124
	17,014
	170,950
	169,871
Less: Valuation allowance	-
	-
Total deferred tax assets	

	170,950
	169,871
Deferred tax liabilities	
Developed products	
	(66,874)
	(66,452)
Deferred assets	
	(4,076)
<hr/>	
	-
<hr/>	
Total deferred tax liabilities	(70,950)
	169,871
Deferred tax assets, net	
\$	100,000
<hr/>	
\$	103,419
<hr/>	

The following table reconciles the U.S. statutory rates to the Company's effective tax rate for the three months ended March 31, 2011 and 2010:

	March 31, 2011	March 31, 2010
US statutory rates	34.0%	34.0%
Tax rate difference	(20.7)%	(11.8)%
Valuation allowance	17.1%	-
Other	-	(1.0)%
Tax per financial statements	30.4%	21.2%

Foreign pretax earnings approximated \$3.3 million for the three months ended March 31, 2011. Pretax earnings of a foreign subsidiary are subject to U.S. taxation when effectively repatriated. The Company provides income taxes on the undistributed earnings of non-U.S. subsidiaries except to the extent that such earnings are invested indefinitely outside of the U.S. At March 31, 2011, approximately \$24.3 million of accumulated undistributed earnings of non-U.S. subsidiaries was invested indefinitely. At the existing U.S. federal income tax rate, additional taxes of \$2.2 million would have to be provided if such earnings were remitted currently.

NOTE 23 — STATUTORY RESERVES

As stipulated by the Company Law of the PRC, net income after taxation can only be distributed as dividends after appropriation has been made for the following:

- i) Making up cumulative prior years' losses, if any;
- ii) Allocations to the "Statutory surplus reserve" of at least 10% of income after tax, as determined under PRC accounting rules and regulations, until the fund amounts to 50% of the Company's registered capital;
- iii) Allocations of 5-10% of income after tax, as determined under PRC accounting rules and regulations, to the Company's "Statutory common welfare fund", which is established for the purpose of providing employee facilities and other collective benefits to the Company's employees; and Statutory common welfare fund is no longer required per the new cooperation law executed in 2006.
- iv) Allocations to the discretionary surplus reserve, if approved in the shareholders' general meeting.

In accordance with Chinese Company Law, the Company allocated 10% of its net income to surplus. For the three months ended March 31, 2011 and 2010, the Company appropriated \$6,196 and \$31,686 to statutory surplus reserve respectively. As of March 31, 2011 and December 31, 2010, the Company's statutory surplus reserve was \$688,724 and \$682,528 respectively.

NOTE 24 — CONCENTRATION DISCLOSURE

(a) During the reporting periods, the customers accounting for 10% or more of the Company's consolidated sales were:

Three months ended March 31, 2011	<u>Sales Revenue</u>	<u>% to Total Sales</u>
Tianjin Optical Communication Technology Co., Ltd.	\$ 12,277,736	21%
Tianjin 712 Communications and Broadcasting Ltd.	7,918,529	13%
TCB Group Electronic & Science CO.,LTD	6,271,437	11%
Larson Limited	14,705,795	25%
Total		
\$		41,173,497
		70%

Three months ended March 31, 2010	<u>Sales revenue</u>	<u>% to Total sales</u>
Beijing Tianyu Langtong Communication Equipment Co., Ltd.	\$ 9,577,516	19%
Leimone (Tianjin) Industrial Co., Ltd.	8,236,417	16%
Hong Kong Newway International Industrial Limited	9,992,819	20%
Larson Limited	8,454,425	17%
Beijing Baina Wei'er Science And Technology Co., Ltd.	7,759,787	15%
Total	\$ 44,020,964	87%

(b) During the reporting periods, the suppliers accounting for 10% or more of the Company's consolidated purchases are:

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Three months ended March 31, 2011	<u>Total Purchases</u>		<u>% to Total Purchases</u>
TCB Group Electronic & Science CO.,LTD	\$	7,236,274	13%
Leimone (Tianjin) Industrial Co., Ltd.		13,913,438	24%
Yuechangrui		9,777,612	17%
Tianjin 712 Communication and Broadcasting Co., Ltd.		<u>9,123,356</u>	<u>16%</u>
Total	\$	<u>40,050,680</u>	<u>70%</u>

Three months ended March 31, 2010	<u>Total purchases</u>		<u>% to Total purchases</u>
Beijing Beny Wave Science & Technology Co. Ltd	\$	15,455,579	34%
Leimone (Tianjin) Industrial Co., Ltd.		<u>11,358,591</u>	<u>25%</u>
Total	\$	<u>26,814,170</u>	<u>59%</u>

NOTE 25 — OPERATING RISK

a. Industry risk

The industry in which we compete is a rapidly evolving, highly competitive and fragmented market driven by consumer preferences and quickly evolving technology. Increased competition may result in price reductions, reduced gross margin and loss of market share. Failure to compete successfully against current or future competitors could have a material adverse effect on the Company's business, operating results and financial condition.

b. Exchange risk

The Company cannot guarantee the Renminbi and USD exchange rate will remain steady, therefore the Company could post the same profit for two comparable periods and post higher or lower profit depending on exchange rate of Renminbi and USD. The exchange rate could fluctuate depending on changes in the political and economic environments without notice.

c. Political risk

Currently, PRC is in a period of growth and is openly promoting business development in order to bring more business into PRC. Additionally PRC currently allows a Chinese corporation to be owned by a United States corporation. If the laws or regulations relating to ownership of a Chinese corporation are changed by the PRC government, the Company's ability to operate the PRC subsidiaries could be affected.

d. Interest risk

The Company is exposed to interest rate risk arising from short-term variable rate borrowings from time to time. The Company's future interest expense will fluctuate in line with any change in borrowing rates. The Company does not have any derivative financial instruments as of December 31, 2010 and 2009 and believes its exposure to interest rate risk is not material.

NOTE 26 — COMMITMENTS

Operating lease commitments

The Company has an operating lease for TCB Digital's premises through TCBGCL, a common shareholder of TCB Digital; pursuant to this lease, the rate of rent is at Rmb 8 per square meter per month for production facilities and dormitory space. The Company also has an operating lease in Beijing for office space shared with Nollec Wireless, with rent at Rmb 137 per square meter per month for 1,409 square meters and with rent at Rmb 131 per square meter per month for 388 square meters. The Company has an operating lease in Hong Kong for the office of CDE, rental and property management fees are HKD10,588 and HKD3,402 respectively per month. The commitments of the Company as of March 31, 2011 for the next 3 years are as follows:

2012	\$	685,360
2013		508,525
2014		22,398
		<hr/>
Total minimum lease payments	\$	1,216,283
		<hr/>

Item 2. Management's Discussion And Analysis Of Financial Condition And Results Of Operations

Forward Looking Information

The following discussion contains forward-looking statements. Forward looking statements are identified by words and phrases such as "anticipate", "intend", "expect", and words and phrases of similar import. We caution investors that forward-looking statements are only predictions based on our current expectations about future events and are not guarantees of future performance. Actual results, performance or achievements could differ materially from those expressed or implied by the forward-looking statements due to risks, uncertainties and assumptions that are difficult to predict. We encourage you to read those risk factors carefully along with the other information provided in this report and in our other filings with the SEC before deciding to invest in our stock or to maintain or change your investment. We undertake no obligation to revise or update any forward-looking statement for any reason, except as required by law.

You should read this Management's Discussion and Analysis in conjunction with the Consolidated Financial Statements and Related Notes.

Business Overview

Gold Lion was founded by Mr. Lei Gu in September 2002 in the British Virgin Islands, and Gu was the sole owner of one issued and outstanding share of common stock. Through a resolution of Gold Lion on November 26, 2008, Gold Lion issued 705 shares to Gu and 294 shares to Mr. Songtao Du, resulting in a total of 1,000 issued and outstanding shares of common stock. Pursuant to a pledge agreement dated November 26, 2008, Du pledged his 294 shares to Mr. Wei Cao, with all rights to such shares including voting rights. Consequently, Gu and Cao jointly control 100% of Gold Lion.

On August 2, 2007, Gu founded Profit Harvest in Hong Kong, and in December 2008, 100% ownership of Profit Harvest was transferred to Gold Lion. Profit Harvest is engaged in sale of mobile phone products and components to retailers and other wholesalers.

Pursuant to a capital injection agreement (the "CIA") by and among Tianjin Communication and Broadcasting Group Co., Ltd. ("TCBGCL"), TCBGCL Labour Union, Hebei Leimone Science and Technology Co., Ltd. ("Hebei Leimone"), Tianjin 712 Communication and Broadcasting Co., Ltd. ("712"), Beijing Depu Investment Co., Ltd. and other natural person shareholders on May 8, 2007 and a resolution of the shareholder's meeting on June 30, 2007, Hebei Leimone, a company controlled by Gu, acquired 25.1% of TCB Digital from TCBGCL Labour Union and various natural person shareholders for RMB9,000,000. Pursuant to this CIA, Hebei Leimone and Beijing Depu Investment Co., Ltd., a company controlled by Cao, were to invest additional RMB15,928,700 and RMB10,377,600 respectively in TCB Digital, bringing the total investment from Hebei Leimone and Beijing Depu Investment Co., Ltd to \$4,679,111 (RMB35,306,300). After this additional investment was made as of June 30, 2007, Hebei Leimone and Beijing Depu held 36.0% and 15.0% equity interests respectively of TCB Digital, a total of 51.0% ownership in TCB Digital. Pursuant to an agreement dated June 30, 2007, Cao irrevocably pledged his 15.0% equity interest in TCB Digital to Gu in exchange for a 29.4% stake in Gu's company. TCB Digital is mainly engaged in research & development, processing, manufacturing, servicing and marketing of mobile handsets, electronic products and communication equipment.

On November 30, 2007, Gold Lion and GD Industrial Company signed a share transfer agreement pursuant to which GD Industrial Company transferred 60% equity of Nantong Zong Yi Kechuang Digital Camera Technology Co., Ltd. for \$10,273 to Gold Lion. In July 2008, the company's name was changed to Jiangsu Leimone Electronic Co., Ltd., or Jiangsu Leimone. In January 2008, Gold Lion invested \$5,074,226 (HK\$38,800,000) in Jiangsu Leimone to increase Gold Lion's ownership in Jiangsu Leimone to 80%. Pursuant to the share transfer agreement by and between Gold Lion and Nantong Zong Yi Investment Co., Ltd. dated November 26, 2008, Gold Lion acquired the remaining 20%

equity interest of Jiangsu Leimone from Nantong Zong Yi Investment Co., Ltd. for cash consideration of \$103,214 (HK\$800,000). After this transaction, Gold Lion obtained 100% ownership of Jiangsu Leimone. Jiangsu Leimone is engaged in the R&D and production of electronic assemblies, 3G mobile handsets, wireless communication modules, GPS receivers and computer software.

Pursuant to the share transfer agreement by and among Hebei Leimone, Beijing Depu Investment Co., Ltd and Jiangsu Leimone dated December 15, 2008, Hebei Leimone and Beijing Depu Investment Co., Ltd. transferred their 51.0% equity interest of TCB Digital to Jiangsu Leimone on December 30, 2008.

Increased ownership in TCB Digital

Mr. Gu exercised an option to acquire an additional 28.97% of TCB Digital. Under the terms of the Share Exchange Agreement dated January 28, 2009, amended on May 12, 2009, and approved by our shareholders on September 8, 2009, at such time as Mr. Gu completes his acquisition of 28.97% of TCB Digital, Mr. Gu has the option to transfer this stake in TCB Digital for 2,402,576 shares of Zoom common stock. As of March 31, 2010, Mr. Gu exercised his option to acquire the additional 29.0% of TCB Digital and exchanged this ownership in TCB Digital for 2,402,576 shares on our common stock, which increased the Company's ownership of TCB Digital from 51.0% to 80%.

Acquisition of Nollec Wireless

On April 29, 2010, the Company executed a share exchange agreement (the "Nollec Agreement") to acquire 100% of the shares of Nollec Wireless Company Ltd., ("Nollec Wireless") a mobile phone and wireless communication design company located in Beijing, China. The consideration paid for Nollec Wireless was \$10.96 million in cash and stock. The consideration agreed upon by the Company and the owners of Nollec Wireless was based on the appraised value. Pursuant to the Nollec Agreement, \$1.37 million of the total consideration was to be paid in cash by the Company, of which \$500,000 has been paid and \$870,000 will be paid over a three-year period, and the balance of \$9.59 million was paid by issuance of 1,342,599 unregistered shares of the Company's common stock ("Payment Shares"). The value of the Payment Shares was based on the weighted average closing price of Zoom shares as traded on Nasdaq for the 10 consecutive trading days prior and leading up to the day immediately before the date of the Agreement. The acquisition closed on May 31, 2010.

Acquisition of Celestial Digital Entertainment

On December 20, 2010, the Company executed a share exchange agreement to acquire 100% of the shares of Celestial Digital Entertainment, Ltd., ("CDE") a mobile platform video game development company based in Hong Kong. The consideration paid for CDE was \$1.818 million in stock. The number of shares issued to the owners of CDE was determined based on the price of \$3.75 per share, which was the greater of \$3.75 or the weighted average closing price of Zoom shares as traded on Nasdaq for the 10 consecutive trading days prior and leading up to the day immediately before the date of the Agreement. The acquisition closed on January 4, 2011.

Planned Acquisition of Leimone Culture

On January 26, 2010, the Company announced its intent to acquire a Chinese handset mobile video and value-added service company, Beijing Leimone Shengtong Culture Development Company ("Leimone Culture"). Lei Gu, our Chairman, CEO and largest shareholder, owns approximately seventy percent of Leimone Culture. Founded in 2004, Leimone Culture was granted licenses by the State Administration of Radio Film and Television ("SARFT") to provide web-based broadcast audiovisual programs and to produce radio and television content for mobile devices. Leimone Culture has been a provider of mobile video services to China Mobile since 2005 and China Unicom since 2007.

The Company has the option of purchasing Mr. Gu's shares in Leimone Culture and on December 1, 2009, Zoom's Board of Directors approved to pursue the acquisition of 100% of Leimone Culture in the event the minority shareholders of Leimone Culture decides to sell their interests. Currently, Leimone Culture is in the process of developing its user and viewer bases. Upon further due diligence and negotiation, terms of the acquisition are expected to be finalized around the end of 2011.

Plan of Operation

During the next twelve months, Zoom, together with Gold Lion and its subsidiaries, expects to take the following steps in connection with the development of our business and the implementation of our plan of operations:

- Zoom intends to continue to manufacture and deliver its products and services in China, including EMS business for OEM customers and development of our brand of "Leimone" phones;
- Zoom will gradually increase its investment in the 2.5G-3G mobile communications business;
- Zoom will continue to customize mobile phones in cooperation with the main mobile operators in China; and
- Zoom will continue to build our export business.

Critical Accounting Policies and Estimates

The preparation of the Company's consolidated financial statements in conformity with accounting principles generally accepted in the United States ("US GAAP") requires it to make estimates and judgments that affect its reported assets, liabilities, revenues, and expenses, and the disclosure of contingent assets and liabilities. The Company based its estimates and judgments on historical experience and on various other assumptions that it believes to be reasonable under the circumstances. Future events, however, may differ markedly from current expectations and assumptions. While there are a number of significant accounting policies affecting the Company's consolidated financial statements, the Company believes the following critical accounting policies involve the most complex, difficult and subjective estimates and judgments: allowance for doubtful accounts; income taxes; asset impairment.

Revenue Recognition

In accordance with US GAAP, revenue is recognized only when the price is fixed or determinable, persuasive evidence of an arrangement exists, the service is performed, and collection of the resulting receivable is reasonably assured. Noted below are brief descriptions of the product or service revenues that Zoom Technologies recognizes in the financial statements contained herein.

Revenue is recognized at the date of shipment to customers when a formal arrangement exists, the price is fixed or determinable, the delivery is completed, no other significant obligations of the Company exists and collectability is reasonably assured. Payments received before all of the relevant criteria for revenue recognition are satisfied are recorded as advances from customers.

The Company's subsidiary, Nollec Wireless, is in the mobile phone design, software integration and mobile solution R&D business, Nollec Wireless, recognizes revenue under percentage of completion method ASC Topic 605-35-25 (Construction - Type and Production - Type Contracts) when reasonably dependable estimates can be made and in which all the following conditions exist:

- a. Contracts executed by the parties normally include provisions that clearly specify the enforceable rights regarding goods or services to be provided and received by the parties, the consideration to be exchanged, and the manner and terms of settlement.
- b. The buyer can be expected to satisfy all obligations under the contract.
- c. The contractor can be expected to perform all contractual obligations.

Estimates of cost to complete is reviewed periodically and revised as appropriate to reflect new information. When the current estimates of total contract revenue and contract cost indicate a loss, a provision for the entire loss on the contract is made.

Income is recognized as the percentage of estimated total income, and is determined by dividing incurred costs to date by estimated total costs after giving effect to adjustments, if any, in estimates of costs to completion based upon the most recent information. Percentage of completion is based on labor hours incurred to date divided by total estimated labor hours for the contract.

Royalty income on sales of licensed products by its customers are recorded when the customers report sales to the Company. Royalty income is reported monthly and is recorded in the period in which the product is sold. The Company has the right to audit the books of the licensees.

The Company's subsidiary, CDE is in the business of video games and applications for mobile phones and mobile platforms development. Revenue is recognized in accordance with ASC 985-605-55-125. Cost of Software

Development Revenue is accounted for under ASC 985-20 to be sold, leased or otherwise marketed.

CDE capitalizes cost of development of software for hosting purpose in accordance with ASC subtopic 350-40 ("ASC 350-40"), Intangibles-Goodwill and Other: Internal-Use Software (Pre-codification: Statement of Position ("SOP") No. 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use). As such, CDE expenses all costs that are incurred in connection with the planning and implementation phases of development and costs that are associated with repair or maintenance. Costs incurred in the development phase are capitalized and amortized over the estimated product life. Since the inception of CDE, the amount of costs qualifying for capitalization has been insignificant and as a result all internally used software development costs have been expensed as incurred.

Allowance for doubtful accounts

Zoom Technologies maintains an allowance for doubtful accounts to reduce amounts to their estimated realizable value. A considerable amount of judgment is required when the Company assesses the realization of accounts receivables, including assessing the probability of collection and the current credit-worthiness of each customer. If the financial condition of customers were to deteriorate, resulting in an impairment of their ability to make payments, an additional provision for doubtful accounts could be required. The Company initially records a provision for doubtful accounts based on its historical experience, and then adjusts this provision at the end of each reporting period based on a detailed assessment of its accounts receivable and allowance for doubtful accounts. In estimating the provision for doubtful accounts, the Company considers: (i) the aging of the accounts receivable; (ii) trends within and ratios involving the age of the accounts receivable; (iii) the customer mix in each of the aging categories and the nature of the receivable; (iv) its historical provision for doubtful accounts; (v) the credit worthiness of the customer; and (vi) the economic conditions of the customer's industry as well as general economic conditions, among other factors.

Income taxes

The Company accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes". Under this method, deferred income taxes are recognized for the estimated tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts and each year-end based on enacted tax laws and statutory rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established to reduce deferred tax assets to the amount expected to be realized when, in management's opinion; it is more likely than not that some portion of the deferred tax assets will not be realized. The provision for income taxes represents current taxes payable net of the change during the period in deferred tax assets and liabilities. The Company adopted FIN 48, Accounting for Uncertainty in Tax Positions.

Asset Impairment

The Company periodically evaluates the carrying value of other long-lived assets, including, but not limited to, property and equipment and intangible assets, when events and circumstances warrant such a review. The carrying value of a long-lived asset is considered impaired when the anticipated undiscounted cash flows from such asset is less than its carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair value of the long-lived asset. Fair value is determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved. Significant estimates are utilized to calculate expected future cash flows utilized in impairment analyses. The Company also utilizes judgment to determine other factors within fair value analyses, including the applicable discount rate.

Results of Operations for the Quarter ended March 31, 2011

Revenues

Our revenues were \$58,611,686 for the quarter ended March 31, 2011, an increase of 15.0% or \$7,632,417 compared to \$50,979,269 in the corresponding quarter in 2010. The increase of revenues in the first quarter of 2011 compared to the corresponding quarter in 2010 was mainly due to the sales of our own "Leimone" brand mobile phones. In the first quarter of 2011, we sold 201,700 units of our Leimone brand phones of which 164,102 were 3G handsets. Revenues from sales of our own branded products in the first quarter of 2011 were \$13.57 million, or an increase of 195% over the three-month period in 2010 where total units of Leimone brand phones sold were 71,069 of which 6,000 were 3G units, bringing in gross sales of \$4.6 million.

Our revenues other than Leimone brand phone sales for the first three months of 2011 were \$45.04 million or a slight decrease of 2.9% from \$46.38 million of the first three months in 2010.

In quantities, we manufactured 1.11 million pieces of main circuit boards (PCBA) and 0.81 million complete mobile phones in the quarter ended March 31, 2011, as compared to 1.43 million pieces of PCBA and 0.95 whole phones from the first quarter of 2010.

Cost of goods

For the quarter ended March 31, 2011 our cost of goods was \$52,262,817 or 89.2% of revenues, while cost of goods for the corresponding quarter in 2010 was \$46,801,015 or 91.8% of revenues. The reduction in cost of sales as a percentage of revenues was mainly due to our own Leimone brand phones which carry a higher gross margin than the EMS activities.

Gross Profit

Gross profit for the quarter ended March 31, 2011 rose 52.0% to \$6,348,870 compared to \$4,178,255 for the corresponding 2010 quarter. Gross profit as a percentage of revenues for the first quarter of 2011 was 10.8%, an increase from 8.2% for the 2010 quarter. The main reason for the increase in gross margin is due to the sales of our own branded products which generally carry a higher margin than the EMS activities.

Selling, general and administrative expenses

Sales and marketing expenses mainly represent salaries of sales personnel, and marketing and transportation costs; and such expenses were \$208,539 for the three months ended March 31, 2011 compared to \$44,076 for the corresponding period in 2010. The higher amounts in this category for 2011 resulted from the significantly increased activities in the sales of our own brand products and also for support of our export business.

General and administrative expenses primarily consisted of compensation for administrative personnel, depreciation, travel expenses, rental, materials expenses related to ordinary administration, and fees for professional services; and these were \$1,266,191 for the three months ended March 31, 2011 compared to \$904,641 for the corresponding period in 2010. The increase of such expenses in 2011 was mainly due to legal, accounting and other expenses related to the Company maintaining compliance with the SEC and Nasdaq rules and regulations.

Research and development costs are expensed as incurred. Research and development costs during the three months ended March 31, 2011 and 2010 were \$1,635,204 and \$0 respectively. Such costs in the first quarter of 2011 were incurred by our R&D subsidiary, Nollec Wireless, to gear up for the introduction of new and more advance series of products later on this year.

Non-cash compensation charges include stock option charges based on a Black-Scholes pricing model and values of common stock issued to consultants for services. Such charges for the three months ended March 31, 2011 and 2010 were \$307,469 and \$369,659 respectively.

For the three months ended March 31, 2011, total operating expenses were \$3,417,403 or 5.8% of revenues compared to \$1,318,376 or 2.6% of revenues in the 2010 period. These expenses were higher this year mainly due to increases in R&D expenses described above.

Other income/(expenses)-net

The Company's other expenses-net were \$344,663 and \$272,447 for the three months ended March 31, 2011 and 2010 respectively. These expenses were the results of interest expense offset by interest income and also income from various non-recurring activities.

Net income

For the quarter ended March 31, 2011, the Company's net income was \$1,786,813, a decrease of \$108,889 or 5.7% from \$1,895,702 for the corresponding 2010 quarter. Net income over revenues, for the first quarters of 2011 and 2010 were 3.0% and 3.7% respectively. The significant increase in R&D expenditures, as described above, decreased

our income from operations and resulted in lower net income compared to the same period last year.

Other comprehensive income/(loss)

For the three months ended March 31, 2011 and 2010, the Company's other comprehensive income was \$230,269 and \$388 respectively. Other comprehensive income resulted from foreign currency exchange changes particularly the Renminbi against the USD. The gain for the first quarter of 2011 can result in a loss in future periods if the trend in the exchange rate of the Reminbi to the USD reverses.

Liquidity and Capital Resources

Zoom generally finances its operations from cash flow generated internally, interest-free credit lines in the form of banker acceptances and short-term loans from domestic banks. As of March 31, 2011, the Company had cash and equivalents of \$2,083,812 and restricted cash of \$13,588,802. Restricted cash is our deposit held as security at banks for the ability to issue twice the amount in interest-free notes for our purchase of production materials. We had cash and equivalents of \$6,374,103 and restricted cash of \$13,503,122 as of December 31, 2010.

Net cash used in operating activities for the three months ended March 31, 2011 was \$7,449,947 compared to net cash used in operating activities for the 2010 period of \$1,147,778. In the first three months of 2011, operational use of funds included an increase in accounts receivable of \$22,243,148, and an increase to related parties of \$10,873,705; offset by a reduction in advances to suppliers of \$21,638,900, an increase in accounts payable of \$341,051 and advance from customers of \$241,831, and an increase in accrued expenses and other current liabilities of \$958,919.

Net cash provided by investing activities was \$452,225 in the first three months of 2011 which was primarily proceeds from notes receivable of \$323,624 and the acquisition of a subsidiary brought in \$235,112, while purchase for property and equipment used \$106,534. Net cash used in investing activities in the same period of 2010 was \$994,943 which included primarily of additional deposit made to restricted cash of \$980,100.

Net cash provided by financing activities was \$2,706,406 in the first three months of 2011 which included proceeds from short-term loans of \$5,531,393, collection on advance to related parties of \$3,287,214; while offset by advance to related parties of \$3,235,378 and repayment on short-term loans of \$3,030,900. In the same period of 2010, we had proceeds from short-term loans of \$18,124,528, receipts from related parties of \$7,629,484, and proceeds from notes payable of \$1,960,199, while offset by repayments on short-term loans of \$13,165,517, repayment on related parties borrowings of \$10,074,820, and advance to related parties of \$3,637,028; resulting in net cash provided by financing activities of \$1,007,608.

Contractual Obligations

As of March 31, 2011, the Company has short-term loan obligations of \$24,591,791 with interest rates between 6.67% to 8.40%, and a long term loan outstanding balance of \$17,654 with interest rate at 6.24% and long term acquisition payable of \$580,000. Notes payable are secured by our restricted cash deposits at the banks, payable in three to six months and bear no interest. The outstanding balance of notes payable as of March 31, 2011 is \$25,479,064.

On going forward basis over the next 12 months, Zoom intends to continue to rely on short-term loans and restricted cash secured notes to fund its operational cash needs. In the event that expansion or acquisition opportunities exist, we may contemplate additional conventional bank and/or equity financing to take advantage of such opportunities. However, there is no assurance that such opportunities can be found, and if so, whether financing is available at acceptable terms.

Off Balance Sheet Arrangements

As of March 31, 2011, Zoom had no off balance sheet arrangements.

Item 3. Controls and Procedures

(a) Disclosure Controls and Procedures.

The Company's disclosure controls and procedures are designed to ensure that information required to be disclosed in the Company's reports filed under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, including, without limitation, that such information is accumulated and communicated to Company management, including the Company's principal executive and financial officer, as appropriate to allow timely decisions regarding required disclosures.

Limitations on the Effectiveness of Disclosure Controls.

In designing and evaluating the Company's disclosure controls and procedures, management recognized that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Additionally, in designing disclosure controls and procedures, Company management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Evaluation of Disclosure Controls and Procedures. The Company's principal executive and financial officers have evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) as of March 31, 2011, and based on this evaluation, the Company's principal executive and financial officers have concluded that the Company's disclosure controls and procedures were effective to ensure that material information is recorded, processed, summarized and reported by management of the Company on a timely basis in order to comply with the Company's disclosure obligations under the Exchange Act and the rules and regulations promulgated thereunder. The Company's principal executive and financial officers conclusion regarding the Company's disclosure controls and procedures is based solely on management's conclusion that the Company's internal control over financial reporting are effective.

(b) Changes in Internal Control over Financial Reporting.

There were no significant changes in the Company's internal control over financial reporting that occurred during the first three months of fiscal 2011 that have materially affected, or are reasonably likely to materially affect, such control.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings.

None

Item 4. Reserved.

Item 5. Other Information.

None

Item 6. Exhibits.

The following exhibits are included with this report.

Exhibit 31.1 Rule 13a-14(a) / 15d-14(a) Certification of Lei Gu, CEO.

Exhibit 31.1 Rule 13a-14(a) / 15d-14(a) Certification of Anthony K. Chan, CFO.

Exhibit 32.0 Section 1350 Certifications.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf on May 16, 2011 by the undersigned, thereunto duly authorized.

Zoom Technologies, Inc.
(Registrant)

By: /s/ Lei Gu

Lei Gu
Chief Executive Officer

INDEX TO EXHIBITS

Exhibits filed herewith:

- 31.1 [Rule 13a-14\(a\) / 15d-14\(a\) Certification of Lei Gu, CEO](#) [PDF](#)
- 31.1 [Rule 13a-14\(a\) / 15d-14\(a\) Certification of Anthony K. Chan, CFO](#) [PDF](#)
- 32.0 [Section 1350 Certifications](#) [PDF](#)