

ZOOM TECHNOLOGIES INC  
Form 10-K  
March 30, 2010

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

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**FORM 10-K**

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

For the fiscal year ended December 31, 2009

or

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**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**

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ZOOM TECHNOLOGIES, INC.

*(Exact name of registrant as specified in its charter)*

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Delaware

51-0448969

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

Headquarters:

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Room 708 CEC Building No.6 Zhongguancun South Street  
Haidian District, Beijing 10086, China

U.S. correspondence office:

c/o Ellenoff Grossman & Schole LLP  
150 East 42nd Street, New York, NY 10017  
*(Address of Principal Executive Office) (Zip Code)*

(917) 609-0333

*(Registrant's telephone number, including area code)*

Securities Registered Pursuant to Section 12 (b) of the Act: **Common Stock, \$0.01 Par Value**

Securities Registered Pursuant to Section 12 (g) of the Act: **None**

(Title of Class)

\_\_\_\_\_

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes

No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. Yes

No

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 such 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 Website, if any, every Interactive Data File required to be submitted and posted pursuant to rule 405 of the Regulation S-T ( 232.405 of this chapter) during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files). Yes

No

Indicate by a check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes

No

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

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Large accelerated filer      Accelerated filer      Non-accelerated filer      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

The aggregate market value of the common stock, \$0.01 par value, of the registrant held by non-affiliates of the registrant as of March 29, 2010 (computed by reference to the closing price of such stock on The Nasdaq Capital Market on such date) was \$37,937,843.

The number of shares outstanding of the registrant's common stock, \$0.01 par value, as of March 29, 2010 was 8,982,314 shares.

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ZOOM TECHNOLOGIES, INC.  
FORM 10-K ANNUAL REPORT  
FOR THE YEAR ENDED DECEMBER 31, 2009  
TABLE OF CONTENTS

	<u>Page</u>
PART I	
Item 1. <u>Business</u>	3
Item 1A. <u>Risk Factors</u>	7
Item 1B. <u>Unresolved Staff Comments</u>	7
Item 2. <u>Properties</u>	7
Item 3. <u>Legal Proceedings</u>	7
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	7
PART II	
Item 5. <u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	8
Item 6. <u>Selected Financial Data</u>	8
Item 7. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	8
Item 7A. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	21
Item 8. <u>Financial Statements and Supplementary Data</u>	21
Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	21
Item 9A. <u>Controls and Procedures</u>	21
Item 9B. <u>Other Information</u>	22
PART III	
Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	23
Item 11. <u>Executive Compensation</u>	24
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	26
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	27
Item 14. <u>Principal Accounting Fees and Services</u>	30
PART IV	
Item 15. <u>Exhibits, Financial Statement Schedules</u>	31
<u>Signatures</u>	33

CAUTIONARY NOTE ON FORWARD-LOOKING STATEMENTS

Some of the statements contained in this report are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 that involve risks and uncertainties. Any statements contained, or incorporated by reference, in this prospectus supplement and the accompanying prospectus that are not statements of historical fact may be forward-looking statements. When we use the words "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "plan," "predict," "project," "will" and other similar terms and phrases, including references to assumptions, we are identifying forward-looking statements. Forward-looking statements involve risks and uncertainties which may cause our actual results, performance or achievements to be materially different from those expressed or implied by forward-looking statements.

PART I

ITEM 1 — BUSINESS

Corporate Overview and Business Description

We were incorporated in the state of Delaware under the name Zoom Technologies, Inc. Until September 22, 2009, our business was the design, production, marketing, sales, and support of broadband and dial-up modems, Voice over Internet Protocol or "VoIP" products and services, Bluetooth® wireless products, and other communication-related products.

On September 22, 2009, the Company consummated a share exchange transaction and 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 ("Gold Lion"). In connection with the share exchange transaction, the Company spun off its then-existing business to its stockholders, by distributing and transferring all assets and liabilities to subsidiary and issuing shares of its then operating subsidiary as a dividend to its stockholders.

Following September 22, 2009, the Company, through its wholly-owned holding-company subsidiary, Gold Lion Holding Limited ("Gold Lion") is the owner of 100% of Profit Harvest Corporation Ltd., a company organized under the laws of Hong Kong ("Profit Harvest") and through Gold Lion's wholly owned subsidiary, Jiangsu Leimone Electronics Co., Ltd. ("Jiangsu Leimone") is the owner of 51% of Tianjin Tong Guang Group Digital Communication Co., Ltd., a company organized under the laws of the People's Republic of China ("TCB Digital"). The business of Zoom comprised solely of Gold Lion's operating subsidiaries, which are TCB Digital, Jiangsu Leimone and Profit Harvest. Profit Harvest serves as sales and marketing arm of TCB Digital, and Jiangu Leimone serves as a complimentary and supplemental manufacturing arm for TCB Digital, and as such, substantially all of the business of Zoom is generated by the business of TCB Digital. Both TCB Digital and Jiangsu Leimone are in the business of manufacturing, research and development, and sales of electronic components for 3rd generation mobile phones, wireless communication circuitry, GPS equipment, and related software products. The diagram below summarizes our corporate structure:

Our principal executive offices are located at No.6 Zhongguancun South Street, Suite 708, Haidian District, Beijing, China 100086. Our telephone number is + 86 10 6212-4080.

#### Description of Business

The Company, through its wholly-owned subsidiaries, Gold Lion and Jiangsu Leimone, owns 51% of TCB Digital. TCB Digital is a well established high technology enterprise engaging in electronic and telecommunication product design, development, and manufacturing capability and process. TCB Digital has two main business operations - providing Electronic Manufacturing Service for OEM (Original Equipment Manufacturer) customers and designing and producing mobile phone products. TCB Digital started its business in 1999 and was originally an Electronic Manufacturing Service (EMS) factory for mobile phone vendors. TCB Digital was Motorola's first independent outsourcing manufacturing vendor responsible for producing Motorola mobile phones in China. Moreover, TCB Digital was the first EMS factory in China receiving Motorola's International Quality Product and Qualification Certificate. Currently TCB Digital is headquartered in Tianjin, China.

The Company, offers high quality and comprehensive EMS to both domestic and global customers including Samsung, Tianyu, CCT, Palm, Danaher, Spreadtrum and SK Telecom. Major products manufactured by TCB Digital include mobile phones, wireless telecommunication modules, digital cameras, cable TV set-up boxes, and GPS equipment. In addition, TCB Digital develops various state-of-art feature mobile phones and Smartphones based on TD-SCDMA, GSM, WCDMA and CDMA technologies. Our Company markets its mobile phone products through retail distributors in China and also supplies to major operator customers such as China Mobile (CMCC), China UNICOM, and China Telecom with various operator customized 2.5G or 3G mobile phones.

### Competitive Strengths

We believe our competitive strengths include:

#### Experienced Management Team & Strong Technology Experts

Our main manufacturing subsidiary, TCB Digital, believes it has a well established and efficient human resource strategy. Under this strategy, TCB Digital is able to develop and maintain a good management team, strong technical professionals, and highly skilled manufacturing operators. TCB Digital believes the combination of TCB Digital's internal development and hiring programs provide it with adequate and stable staffing for various levels of technical and managerial requirements. TCB Digital has a management team with expertise in manufacturing, product development, and marketing. Many managers have working experience and training from leading firms in the industry such as Motorola, BenQ, Samsung, Pemstar, Mitsum, and Foxcomm. With respect to manufacturing, TCB Digital believes it has developed and maintained a highly efficient manufacturing operator team with strong discipline. Furthermore, TCB Digital believes it has a strong product research and development team that has demonstrated talent in developing state-of-art mobile devices that can meet market needs.

#### Location Advantage

TCB Digital is located in Tianjin, China, which is located in the middle of Bo Hai Electronic Development Base. China's central government recently established the "Bo Hai Economic Zone" which has been divided into several regions with specific development directions. Bo Hai Electronic Development Base is one of these newly identified regions, which has a well-established transportation system and strong industrial foundation.

#### Advanced Manufacturing Facility & Process

Our Company has a total of 14 SMT (Surface Mounting Technology) production lines, 12 assembly and testing lines, and over \$5.6 million] (net of depreciation) worth of advanced equipment to meet customers' different levels of technical requirements. Our current production lines have the capacity to manufacture 800,000 units per month or close to 10 million units annually.

#### Quality Control System & Workflow

TCB Digital has implemented high-quality quality control systems and workflow systems to ensure it provides high-quality products to its customers. TCB Digital received ISO 9000, ISO 14000, and QSH 18000 quality-related certificates

#### Marketing Capability

Our Company has a sales and marketing team that allows it to market and promote its mobile phones and related products in both China and markets outside China.

#### Strategy

Our strategy is to strengthen our position as an innovative mobile phone producer and as an Electronic Manufacturing Service provider to customers in China and overseas. Together with our EMS client, we are knowledgeable of the most updated trends and needs of the mobile consumers. Our sales and marketing subsidiary, Profit Harvest, has successfully sold our products outside of China even throughout the word-wide economic downturn of 2008 and 2009.

Strengthen design and development capabilities in mobile phones

One of TCB Digital's main business strategies is to focus on developing mobile phones based on GSM, CDMA, and TD-SCDMA core technologies for both China and overseas markets. TCB Digital is able to design, develop, and manufacture innovative GSM, CDMA and TD-SCDMA mobile phones by leveraging its own resources and facilities. To meet the changing needs of its customers and to maintain the competitive advantage of its products, TCB Digital intends to continue to improve and strengthen its development and design capabilities. TCB Digital plans to continue investing resources to maintain an experienced and skilled design team to preserve competitiveness within a frequently changing and challenging industry landscape.

Enhance strong customer relationships into new opportunities.

We will continue to focus on refining our EMS processes, maintaining high quality control processes, adding new manufacturing technology, and enhancing our operations team. In addition, we will continue to monitor market movement, including customers' requirements, adjusting our business model to better cope with these changes while maintaining profit margins. We will attempt to increase our future revenues and profits by enhancing strong customer relationships and expanding the range of services we offers to our customers. We believe growing with our clients will enable us to promote our reputation and expand our geographic presence.

Further expand market and sales channel

Currently we have mobile phone distributors and after-sales service centers at the national, provincial and municipal levels in 27 provinces in China. Those distributors are capable of covering approximately 5% of all local distributors and 10% of all retail stores in China. As the market potential in tier 3 and tier 4 cities and towns, with population from 2,000,000 down to 600,000, in China has grown significantly, we intend to invest in further expansion of our marketing and sales channels in these smaller cities and rural areas.

Products and Technology

TCB Digital developed and produced GSM and CDMA mobile phones, wireless data modules, cable TV boxes and GPS equipment since 2004, and Gold Lion's Jiangsu Leimone subsidiary has produced this type of electronic equipment since 2008. TCB Digital has customized and assembled two models of Smartphones for Palm Inc. for the China market. One model was customized, with applications developed by TCB Digital under Palm's development and supervision guidelines, specifically for China Mobile Communications Corporation (CMCC); and this model entered into CMCC's sales channels. In 2007, TCB Digital collaborated with SK- Telecom and jointly developed a dual mode GSM-CDMA Smartphone for China UNICOM. This dual mode GSM-CDMA Smartphone was designed and manufactured by TCB Digital and marketed under the SK-Telecom brand name. In 2009, TCB Digital did not have any such collaboration type arrangements with any customers.

In 2008, TCB Digital developed and launched four models of 2.5G GSM mobile phones for the China market. These GSM mobile phones have customary voice features plus data service functions such as web browsing, short messaging, multimedia messaging, multimedia player, games and more. TCB Digital has also developed a 2.5G GSM mobile phone that embeds China's "CMMB" standard for mobile digital TV, and this phone uses Google's Android operating system.

In 2009, TCB Digital custom made two models of CDMA mobile phone for China Telecom, one of the top mobile operators in China. These models are sold through China Telecom's retail network and carry both logos of China Telecom and our own brand of "Leimone".

Major Customers of TCB Digital:

% of Zoom

Major Customers of TCB in 2009

US\$ (millions)

Revenues

Beijing Baina Wei'Er Technology Co. Ltd.

57.9

31%

CEC CoreCast Technology Co. Ltd.

30.5

16%

Tianjin 712 Communication Broadcast Co. Ltd.

14.5

8%

Beijing Tianyu Communication Equip Co. Ltd.

10.4

6%

*% of Zoom*

Major Customers of TCB in 2008

US\$ (millions)

Revenues

Tianjin Tong Guang Group Electronics Technology Co. Ltd.

11.9

15%

Beijing Xing Wang Shi Dai Technology & Trading Co. Ltd.

11.5

14%

CEC CoreCast Technology Co. Ltd.

6.3

8%

Beijing Baina Wei'Er Technology Co. Ltd.

4.0

5%

5

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Major Suppliers of TCB Digital:

Major Suppliers of TCB in 2009

US\$ (millions)

% of Total

Beijing Tianyu Communication Equip Co. Ltd.

42.3

25%

CEC CoreCast Technology Co. Ltd.

29.6

17%

Tianjin Tong Guang Group Electronics Technology Co. Ltd.

14.1

8%

Shenzhen Heng Bo Commercial Co. Ltd.

7.6

5%

Major Suppliers of TCB in 2008

US\$ (millions)

% of Total

Beijing Xingwang Shidai Technology & Trading Co. Ltd.

13.0

19%

Beijing Orsus Xelent Technology & Trading Co. Ltd.

11.0

16%

Tianjin Tong Guang Group Electronics Tech Co. Ltd.

7.2

10%

CEC Corecast Technology Co. Ltd.

3.4

5%

The major customers and suppliers of TCB Digital are large enterprises with multiple divisions that are engaged in the businesses of manufacturing and sales of communication devices and components. Some of these companies are our customers and also our suppliers.

Profit Harvest

Profit Harvest is a wholly own subsidiary of Gold Lion that functions as a sales and marketing arm for TCB Digital. The major customers of Profit Harvest for 2009 were:

Customers with over 5% of Profit Harvest's Sales

US\$ (millions)

% of Total

Pengxiang Huateng Electronics Technology Co. Ltd.	7.6	16%
Yuan Yi Company	7.4	15%
New Wei International Industrial Ltd.	7.0	14%
Jet On Company	6.5	13%
UK Kingbond International (HK) Group Co. Ltd.	3.9	8%
Larson Limited	2.6	5%

## Sale and Marketing

### Mobile Phone Business

Our Company markets mobile phone products by two different strategies. One approach is to develop and manufacture mobile phones for mobile phone OEM customers. In this approach, based on a customer's requirements and specifications TCB Digital develops, manufactures and ships the finished mobile product to the customer under the customer's brand. TCB Digital developed several strategic mobile phone OEM customers in China including SK Telecom, CECT, Daxian, and Orsus Xelent.

Our second approach is to sell mobile phones under our Leimone brand name. For sales of its Leimone-branded mobile phone handsets, we have distributors and after-sales service centers at the national level, provincial level and municipal level in 31 locations in China. Those distributors cover approximately 5% of all local distributors and 10% of all retail stores in China.

We believe the market potential in tier 3 and tier 4 cities (population from 2,000,000 down to 600,000) in China has repetitively grown significantly. Our Company adjusted its distribution strategy to sell products not only to distributors at the provincial level, but also to agents at the municipal level in some provinces. We believe these municipal agents are better adapted than the provincial distributors to extend their distribution networks into tier 3 and tier 4 markets.

We have commenced the export of mobile phones to overseas markets by setting up a sales office in Hong Kong to promote sales of mobile phones in countries in Asia, South America and the Middle East. We are also actively participating in bids held by China Mobile, China Telecom and China Unicom in order to directly sell mobile phones to these large mobile operators.

#### EMS Business

TCB Digital started providing EMS services to electronic product and mobile phone product OEM customers in 1999. Over the past 10 years, TCB Digital has been providing EMS to many domestic and global customers. We believe we have a well-established sales and support network throughout the country that can provide effective and comprehensive after-sales services.

#### Competition

The market for mobile phone product is intensely competitive. We face significant competition from a number of competitors, including domestic mobile handset producers such as Bird Ningbo Co., Ltd, Haier Telecom Co. Ltd., Konka Group Co., Ltd, Lenovo Group Limited, and TCL Communication Technology Holdings Limited, and a number of large multinational mobile handset producers, such as LG Electronics Ltd., Motorola Inc., Nokia Corporation, Samsung Electronics Co., Ltd., and Sony Ericsson Mobile Communications (China) Co., Ltd., although most of our competition comes from other Chinese mobile phone manufacturers. We believe that our competitive advantages include our experience in the telecommunications terminal area, our distribution network, in-house and external research and development capacity, and our reputation. For the EMS business area, competition is from other EMS providers based in Northern China. We believe our competitive advantages include our quality control emphasis and wide range of customized services.

#### Employees

Currently Zoom Technologies has approximately 1,400 total employees, mostly in Tianjin city, including approximately 700 EMS manufacturing operators, 100 sales executives, 80 research and development engineers, 90 after-sales service technicians, and other support staff and management personnel. Jiangsu Leimone currently has approximately 200 persons in Nantong, Jiangsu Province. Our employees do not have a collective bargaining agreement and we believe our relationship with our employees is good.

#### ITEM 1A. — RISK FACTORS

The disclosure under the heading "Risk Factors" contained in Item 7 of this Annual Report on Form 10-K is incorporated by reference in this Item 1A.

#### ITEM 1B. — UNRESOLVED STAFF COMMENTS

None.

#### ITEM 2 — PROPERTIES

Our corporate headquarters are located at Room 708 CEC Building No.6 Zhongguancun South Street, Haidian District, Beijing 10086, China. This leased office space is about 300 square meters and the lease expires in December 2010.

TCB Digital leases properties with a total area of 18,678 square meters in Tianjin City, China. TCB Digital believes its existing facilities and equipment are well maintained and in good operating condition, and are sufficient to meet its needs for the foreseeable future. TCB current lease expires in 2012. Jiangsu Leimone currently leases properties with

a total area of approximately 1,300 square meters in Nantong, Jiangsu Province; this lease expired in January 2010, and is currently on a month-to-month basis.

**ITEM 3 — LEGAL PROCEEDINGS**

We are not a party to any material legal proceedings nor are we aware of any circumstance that may reasonably lead a third party to initiate legal proceedings against us.

**ITEM 4 — SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

During the fourth quarter of 2009, a shareholders meeting was held on November 17, 2009 where the Board of Directors of the Company submitted for a vote by security holders regarding an equity financing transaction that will require the Company to issue more than 20% of the then outstanding shares of common stock. The shareholders approved of such equity financing transaction.

PART II

ITEM 5 — MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock trades on the Nasdaq Capital Market under the symbol "ZOOM". The following table sets forth, for the periods indicated, the high and low sale prices per share of common stock, as reported by the Nasdaq Capital Market. All common stock information prior to August 7, 2008 and presented herein was restated to reflect the reverse stock split.

Year Ended December 31, 2009

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High

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Low

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First Quarter

\$

2.10

\$

0.45

Second Quarter

\$

2.68

\$

1.01

Third Quarter

\$

14.20

\$

1.25

Fourth Quarter

\$

11.29

\$

4.90

Year Ended December 31, 2008

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High

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Low

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First Quarter

\$

4.25

\$

1.75

Second Quarter

\$

2.85

\$ 1.60

Third Quarter

\$ 3.62

\$ 1.09

Fourth Quarter

\$ 1.52

\$ .30

As of March 29, 2010 there are 8,982,314 shares of our common stock outstanding. There are 211 shareholders of record and approximately 1,850 shareholders in street or broker name. As of March 29, 2010, the closing price of our stock was \$7.80.

Recent Sales of Unregistered Securities

We did not sell any unregistered securities during the fourth quarter of 2009 other than as previously disclosed in prior quarterly and current reports on Forms 10-Q and 8-K.

#### Dividend Policy

We have never declared or paid cash dividends on our capital stock and do not plan to pay any cash dividends in the foreseeable future. Our current policy is to retain all of our earnings to finance future growth.

#### Repurchases by the Company

During 2009, we did not repurchase any shares of our common stock on our own behalf or for any affiliated purchaser.

#### Equity Compensation Plan Information

The information required by this Item 5 regarding securities authorized for issuance under our equity compensation plans is set forth in Part III, Item 12 of this report.

#### ITEM 6 — SELECTED FINANCIAL DATA

Not required.

#### ITEM 7 — MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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 proxy statement 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.

## Overview

Gold Lion was founded by Mr. Gu Lei in September 2002 in the British Virgin Islands, and Gu was its 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. Du Songtao, 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. Cao Wei, 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 "Agreement") 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 25.1333% of TCB Digital from TCBGCL Labour Union and various natural person shareholders for cash consideration of RMB9,000,000. Pursuant to this Agreement, Hebei Leimone and Beijing Depu Investment Co., Ltd., a company controlled by Cao, invested 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 a 36.03% and 15% equity interest, respectively of TCB Digital, amounting to a total of 51.03% ownership in TCB Digital. Pursuant to an agreement dated June 30, 2007, Cao irrevocably pledged his 15% equity interest in TCB Digital to Gu 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 cash consideration of \$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 51.03% equity interest of TCB Digital to Jiangsu Leimone on December 30, 2008.

On September 8, 2009 the shareholders of Zoom Technologies, Inc. ("Zoom") approved of the share exchange agreement between Zoom and Gold Lion. On September 22, 2009 the merger transaction was effectuated and Zoom owns 100% of Gold Lion and its subsidiaries, and the historical and future financial results of Gold Lion became that of Zoom.

The business of Zoom is the businesses of Gold Lion, which is comprised of the businesses of comprised solely of Gold Lion's operating subsidiaries, which are TCB Digital, Jiangsu Leimone Electronics Co., Ltd. ("Jiangsu Leimone") and Profit Harvest. Profit Harvest serves as sales and marketing arm of TCB Digital, and Jiangsu Leimone

serves as a complimentary and supplemental manufacturing arm for TCB Digital, and as such, substantially all of the business of Zoom is generated by the business of TCB Digital.

#### 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.

### 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.

On March 25, 2010, Leimone Culture signed an agreement with China Central Television (CCTV), the major state television broadcaster in China, with 19 channels broadcasting to more than one billion viewers. Under the agreement, Leimone Culture will provide approved media content to CCTV's mobile users and will bundle CCTV.com's mobile TV access link onto Zoom's branded "Leimone" mobile phones and onto Zoom Original Equipment Manufacturer (OEM) customers' phones.

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 minority interests. Upon further due diligence and negotiation, terms of the acquisition are expected to be finalized by mid-year 2010.

### Option to increase stake in TCB Digital

Mr. Gu holds an option to acquire an additional 28.97% of TCB Digital. Mr. Gu has notified the Company that he intends to exercise this option. 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 an aggregate of 2,402,576 shares of Zoom common stock. We believe that Mr. Gu will complete this acquisition of TCB Digital in the first half of 2010, and we believe Mr. Gu intends to exchange this stake in TCB Digital for 2,402,576 shares on our common stock, which would increase the Company's ownership of TCB Digital from 51.03% to 80%.

### Critical Accounting Policies and Estimates

The preparation of Gold Lion'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. Gold Lion 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 Gold Lion's consolidated financial statements; Gold Lion 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 Gold Lion recognizes in the financial statements contained herein.

#### Sale of goods

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 Gold Lion 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.

#### Allowance for doubtful accounts

Gold Lion maintains an allowance for doubtful accounts to reduce amounts to their estimated realizable value. A considerable amount of judgment is required when Gold Lion 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. Gold Lion initially records a provision for doubtful accounts based on its historical experience, and then adjust 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, Gold Lion 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

Gold Lion 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. Gold Lion adopted FIN 48, Accounting for Uncertainty in Tax Positions.

Asset Impairment

Gold Lion 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. Gold Lion also utilizes judgment to determine other factors within fair value analyses, including the applicable discount rate. The Company's long-term investment of \$65,816 in Tianjin Tong Guang Microelectronics Co., Ltd. ("TTGM") had been entirely impaired as of December 31, 2009.

Results of Operations for the years ended December 31, 2009 & 2008

ZOOM TECHNOLOGIES, INC.  
 CONSOLIDATED STATEMENTS OF INCOME AND OTHER COMPREHENSIVE INCOME  
 FOR THE YEAR ENDED DECEMBER 31, 2009 AND 2008

2009

---

2008

---

Increase /  
 (Decrease)

---

%

---

Net revenue

\$

189,055,742

\$

80,611,981

\$

108,443,761

%

135

28

Cost of sales

(177,653,678)

---

)

(72,410,992)

---

)

105,242,686

---

%

Gross profit

11,402,064

8,200,989

3,201,075

39

%

Selling, general and administrative expenses

(3,105,673

)

(1,952,961

31

)

1,152,712

59

%

Research and development expense

-0-

32

(871,238

)

n.a.

n.a.

Other income/(expenses)-net

(641,680

---

)

(1,367,555

---

)

(725,875

---

)

(53

%)

Profit before income taxes and non-controlling  
interest

7,654,710

4,009,235

3,645,475

91

%

Income tax expense

(1,231,180

)

(611,586

)

619,594

101

%

Non-controlling interest

(180,383

---

)

(330,721

---

)

(150,338

---

)

(45

%)

Net income from continuing business

6,243,147

3,066,928

3,176,219

104

%

Discontinued operations

Gain/(loss) from discontinued operations

---

-0-

---

(246,654

)

---

n.a.

n.a.

Net income attributable to stockholders

6,243,147

2,820,274

3,422,873

%

Other comprehensive income

(32,852

---

)

8,708

---

n.a.

---

n.a.

Comprehensive income

\$

6,210,295

---

2,828,982

---

3,381,313

---

120

%

Other key indicators (Percent of Net Sales)	Year Ended December 31		Change
	2009	2008	
Cost of sales	93.9 %	89.8 %	4.1 %
Gross margin	6.0 %	10.2 %	-4.2 %
Selling, general and administrative expenses	1.6 %	2.4 %	-0.8 %
Net margin	3.3 %	3.5 %	-0.2 %

## Revenues

Our revenues were \$189,055,742 for the year ended 12/31/2009, representing an increase of 135% or \$108,443,761 as compared to \$80,611,981 for 2008. The increase of revenues as compared to the previous last year was mainly due to large increase in orders from the domestic EMS customers and also increase in our export activities by the sales and marketing subsidiary of Profit Harvest.

Our main manufacturing facility, TCB Digital, is located in Tianjin City. TCB Digital manufactures digital communication and consumer electronic products with 12 SMT (Surface Mount Technology) lines and 10 assembly and test lines. We have an extension manufacturing site under Jiangsu Leimone which is located in the city of Nantong, Jiangsu Province. Jiangsu Leimone has 2 SMT lines and 2 assembly and test lines. Our Company's combined production was approximately about 5.4 million units in 2008 and 8.6 million units in 2009. Manufacturing of mobile phones is broken into two main segments: 1) Non-consignment EMS where we procure all of the components for our customers, and our revenues comprise of the cost of the materials plus our manufacturing fee, and 2) Consignment EMS where our customers provide the components and our revenues is our manufacturing fee. Beginning in 2009, we also produced and sold our own products under the brand of "Leimone."

The following table shows our production activities by segments.

Production Units (in thousands) by Segments	2009	2008
Non-Consignment EMS	6,500	3,800
Consignment EMS	2,000	1,600
Customization of other phone brands	0	20
Own brand "Leimone" phones	100	0
Total	8,600	5,420

The following table shows the breakdown of revenues by segments.

Percentage of Revenues by Segments	2009	2008
Non-Consignment EMS	87.7%	74.6%
Consignment EMS	7.8%	10.2%
Non-manufacturing sales	0	9.2%

Phone Sales (Leimone brand in 2009, other brands in 2008)	4.5%	6.0%
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