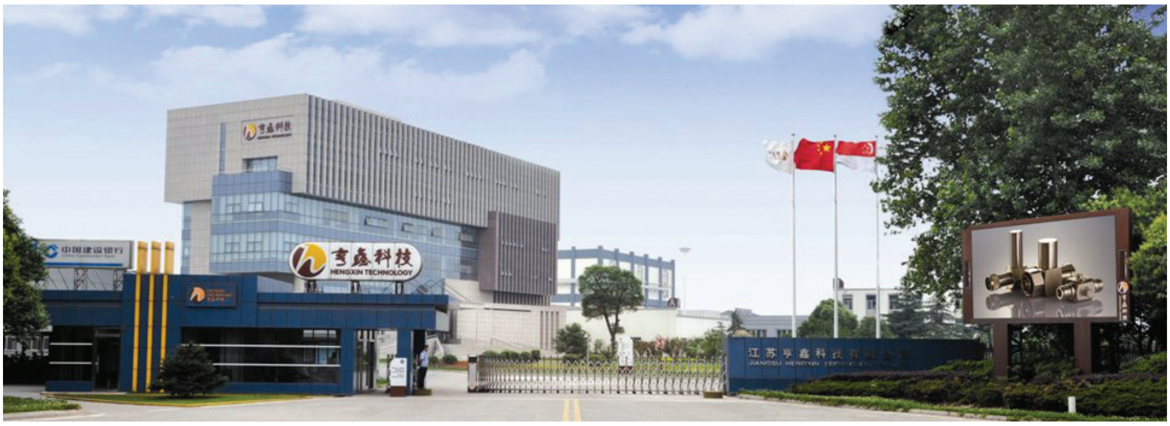
POWERING COMMUNICATION

HENGXIN TECHNOLOGY LTD
ANNUAL REPORT 2016

Hong Kong Stock Code 1085

CONTENTS

CORPORATE PROFILE



Hengxin Technology Ltd. ("**Hengxin Technology**" or the "**Company**" and together with its subsidiaries, the "**Group**") is one of the leading manufacturers of radio frequency ("**RF**") coaxial cable series for mobile communications in the People's Republic of China (the "**PRC**").

Based in Yixing city in Jiangsu Province in the PRC, we now have an aggregate annual production capacity of approximately 158,000 kilometres for RF coaxial cables for mobile communications.

We adopt a strategic regional sales system in the PRC and serve a blue-chip and established customer base comprising major telecommunications operators such as China Unicom, China Mobile, and China Telecom, as well as major telecommunications equipment manufacturers in the PRC. Outside the PRC, our products are also exported to both regional and international markets within the Asian continent and beyond. We continue to establish our foothold in the local Indian telecommunication operators through our wholly-owned subsidiary in India since 2010.

Based on the sales volume of RF coaxial cables for the mobile communications sector, we have been one of the leading market players in the PRC in this market segment.

The Group is primarily listed on the Main Board of The Stock Exchange of Hong Kong Limited ("**SEHK**"), with a secondary listing on the Main Board of the Singapore Exchange Securities Trading Limited ("**SGX-ST**").

PRODUCT PORTFOLIO

RF coaxial cable series for mobile communications ("**RF Coaxial Cables**")

- Transmission of high-frequency signals between antenna and base station equipment in outdoor base station wireless signal coverage system and indoor wireless signal coverage system in buildings
- Used in radiating high frequency signals to surrounding environment through continuous small antenna elements along the cable in railways, highways, tunnels, underground car parks, elevators and high rise buildings

Coaxial cables for telecommunications equipment and accessories ("**Accessories**")

- Transmission of signals within microwave communications systems, radio broadcast wireless systems and air/sea radar systems
- Accessories such as connectors and jumper cables for wireless signal coverage systems equipment within base stations

Others

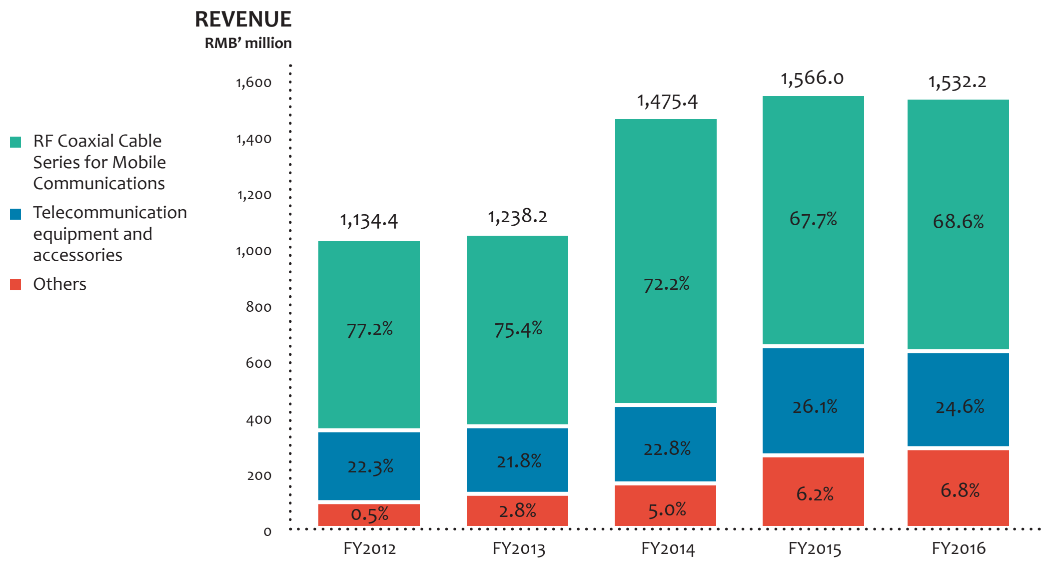
- High temperature resistant cables which are used as part of the raw material components for antennas
- Antennas adopted by telecom operators for use in signal transmission for wireless communications
- Antenna testing services

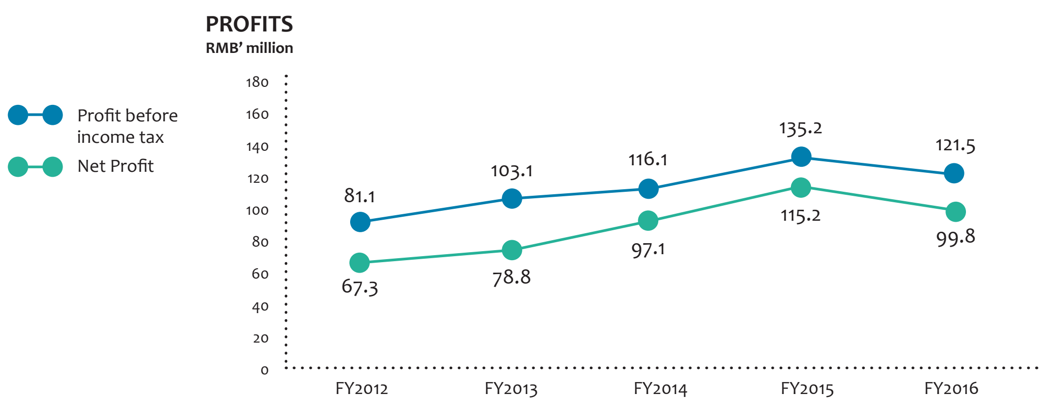
FIVE-YEAR FINANCIAL SUMMARY

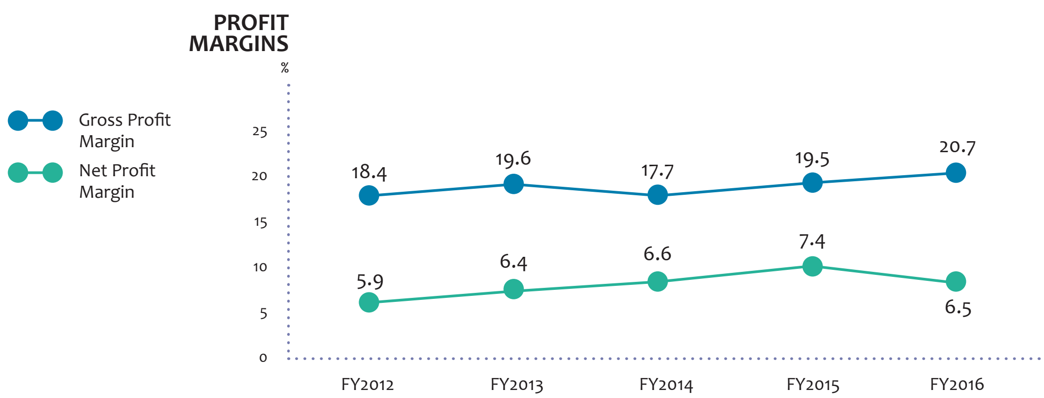
A summary of the consolidated results and assets and liabilities of the Group for the last five financial years, as extracted from the published audited financial statements is set out below.

	Year ended 31 December				
	2012	2013	2014	2015	2016
	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000
RESULTS					
REVENUE	1,134,343	1,238,209	1,475,410	1,565,984	1,532,161
Cost of sales	(925,952)	(996,042)	(1,213,829)	(1,259,965)	(1,215,379)
Gross profit	208,391	242,167	261,581	306,019	316,782
Other income	12,135	6,624	11,758	20,573	25,798
Selling and distribution expenses	(62,899)	(67,950)	(74,877)	(87,693)	(108,328)
Administrative expenses	(38,539)	(39,859)	(37,626)	(44,399)	(53,116)
Other operating expenses	(17,436)	(33,628)	(40,083)	(52,328)	(53,262)
Finance costs	(20,507)	(4,241)	(4,657)	(7,001)	(1,479)
Share of loss of associate, net of tax	-	-	-	-	(4,936)
Profit before income tax	81,145	103,113	116,096	135,171	121,459
Income tax expense	(13,867)	(24,306)	(19,009)	(19,993)	(21,617)
NET PROFIT	67,278	78,807	97,087	115,178	99,842
ASSETS AND LIABILITIES					
TOTAL ASSETS	1,227,709	1,433,607	1,555,755	1,565,297	1,627,830
TOTAL LIABILITIES	(222,261)	(349,574)	(382,274)	(277,122)	(231,871)
NET ASSETS	1,005,448	1,084,033	1,173,481	1,288,175	1,395,959

FINANCIAL HIGHLIGHTS







RESEARCH AND DEVELOPMENT

FINANCIAL RATIOS AND PERFORMANCE

FINANCIAL PERFORMANCE	UNIT	FY2012	FY2013	FY2014	FY2015	FY2016
Revenue	RMB '000	1,134,343	1,238,209	1,475,410	1,565,984	1,532,161
Gross margin	%	18.4	19.6	17.7	19.5	20.7
Profit before income tax	RMB '000	81,145	103,113	116,096	135,171	121,459
Income tax expense	RMB '000	13,867	24,306	19,009	19,993	21,617
Net profit	RMB '000	67,278	78,807	97,087	115,178	99,842

FINANCIAL POSITION	UNIT	FY2012	FY2013	FY2014	FY2015	FY2016
Net assets	RMB '000	1,005,448	1,084,033	1,173,481	1,288,175	1,395,959

FINANCIAL RATIOS	NOTE	UNIT	FY2012	FY2013	FY2014	FY2015	FY2016
Earnings per share		RMB cents	17.3	20.3	25.0	29.7	25.7
Net asset per share		RMB	2.59	2.79	3.02	3.32	3.60
Return on total equity		%	6.7	7.3	8.3	8.9	7.2
Net debt/equity ratio	a	%	(22.26)	(18.02)	(22.52)	(37.92)	(37.77)
Interest cover ratio	b	times	5.0	25.3	25.9	20.3	83.1
Current ratio	c	times	4.7	3.7	3.6	5.0	6.1
Trade receivables turnover		days	223	193	164	140	128
Inventory turnover		days	48	53	50	39	43

a Debt includes bank borrowings and bill payables
b Interest cover ratio = EBIT / Interest expense
c Current ratio = Current assets / Current liabilities

CHAIRMAN'S MESSAGE

Dear shareholders,

The economic environment remained complex in 2016. From a macro perspective, China's GDP growth had witnessed a progressively downward trend in the past few years, and only stabilised slightly towards the end of the financial year ended 31 December 2016 ("**FY2016**" or the "**Reporting Period**").

The industrial value-add over the years had been hovering at a low rate. The amount of capital investment within the telecommunications industry in the PRC fell approximately 4.2% in January to December 2016. The trend of structural divergence has also been unprecedented, with the dominance of optic fibre over copper cables growing over the years. Copper as the key raw material experienced a long period of price slump before its price rose rapidly towards the end of FY2016. Besides, the Renminbi ("**RMB**") continued to decline and the resulting effects of price competition experienced by the Group's associate, Mianyang Xintong Industrial Co., Ltd. (綿陽鑫通實業有限公司, formerly known as Mianyang City Siemax Industrial Co., Ltd., "**Mianyang Xintong**"), a limited liability company established in the PRC, which was recently invested by the Group, was unexpected.

CHAIRMAN'S MESSAGE

Through the unrelenting efforts of our committed staff, the Group relied on its strong foundation to obtain an intimate understanding of customer requirements by carrying out research and development ("**R&D**") to ensure the Group's competitive advantage in its products and product quality, develop new markets and consolidate the Group's branding, optimise our product structure and upgrade our products in order to achieve a comparable performance with 2015 in spite of the difficult environment.

We have achieved revenue of approximately RMB 1,532.2 million and net profit of approximately RMB 99.8 million for FY2016. It is notable that revenue from RF coaxial cables reached approximately RMB 1,050.6 million, despite a decrease of approximately 0.9% from the financial year ended 31 December 2015 ("**FY2015**"). The corresponding proportion of overall gross profit is slightly lower compared to FY2015 due to the growth of the Group's key products crucial to the Group's business transformation-antennas and leaky cables.

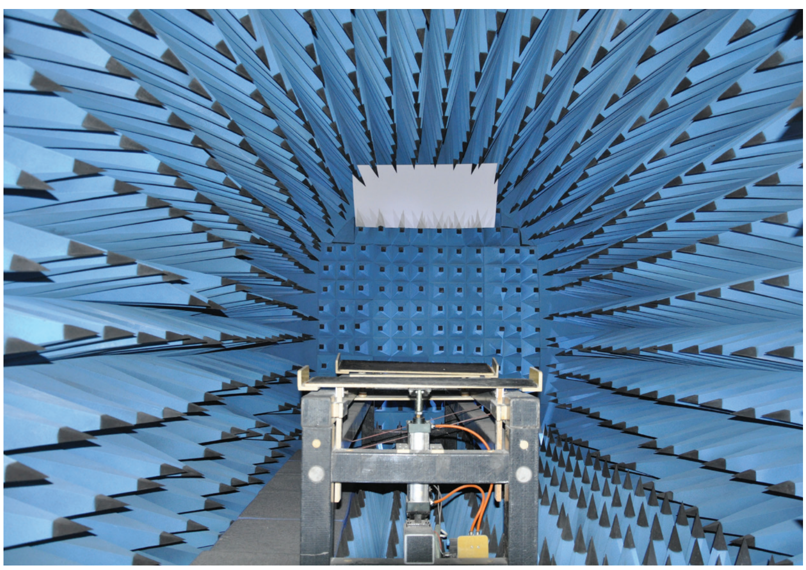
Lastly, it is due to our hard work that the Group managed to experience an increase in gross profit margin to approximately 20.7%.

PRODUCTION

RF coaxial cable price and copper prices are closely related. The centralised pricing of RF coaxial cables offered by the 3 major telecom operators of the PRC and copper price are linked through a mechanism under which an adjustment of the RF coaxial cable price would only be triggered upon a certain level of copper price fluctuation. Any increase in copper price even without triggering an adjustment of the RF coaxial cable price, will create cost pressure to the Group. In response to this, the Group has a team focusing on studying, tracking and forecasting the trend of copper prices to determine the point of copper procurement. The Group has been concurrently undertaking a variety of cost control measures. In recent years, the Group has been taking an approach of lean production, comprising smart production information system and management, enabling various automation processes such as a centralised material feeding system to save labour costs and boost production efficiency. Through the adoption of new materials and production innovation, the Group has lifted its material utilisation rate and lowered its defect rate.

SALES

Given the gradual dominance of optic fibre over copper cables and tight competition, gross profit margin of RF coaxial cables continued to be under intense pressure. While the Group tapped on its industrial influence, advanced production management and consistent product quality, the Group's revenue remained relatively the same compared to



CHAIRMAN'S MESSAGE

FY2015. Nevertheless, the Group's gross profit margin and gross profit increased compared to FY2015 in spite of the slight decline of revenue from Accessories.

As one of the key elements to the Group's business transformation, the leaky cable business in FY2016 has taken big strides. Relying on the Group's technical know-how and a developing railway transportation industry, revenue from leaky cables rose by approximately 36.5% over FY2015, and several bids were won on various wireless communication projects for metro and high-speed railway in the PRC. Our antenna products, being the other key crucial contributor to the Group's growth, have also made considerable progress. Although annual sales growth was only approximately 3.4% compared to FY2015, the outstanding sales orders from successful bids in FY2016 were more then twice that of FY2015. The Group's antenna products, including but not limited to camouflage antennas, spotlight antennas, FAD frequency small-sized antennas and indoor dual-polarisation antennas, have all achieved footprints across 28 provinces in the PRC.

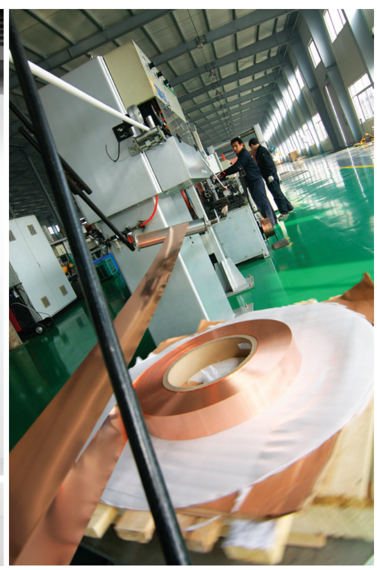
High temperature resistant products have also been growing and evolving in FY2016, from a single cable variant to a high temperature resistant cable component module and test modules which can be used by antenna, equipment and instruments manufacturers.

On our exports front, through obtaining telecom operators' products certification across 9 countries and regions, the Group was able to promote its brand name while making its first foray into Thailand and Turkey, increasing the Group's country footprint count to 61. On the other hand, with the support of the PRC's major equipment manufacturers' overseas projects, the Group achieved an indirect export exceeding US$10 million in FY2016. At the same time, the Group has commenced construction of a jumper cable factory in India, further enhancing the Group's international brand name.

RESEARCH AND DEVELOPMENT

2016 was the year when the Group stepped up its pace in business transformation amidst the gradual adoption of optic fibre over copper cables. With the objective of achieving a full-fledged manufacturing for the integrated antenna and wireless system, the Group has been careful to understand the current market demands and intensified its R&D works, eventually developing 32 types of antennas by the end of 2016. In particular, the following products which were adopted by China Telecom including the 800M LTE2, 4-ports and 8-ports antenna products were all developed, certified, ordered and sold (exceeding tens of millions in RMB) within the same year in FY2016.

During FY2016, the Group has lifted its overall product competitiveness



CHAIRMAN'S MESSAGE

with the introduction of a high temperature resistant cable component module. Following the State-supported strategy of national high-speed railway and city metro development in the PRC, the Group has also introduced its leaky cable series for wireless signal coverage, increasing its market share and lifting leaky cable revenue by approximately 36.5% over FY2015.

SIGNIFICANT EVENTS

Given the definitive timetable announced by the PRC government for 5G commercial adoption, it is both an opportunity and a challenge for the Group. It is expected that the telecom operators in the PRC will increase capital spending on communications infrastructure, bringing new demand for RF coaxial cables and antennas, yet technology progress has rendered the miniaturisation of base stations and antennas as one of the key requirements for 5G. The Group will not have a competitive edge if we are unable to meet any of these technological requirements. While the 5G commercial adoption will not materially affect the Group's business in the coming year, the Group's key products in supporting its business transformation will be focusing on 5G technology in keeping with the ultra-high-speed 5G communications. As the current 5G technology and standards have not been confirmed and standardised, telecom operators are unlikely to increase their capital spending dramatically in the short run. Instead, it is expected that considerable planning will be in place to reduce any potential material capital outflows, thereby reducing the scale of investment and piling pressure on the Group's revenue.

MARKET ENVIRONMENT

The Group has made some progress in its business transformation measures and improving its sales makeup. Although leaky cables and antenna products have ample development potential, RF coaxial cable remains the Group's major product segment. During FY2016, the market demand for RF coaxial cables has declined significantly due to over-capacity and intensified price competitions, resulting in a decline in pricing. Coupled with the growing dominance of optic fibre over copper cables, the RF coaxial cable market will face further pressure. To tackle this, the Group will not only focus on R&D and strengthen its marketing team for leaky cables and antenna products, but also intensify its business transformation in wider and multi-faceted areas with a view to establishing a long-term and stable potential business growth so as to accumulate returns for our shareholders.

OUTLOOK

Traditional telecommunications business and its business model are in a state of irreversible decline. Under the backdrop of the growing adoption of optic fibre over copper cables, optic fibres are gradually being extended to

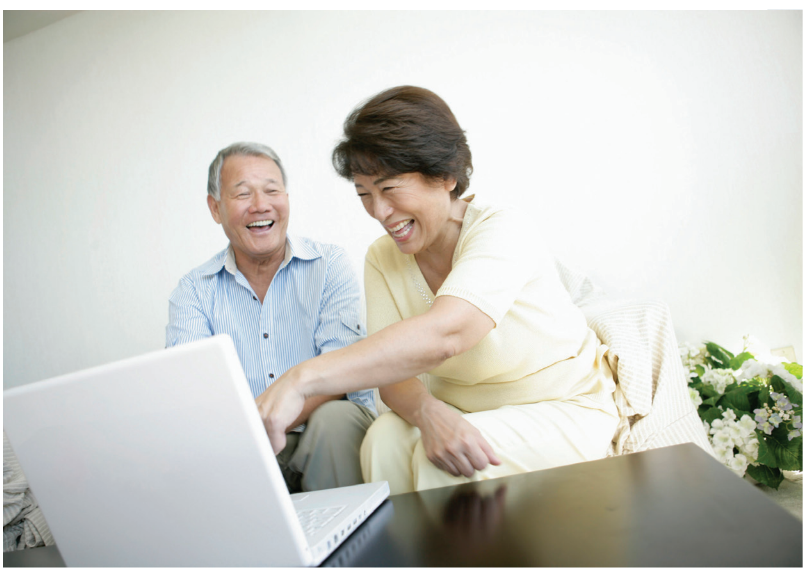
CHAIRMAN'S MESSAGE

end users, including fibre to home and fibre to desktop. The decline in the adoption of copper cables has led to the Group's inevitable decision to commence measures for its business transformation. In 2017, the Group will focus on strengthening its existing market position, continue its track record of manufacturing quality products, and actively expand overseas markets and key customers. We will further expand leaky cables' footprint through entering into the metro networks and high speed passenger rail networks of key cities. For high temperature resistant cables, we will strive for a swift introduction of low-loss cables and cable-plus products to accelerate the build-up of the Group's market share. In meeting the technological requirements of 5G, the Group has begun exploring the development of thin and extra-fine RF coaxial cables and increasing its R&D efforts towards the antenna line of products.

WORDS OF APPRECIATION

On behalf of the board (the "**Board**") of directors (the "**Directors**") of the Company, I would like to take this opportunity to thank our staff for their hard work and dedication to the Group. I also express my heartfelt appreciation to our valued shareholders, bankers, customers and suppliers for your continued support.

CUI WEI
Chairman



MANAGEMENT DISCUSSION AND ANALYSIS

Revenue

The Group's revenue for FY2016 decreased by approximately RMB33.8 million, or approximately 2.2% from approximately RMB1,566.0 million in FY2015 to approximately RMB1,532.2 million in FY2016. The drop in copper prices and reduced orders for the Group's products under the segment of Accessories (i.e. telecommunication equipment and accessories) during FY2016 resulted in a slight decrease in the overall revenue of the Group.

RF Coaxial Cables

Revenue generated from the segment of RF Coaxial Cables decreased by approximately RMB9.1 million or approximately 0.9% from approximately RMB1,059.7 million in FY2015 to approximately RMB1,050.6 million in FY2016.

Accessories (telecommunication equipment and accessories)

Revenue generated from the segment of Accessories decreased by approximately RMB31.8 million or approximately 7.8% from approximately RMB408.1 million in FY2015 to approximately RMB376.3 million in FY2016.

Others

Revenue generated from other products increased by approximately RMB7.1 million or approximately 7.2% from approximately RMB98.2 million in FY2015 to approximately RMB105.3 million in FY2016.

Gross profit margin

Gross profit margin for FY2016 was approximately 20.7%, compared to approximately 19.5% in FY2015. The higher margins achieved by the products under the segments of Accessories and Others helped lift the Group's overall gross profit margin. The Group continued to monitor production efficiencies to ensure optimal raw materials and labour utilisation, stringent selection of suppliers in tender biddings to keep costs to a minimum, coupled with efficient use of various resources to keep up with price pressure resulting from keen competition.

Other income

Other income increased by approximately RMB5.2 million or approximately 25.2% from approximately RMB20.6 million in FY2015 to approximately RMB25.8 million in FY2016. The increase primarily arose from the following:

(i) higher interest income earned from certain fixed deposits; and

(ii) rental income earned from the lease of the Group's testing facilities.

Selling and distribution expenses

Selling and distribution expenses increased by approximately RMB20.6 million or approximately 23.5% from approximately RMB87.7 million in FY2015 to approximately RMB108.3 million in FY2016 due to the increase in salary expenses for marketing personnel and the increase in marketing expenses as part of the Group's broader push to launch its antenna and leaky cable products.

Administrative expenses

Administrative expenses increased by approximately RMB8.7 million or approximately 19.6% from

MANAGEMENT DISCUSSION AND ANALYSIS

approximately RMB44.4 million in FY2015 to approximately RMB53.1 million in FY2016. This is due to:

(i) a general increase in salary costs during the Reporting Period; and

(ii) an additional allowance for doubtful trade receivables in FY2016 instead of a reversal of allowance for doubtful trade receivables in FY2015.

Other operating expenses

Other operating expenses increased by approximately RMB1.0 million or approximately 1.9% from approximately RMB52.3 million in FY2015 to approximately RMB53.3 million in FY2016. The slight increase is due to the R&D expenses incurred from continuing R&D activities undertaken for the Group's new and current products.

Acquisition of associate and share of loss of associate

During the Reporting Period, Jiangsu Hengxin Technology Co., Ltd. ("**Hengxin (Jiangsu)**"), a wholly-owned subsidiary of the Company, acquired 24% equity interest in Mianyang Xintong, a limited liability company established in the PRC, at the final consideration of approximately RMB25.53 million. The amount of approximately RMB4.9 million represents the Group's proportionate share of loss incurred by Mianyang Xintong (after tax) recognised from the completion date of the acquisition to 31 December 2016.

Finance costs

Finance costs decreased by approximately RMB5.5 million or approximately 78.6% from approximately RMB7.0 million in FY2015 to approximately RMB1.5 million in FY2016 as the Group substantially reduced its borrowings during the Reporting Period.

Profit before income tax

Profit before income tax decreased by approximately RMB13.7 million or approximately 10.1% from approximately RMB135.2 million in FY2015 to approximately RMB121.5 million in FY2016.

Income tax expense

The Group's main subsidiary, Hengxin (Jiangsu), has been subject to an incentive tax rate of 15% as it has been awarded as a high-tech enterprise in the PRC since 2008. It had been awarded the same status in FY2014 for a further three years.

Income tax expense increased by approximately RMB1.6 million or approximately 8.0% from approximately RMB20.0 million in FY2015 to approximately RMB21.6 million in FY2016, mainly due to the movement in deferred taxes during the Reporting Period.

Net profit

In view of the above, net profit attributable to equity holders of the Company decreased approximately RMB15.4 million or approximately 13.4% from approximately RMB115.2 million in FY2015 compared to approximately RMB99.8 million in FY2016.

STATEMENT OF FINANCIAL POSITION

Material fluctuations of balance sheet items are explained below:

Pledged bank deposits

Pledged bank deposits decreased

MANAGEMENT DISCUSSION AND ANALYSIS

by approximately RMB13.2 million or approximately 68.8% from approximately RMB19.2 million as at 31 December 2015 to approximately RMB6.0 million as at 31 December 2016, mainly due to a repayment of bank loan in which the corresponding security was no longer required.

Trade receivables

Trade receivables decreased by approximately RMB20.1 million or approximately 3.8% from approximately RMB535.1 million as at 31 December 2015 to approximately RMB515.0 million as at 31 December 2016.

Average trade receivables turnover days were 128 days as at 31 December 2016 compared to 140 days as at 31 December 2015. Although collections of trade receivables for certain customers of the Group have been stretched longer as some adopted the payment by bank bills of exchange which have a longer period of maturity, the Group focused on other collections which reduced the overall turnover days.

Most of the trade receivables balances are recent sales which are within the average credit period given to the Group's customers.

For amounts due more than six months and longer, these mainly pertain to final payment (upon project completion) owed by the three main PRC telecom operators. These outstanding balances relate to projects undertaken by these operators which had longer a project completion date than initially anticipated. These operators have been the Group's long-term customers and the Group has been receiving regular payments from them. In addition, the majority of these outstanding balances is due to one of the main telecom operators in the PRC. In view of the Group's long-standing dealings with them and the regular receipts of payments from these customers, the Group does not foresee any issue in the collection of these receivables. Efforts will continue to be focused on collection of the Group's outstanding trade receivables.

Other receivables and prepayments

Other receivables and prepayments increased by approximately RMB11.0 million or approximately 16.3% from approximately RMB67.6 million as at 31 December 2015 to approximately RMB78.6 million as at 31 December 2016. The increase mainly arose from an increase in value-add tax receivables and a slight increase in advances made to suppliers.

Inventories

Inventories (comprising raw materials, work-in-progress and finished goods) increased by approximately RMB54.6 million or approximately 47.2% from approximately RMB115.7 million as at 31 December 2015 to approximately RMB170.3 million as at 31 December 2016. This is due to an increase in finished goods in transit, most of which are antenna line of products.

Other investments (Non-current and current assets)

Other investments (non-current assets) increased by approximately RMB22.3 million or approximately 210.4% from approximately RMB10.6 million as at 31 December 2015 to approximately RMB32.9 million as at 31 December 2016. The increase is mainly due to an upward revaluation of an equity investment held by the Group.

The RMB29.0 million other investment (current assets) as

MANAGEMENT DISCUSSION AND ANALYSIS

at 31 December 2016 comprises short-term investment in a wealth management product. It offers the Group the opportunity for return through dividend income. The investment fund has an investment duration of 3 months.

Property, plant and equipment

Property, plant and equipment decreased by approximately RMB8.2 million or approximately 5.3% from approximately RMB154.3 million as at 31 December 2015 to approximately RMB146.1 million as at 31 December 2016. The decrease is mainly due to normal charges of depreciation, which is slightly offset by additions during FY2016.

Other receivables (Non-current assets)

Other receivables (non-current assets) amounting approximately RMB22.9 million pertains to the non-current portion of the loan to the Group's associate, Mianyang Xintong.

Deferred tax assets

Deferred tax assets decreased by approximately RMB3.3 million or approximately 97.1% from approximately RMB3.4 million as at 31 December 2015 to approximately RMB0.1 million as at 31 December 2016, due to an increase in deferred tax liability arising from the revaluation of available-for-sale investment, effectively reducing the amount of deferred tax assets.

Short-term bank loans

Short-term bank loans decreased by approximately RMB90.4 million or approximately 77.0% from approximately RMB117.4 million as at 31 December 2015 to approximately RMB27.0 million as at 31 December 2016. The decrease is due to most loans being repaid during the Reporting Period.

Trade payables and other payables

Trade payables increased by approximately RMB13.8 million or approximately 13.2% from approximately RMB104.4 million as at 31 December 2015 to approximately RMB118.2 million as at 31 December 2016. This is in line with the increase in the inventory levels arising from the increase in the Group's purchases of raw materials. Other payables and accruals increased by approximately RMB28.6 million or approximately 68.3% from approximately RMB41.9 million as at 31 December 2015 to approximately RMB70.5 million as at 31 December 2016, due to the higher bonus accruals for FY2016 and increase in advances given by customers for orders of the Group's products.

Income tax payable

Income tax payable increased by approximately RMB2.9 million or approximately 111.5% from RMB2.6 million as at 31 December 2015 to approximately RMB5.5 million as at 31 December 2016. The increase mainly arose from the timing differences in the payment of income taxes.

Deferred income

Deferred income decreased by approximately RMB1.0 million or approximately 16.1% from approximately RMB6.2 million as at 31 December 2015 to approximately RMB5.2 million as at 31 December 2016. This relates to the grants with conditions attached requiring certain milestones to be met. As some of these conditions had been met, some of the deferred income had been recognised as other income.

MANAGEMENT DISCUSSION AND ANALYSIS

Deferred tax liability

Deferred tax liability ("**DTL**") increased by approximately RMB0.9 million or approximately 19.6% from approximately RMB4.6 million as at 31 December 2015 to approximately RMB5.5 million as at 31 December 2016 due to the increase in DTL arising from the upward revaluation of the Group's equity investment.

Cash and bank balances

Cash and bank balances decreased by approximately RMB51.7 million or approximately 8.5% from approximately RMB605.9 million as at 31 December 2015 to approximately RMB554.2 million as at 31 December 2016. The decrease is mainly due to an increase in inventory levels, investment in Mianyang Xintong, increase in other receivables due from Mianyang Xintong, repayment of bank loans and outflow of funds towards an investment fund held by the Group, which is offset by higher payables and better collections.

SUBSIDIARIES

The subsidiaries of the Company are Hengxin (Jiangsu), Jiangsu Hengxin Wireless Technology Co., Ltd, Hengxin Network Wireless (Shanghai) Co., Ltd and Hengxin Technology (India) Pvt Ltd. Details of the subsidiaries of the Company are set out in Note 27 to the financial statements.

FINANCIAL RESOURCES, LIQUIDITY AND LIABILITY POSITION

As at 31 December 2016, the Group's total assets were approximately RMB1,627,830,000 (2015: RMB1,565,297,000) (of which current assets were approximately RMB1,354,535,000 (2015: RMB1,344,841,000) and non-current assets were approximately RMB273,295,000 (2015: RMB220,456,000)), the total liabilities were approximately RMB231,871,000 (2015: RMB277,122,000) (of which current liabilities were approximately RMB221,163,000 (2015: RMB266,308,000) and non-current liabilities were approximately RMB10,708,000 (2015: RMB10,814,000)), and shareholder's equity reached approximately RMB1,395,959,000 (2015: RMB1,288,175,000).

In addition to its short-term interesting-bearing facilities, the Group generally finances its operations from cash flows generated internally and short-term bank borrowings.

The Group manages its capital to ensure that members of the Group will be able to continue as a going concern while maximizing the return to its shareholders through the optimisation of debt and equity balance.

The management of the Group monitors capital based on the Group's net gearing ratio. The Group's net gearing ratio is calculated as net borrowings divided by total equity. Net borrowings are calculated as total short-term loans less cash and cash equivalents at the end of the Reporting Period.

FOREIGN CURRENCY EXPOSURE

Renminbi ("**RMB**") is the functional currency of the Group. Currencies other than RMB expose the Group to foreign currency risk. The Group has foreign currency sales and its revenue and costs are denominated in RMB, India Rupees ("**INR**") and United States dollars ("**USD**"). Some of the Group's bank balances are denominated in USD, Singapore dollars ("**SGD**") and INR, whilst some costs may be denominated in Hong Kong dollars, SGD and INR. The Group has implemented a hedging policy to strike a balance between the uncertainty and the risk of opportunity loss in light of the growing significance of its exposure to the fluctuations in foreign currency, under which policy foreign exchange forward contracts may be used to eliminate the currency exposure. The Group has not entered into such forward contracts as of the end of the Reporting Period but will continue to monitor foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

DONATION AND CAPITAL COMMITMENTS

As at 31 December 2016, the capital commitments of the Group in respect of the purchase of property, plant and equipment, and a donation commitment to a charity association which is payable in equal installments over a period of 20 years at approximately RMB500,000 per annum, which had been contracted but not provided for in the financial year of FY2016, were approximately RMB 8,451,000 (2015: approximately RMB 126,000) and approximately RMB5,000,000 (2015: approximately RMB 5,500,000) respectively.

CHARGE OR PLEDGE OF ASSETS

As at 31 December 2016, the Group did not charge nor pledge any assets (2015: Nil) as securities for banking facilities granted by its bankers.

MANAGEMENT DISCUSSION AND ANALYSIS

	As at 31 December 2016 RMB'000	2015 RMB'000
Net cash borrowings	(527,209)	(488,503)
Total equity	1,395,959	1,288,175
Net debt to equity ratio (%)	(37.77)	(37.92)

Amount repayable in one year or less, or on demand:

As at 31 December 2016		As at 31 December 2015	
Secured RMB'000	Unsecured RMB'000	Secured RMB'000	Unsecured RMB'000
-	27,000	-	117,404

There is no amount repayable after one year.

CONTINGENT LIABILITIES

There are no material contingent liabilities as at 31 December 2016.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2016, there were 966 (2015: 982) employees in the Group. Staff remuneration packages are determined in consideration of the market conditions and the performance of the individual concerned, and are subject to review from time to time.
The Group also provides other staff benefits including medical insurance, and grants discretionary incentive bonuses and share options to eligible staff based on their performance and contributions to the Group.

The Company adopted the share option scheme for its employees at its extraordinary general meeting held on 27 October 2010 (the "**Scheme**"). No option has been granted under the Scheme since its adoption and up to the date of this report.

MATERIAL LITIGATION AND ARBITRATION

As at 31 December 2016, the Group was not involved in any material litigation or arbitration.

PRINCIPAL RISKS TO THE GROUP

The Group is subject to different risks and exposures. Under the current state of economic environment, risks applicable to the Group are not always the same, and new risks may arise while existing risks may become irrelevant over time.

Whilst the Board has the overall responsibility in risk management, the audit committee of the Company has assisted the Board in developing and maintaining appropriate and effective risk management and internal control systems.

The following table sets out the principal risks which the Group faces, and the mitigating actions being done by the Group to manage and/or reduce such risks during FY2016:

MANAGEMENT DISCUSSION AND ANALYSIS

No.	RISK	DESCRIPTION	MITIGATING ACTIONS/MEASURES
1	Business and industry risk	(a) The global economic slowdown has affected the speed and extent of network construction by the PRC's major telecom operators. It has also reduced the purchasing appetite of the PRC's telecom operators in their network expansion for FY2015. As part of the effort of the PRC central government in streamlining the telecom industry, China Tower Corporation Limited was incorporated to take over the tower assets from the three major telecom operators in the PRC. This has the potential effect of reducing the Group's overall capital expenditure moving forward. Commodity prices had been adversely affected by the global economic slowdown. During FY2016, the decrease in copper prices had materially affected the Group's sales price, which in turn reduced the overall revenue.	(i) Continue to build on the Group's momentum in overseas expansion; (ii) Increase marketing presence in more geographical markets; (iii) Continue to build relationships with local and overseas partners in tendering for projects; (iv) Continue to improve production and logistical efficiencies to lower costs and to stay competitive; (v) Focus on product quality checks to ensure no defective products are sent to customers to maintain the Group's reputation; (vi) Build and extend close relationships with large customers to understand their purchasing trends; (vii) Introduce new product offerings to reduce reliance on a few product models; and (viii) Actively seek appropriate acquisition targets to form positive synergies or to complement the Group's growth.
		(b) The telecommunications industry underwent an unprecedented structural divergence through the significant adoption of optic fibres over copper cables. During FY2016, the demand for fibre-related communication products far exceeded supply, and the demand for coaxial cables continued to decline.	(i) Accelerate market development efforts for existing products such as antennas, accessories and leaky cables by securing more approvals as a qualified supplier for the Group's major customers and entering into new geographical markets.
2	Technology risk	(a) The exponential increase in data usage and change in communication trends are constantly shaping the technology behind the networks supporting telecommunications around the world.	(i) Understand technology trends and the tendencies of telecom operators to adopt particular technologies, given that it is of paramount importance for the Group to maintain its leading position and market share. This will be conducted through 2 levels: through the Group's R&D team on the various technologies being adopted, and staying close to the Group's customers (mainly telecom operators and equipment manufacturers) to understand the changing trends.

MANAGEMENT DISCUSSION AND ANALYSIS

No.	RISK	DESCRIPTION	MITIGATING ACTIONS/MEASURES
		(b) The ever-evolving technology has affected the Group's main product, i.e. RF Coaxial Cables, as adoption of optic fibres for tower construction is gaining traction.	(i) Direct the Group's efforts to ramp up R&D to introduce new range of products; (ii) Focus R&D efforts on the upcoming 5G wireless systems through intimate and constructive interaction with major telecom operators in the PRC in order to understand the direction of technology to be used and develop mainstream ancillary products which could be adopted when any of the systems is launched; (iii) Actively introduce the Group's 4G capable antennas and other accessories to new customers and geographical markets; and (iv) Continue to develop more technologically advanced models for the Group's current product range which have higher gross margins and are more readily required by customers.
		(c) One of the potential impacts of 5G on wireless communications includes reduction in size of equipment, cables and antennas.	(i) Explore and commence R&D on the miniaturization of RF cables, accessories and antennas.
3	Credit risk	Credit risk is the risk arising from the possibility of an obligor's inability to perform its contractual obligations. Credit risk may stem from both on-balance and off-balance sheet transactions.	Adopt the policy of only dealing with creditworthy counterparties and where appropriate, obtain sufficient collateral as a means of mitigating the risk of financial loss from defaults. Regularly review the publicly available financial information of the Group's largest customers, who are mainly telecom operators and state-linked companies in the PRC and where necessary, the Group may consider setting credit limits to them although generally credit limits are not applicable to publicly listed telecom operators. Set credit limits for all other customers and regularly evaluate the credit limits on the basis of publicly available financial and non-financial information of them, and for existing customers, also their sales orders and repayment records. Regularly monitor the Group's exposure and the credit ratings to prevent excessive credit exposure to a single customer.

MANAGEMENT DISCUSSION AND ANALYSIS

No.	RISK	DESCRIPTION	MITIGATING ACTIONS/MEASURES
4	Foreign currency risk	As the Group continues to increase its presence in overseas markets, the risks arising from foreign exchange will increase due to the sales being potentially denominated in USD or other currencies. Other inherent risks include foreign currency translation differences arising from the related companies of the Group in which its operations are carried out in the countries and respective currencies in which they operate.	(i) Denominate the Group's sales in RMB, except in currency controlled countries such as India, so as to maximise the advantage brought by the internationalisation of RMB. (ii) Monitor the foreign currency exposure and continue implementing the policy in using foreign exchange forward contracts (“**Forex Forwards**”) to strike a balance between the uncertainty and the risk of opportunity loss in light of the growing significance of the Group's exposure to fluctuations in foreign currency. As Forex Forwards also have risks, the Group will only consider hedging the foreign currency risk using Forex Forwards should the need arise.
5	Commodity price risk	Copper, which forms a major component of RF Coaxial Cables, is subject to constant price fluctuations. The framework agreements entered into with the Group's major customers allow for an adjustment of selling prices should copper price movement exceed a certain adjustment level. An increase in copper price for a protracted duration while remaining within the adjustment level will increase our costs and accordingly, lower gross profit margins for the Group.	(i) Procure appropriate measures to lock-in copper prices based on existing orders and market conditions; and (ii) Continue to explore reduction of costs of materials and manufacturing.
6	Interest rate risk	The major interest rate risk that the Group is exposed to includes the Group's short-term debt obligations which may be subject to variable interest rates.	The Group's debt obligation arising from bank borrowings bears fixed interest rate. No variable rate debt obligations were held by the Group at the end of FY2016.

MANAGEMENT DISCUSSION AND ANALYSIS

FUTURE PROSPECTS

The economic environment remained complex in 2016. From a macro perspective, China's GDP growth had witnessed a progressively downward trend in the past few years, and only stabilised slightly towards the end of the Reporting Period. The industrial value-add over the years had been hovering at a low rate. The amount of capital investment within the telecommunications industry in the PRC fell approximately 4.2% in January to December 2016. The trend of structural divergence has also been unprecedented, with the dominance of optic fibres over copper cables growing over the years. As key raw material, copper had experienced a long period of price slump before it rose rapidly towards the end of FY2016. Besides, Renminbi continued to decline and the unforeseen price war experienced by the Group's associate, Mianyang Xintong, which was recently invested by the Group, was unexpected.

In FY2016, the Group stepped up its pace in business transformation amidst the gradual adoption of optic fibres over copper cables. Through intensive R&D efforts, the Group has developed 32 types of antennas. In particular, the following products which were adopted by China Telecom, including the 800M LTE2, 4-ports and 8-ports antenna products, were all developed, certified, ordered and sold (exceeding tens of millions in Renminbi) within the same year.

The Group has lifted its overall antenna product competitiveness with the introduction of a high temperature resistant cable component module. In addition, following the State-supported strategy of national high-speed railway and city metro development in China, the Group also introduced its leaky cable series for wireless signal coverage, increasing its market share and lifting leaky cable revenue by approximately 36.5% over FY2015.

Traditional telecommunications business and its business model are in a state of irreversible decline. Against the backdrop of the growing adoption of optic fibres over copper cables, optic fibres are gradually being extended to end users, including fibre to home and fibre to desktop. The decline in copper cables' adoption has led to the Group's inevitable decision to commence measures for its business transformation. In 2017, the Group will focus on strengthening its existing market position, continue its track record of manufacturing quality products, and actively expand to overseas markets and its key customers. The Group will further expand its footprint of leaky cables through entering into metro networks and high speed passenger rail networks of key cities. For high temperature resistant cables, the Group will strive for a swift introduction of low-loss cables and cable-plus products so as to accelerate the build-up of the Group's market share. In meeting the technological requirements of 5G, the Group has begun exploring the development of thin and extra-fine RF Coaxial Cables and increasing its R&D efforts towards antenna line of products.

The fifth generation of mobile communications technology 5G, being an extension of 4G, is still under study. At present, there is no standard-setting organisation (such as 3GPP, Wi MAX Forum and ITU-R) with published specifications or official documents on the exact network requirements of 5G. China has commenced 5G technology research trials, and is targeting to put 5G into commercial use in 2020. Although 5G communications is unlikely to have a material impact on the Group in 2017, the Group will invest R&D towards a series of ultra-high-speed communications products which will be developed surrounding 5G communication technology requirements. It is a start of a long journey in the Group's transformation process.

Currently, 5G wireless communications is still at the initial stage of development without any standard protocol, specifically defined equipment standards or specific frequency band, yet we believe that it is likely to be close to high frequency and ultra high frequency (“**UHF**”). Under 5G, the number of base stations will experience a geometric growth trend and communication equipment such as cables and component products will dramatically reduce in size. As such, the era of 5G communications will bring with opportunities and challenges. The Group will need to explore the development of thin and extra-fine coaxial cables, and consider capital spending on equipment which accommodates the production of high-frequency and UHF cable products. Nevertheless, in 2017, telecom operators in China are expected to continue to expand their 4G network construction, and on this basis the Group will not be materially affected during this period.

CONTINUING CONNECTED TRANSACTIONS

The significant related party transactions set out in Note 30(B) to the financial statements constitute continuing connected transactions as defined in Chapter 14A of the Rules Governing the Listing of Securities on SEHK (the "**Listing Rules**").

During 2016, the Group had the following continuing connected transactions, details of which are disclosed in compliance with the requirements of Chapter 14A of the Listing Rules.

RAW MATERIALS PURCHASE MASTER AGREEMENT

Hengxin (Jiangsu) entered into a raw materials purchase master agreement (the "**2014 Purchase Agreement**") with Suzhou Hengli Telecommunications Materials Co., Ltd. ("**Suzhou Hengli**") on 30 October 2014 in relation to the purchase of raw materials for a term up to 31 December 2016, pursuant to which Suzhou Hengli will supply metal plastic tape, aluminium plastic tape and other raw materials for the production of radio frequency coaxial cables on terms no less favourable than those offered by independent third parties. The annual cap in respect of the transactions for each of the years ended 31 December 2014, 2015 and 2016 was RMB14,000,000, RMB14,000,000 and RMB14,000,000 respectively. On 20 August 2015, Hengxin (Jiangsu) entered into a revised raw materials purchase master agreement (the "**2015 Purchase Agreement**") with Suzhou Hengli to revise the annual cap in respect of the transactions under the 2014 Purchase Agreement for each of the years ended 31 December 2015 and 2016 from RMB14,000,000 to RMB27,000,000. During the year ended 31 December 2016, the aggregate amount paid by the Group for the purchase of the raw materials under the 2015 Purchase Agreement amounted to approximately RMB26.82 million (excluding VAT payable to the State Administration of Taxation of the PRC amounted to approximately RMB 4.56 million for the year ended 31 December 2016).

In view of the 2015 Purchase Agreement expiring on 31 December 2016, on 29 September 2016, Hengxin (Jiangsu) and Suzhou Hengli entered into a new raw materials purchase master agreement (the "**New Purchase Agreement**") to renew the 2015 Purchase Agreement for a term commencing from 1 January 2017 to 31 December 2019, and to revise the annual cap to RMB50,000,000 for each of the years ending 31 December 2017, 2018 and 2019.

PRODUCT SALES MASTER AGREEMENT

On 30 October 2014, Hengxin (Jiangsu) entered into a products sales master agreement (the "**2014 Sales Agreement**") with Suzhou Hengli, pursuant to which the Group will provide its products, such as radio frequency coaxial cable series for mobile communications, telecommunications equipment and accessories, high temperature resistant cables and antennas, to Suzhou Hengli on terms no less favourable than those offered by independent third parties. The annual caps in respect of the transactions under the 2014 Sales Agreement for the years ended 31 December 2014, 2015 and 2016 were RMB6,000,000, RMB6,000,000 and RMB6,000,000 respectively. During the year ended 31 December 2016, the aggregate amount received by the Group for the sales of its products

under the 2014 Sales Agreement amounted to approximately RMB0.2 million (excluding VAT payable to the State Administration of Taxation of the PRC which amounted to approximately RMB 0.03 million for the year ended 31 December 2016).

In view of the 2014 Sales Agreement expiring on 31 December 2016, on 29 September 2016, Hengxin (Jiangsu) and Suzhou Hengli entered into a new products sales master agreement (the "**New Sales Agreement**") to renew the 2014 Sales Agreement for a term commencing from 1 January 2017 to 31 December 2019, and to revise the annual cap to RMB10,000,000 for each of the years ending 31 December 2017, 2018 and 2019.

LISTING RULES' IMPLICATIONS

In compliance with Chapter 14A of the Listing Rules, the respective annual caps under the New Purchase Agreement and the New Sales Agreement (collectively, the "**CCT Agreements**") are aggregated for the purpose of calculating the percentage ratios. As one or more of the applicable percentage ratios (other than the profits ratio) in respect of the aggregate annual caps for the CCT Agreements exceed 5%, the CCT Agreements are subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. The Company obtained approval from the independent shareholders for the CCT Agreements at the Company's extraordinary general meeting held on 6 December 2016.

BACKGROUND OF SUZHOU HENGLI

Suzhou Hengli is a company incorporated in the PRC with limited liability and wholly-owned by Hengtong Optic-Electric Co., Ltd. (江蘇亨通光電股份有限公司) ("**Hengtong Optic-Electric**"). Hengtong Optic-Electric is held approximately 11.23% by Hengtong Group Co., Ltd. (亨通集團有限公司) ("**Hengtong Group**"), which is beneficially owned by Mr. Cui Genliang and Mr. Cui Wei at 90% and 10% respectively. Mr. Cui Genliang is the father of Mr. Cui Wei (the Chairman, a non-executive Director and a substantial shareholder of the Company via his wholly-owned entity, Kingever Enterprises Limited). Separately, Mr. Cui Genliang directly owns approximately 19.34% of the share capital of Hengtong Optic-Electric and can control the composition of a majority of the board of directors of Hengtong Optic-Electric. In this regard, each of Mr. Cui Wei, Mr. Cui Genliang, Hengtong Group, Hengtong Optic-Electric and Suzhou Hengli is considered as a connected person of the Company under Rule 14A.07 of the Listing Rules.

The independent non-executive Directors have reviewed the above continuing connected transactions conducted during FY2016 and confirmed that such continuing connected transactions have been entered into:

(1) in the ordinary and usual course of business of the Group;
(2) on normal commercial terms or better; and
(3) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Board has received a letter from the auditors which has confirmed the matters required under Rule 14A.56 of the Listing Rules.

EVOLUTION

BOARD OF DIRECTORS

CUI WEI
Chairman and Non-Executive Director

Mr. Cui Wei (崔巍), aged 30, is Chairman of the Company and Jiangsu Hengxin Technology Co., Ltd., and was appointed as a non-executive Director on 14 October 2014, and was appointed as the chairman of the Company on 31 December 2015.

Mr. Cui holds a bachelor degree in Mechanical Engineering from Saint Louis University and a master degree in Engineering Management from University of Southern California. Mr. Cui has experience in direct investment, management of equity interests and debentures.

DU XIPING
Executive Director

Mr. Du Xiping (杜西平), aged 54, is our executive Director and was appointed on 31 December 2015. Mr. Du holds a Bachelor of Science from the Department of Astronomy in Nanjing University and a Master's Degree in Economics from the Graduate School of Chinese Academy of Social Science. Mr. Du possesses a wide range of experience over the years covering economics research, trade, finance and investment.

Mr. Du was the general manager of Shenzhen Dong Fang Hongda Investment Co., Ltd. (深圳市東方泓達投资有限公司), Shenzhen Shuangxin Investment Co., Ltd. (深圳市雙信 投資有限公司) and the trust department of New Industrial Investment Co., Ltd. (新產業投資股份有限公司), all of which are principally engaged in the business of trust and asset management, and during this tenure, Mr. Du had been appointed as the fund manager for the Hope Project.

As the very first batch of securities practitioners after China's reform and opening up, Mr. Du was the general manager of the securities department of Industrial and Commercial Bank of China's United Financial Corporation Securities Unit Trust, Pearl River Delta Region (工商銀行珠江三角洲金融信托聯合總公司), mainly focusing on the securities and trust business.

XU GUOQIANG
Executive Director

Mr. Xu Guoqiang (徐國强), aged 44, is our executive Director and the General Manager of Hengxin (Jiangsu) and was appointed on 20 December 2011, and is responsible for managing the business development and day-to-day operations of the Group. Prior to his appointment, Mr. Xu was the Senior Deputy General Manager of Hengxin (Jiangsu) and was responsible for planning, implementing and overseeing the production of the Group's products and technical related matters.

Mr. Xu obtained a Bachelor of Business Administration from Shanghai Jiaotong University in 2005 and an EMBA from Sichuan University in 2010. From 1994 to 1999, Mr. Xu worked in Wujiang Miao Du Cable Co., Ltd. as Workshop Supervisor. From 1999 to May 2006, he worked in Jiangsu Hengtong Photoelectric Stock Co., Ltd. (a company listed on the Shanghai Stock Exchange, Stock Code: 600487, currently known as Hengtong Optic-Electric Co., Ltd.) and held various positions including Quality Control Supervisor, Quality Control Assistant Manager and Production Manager. Prior to joining Hengxin (Jiangsu) in August 2010, Mr. Xu worked in Chengdu Hengtong Optic Communications Co. Ltd. as General Manager since 2006.

Mr. Xu has received several awards for his production and technical achievements, including the International Professional Manager Award, a nomination as National Enterprise Mid-level Management Talent in 2004 and China Economy Top 10 Innovation Award in 2012. Mr.Xu has began his EMBA program at Nanjing University from 2016.

ZHANG ZHONG
Non-Executive Director

Ms. Zhang Zhong (张钟), aged 62, is our non-executive Director and was appointed on 23 June 2005. Ms. Zhang was one of the founders and directors of Jiangsu Hengxin Technology Co., Ltd. since its establishment in June 2003.

Prior to that, between 1982 and 1988, she was the manager of the metals branch at Sichuan Agricultural Machinery Supply and Sales Co. Ltd (四川省农机供销总公司) and was responsible for the market development and sales in the company. Between 1972 and 1982, she worked at Sichuan Chain Factory (四川省链条厂). From 1988 to 2004, she was the manager of the metals branch at Sichuan Science and Industrial Trade Agricultural Machinery Co. Ltd (四川省科工贸农机公司金属材料分公司) and was responsible for the sales and marketing in the company.

TAM CHI KWAN MICHAEL
Independent Non-Executive Director

Mr. Tam Chi Kwan Michael (谭志昆), aged 53, is our independent non-executive Director and was appointed on 10 December 2010. Mr. Tam is currently the managing director of TLC CPA Limited, a firm of certified public accountants in Hong Kong and has more than 20 years of experience in tax consulting and auditing. He holds an Honours Diploma in Accountancy from Lingnan University (formerly Lingnan College) in Hong Kong and a Bachelor of Laws (Hons) degree from the University of Wolverhampton in the United Kingdom.

Mr. Tam is a Certified Public Accountant (practising) and a Registered Certified Tax Advisor in Hong Kong. He is a member of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants, the Institute of Chartered Accountants (England and Wales) and the Taxation Institute of Hong Kong.

KEY MANAGEMENT

DR. LI JUN
Independent Non-Executive Director

Dr. Li Jun (李珺博士), aged 55, is our independent non-executive Director and was appointed on 6 March 2015. Dr. Li obtained his doctorate degree of philosophy in Political Economy from Oxford University in the United Kingdom in 1994. He was a senior manager and director of a number of securities and investment companies in Hong Kong and had an extensive experience in international financial market. Dr. Li was appointed as an independent non-executive director of Sun Century Group Limited (formerly known as Hong Long Holdings Limited) (stock code: 1383) until 1 June 2012. He is currently an independent non-executive director of CMMB Vision Holdings Limited (stock code: 0471).

PU HONG
Independent Non-Executive Director

Mr. Pu Hong (浦洪), aged 52, is our independent non- executive Director and was appointed on 6 March 2015. Mr. Pu holds a Masters in Accounting and Finance obtained from Anhui Finance and Economics College, a Masters of Finance obtained from Cass Business School of City University London, and an On-The-Job Doctorate from China University of Politics and Law. Mr. Pu is currently a senior partner and company securities lawyer with Deheng Law Offices (Shenzhen).

His main areas of practice encompasses a wide range of corporate advisory work such as mergers and acquisitions, corporate restructuring and initial public offerings.

LEOW CHIN BOON
Chief Financial Officer

Mr. Leow Chin Boon (廖竣泓), aged 40, joined our Group in June 2007. He is the Chief Financial Officer and is responsible for the finance, legal, tax, compliance and reporting functions of the Group. From 2004 to 2007, Mr. Leow was with a company listed on the SGX Mainboard. Prior to this, Mr. Leow was with Deloitte & Touche Singapore since 1999. Mr. Leow obtained a Bachelor of Commerce (Accounting and Finance) with a minor in Law from the University of Western Australia. Mr. Leow is currently a Certified Practising Accountant of CPA Australia and a Chartered Accountant of the Institute of Singapore Chartered Accountants.

JIN HUIYI
Deputy General Manager-Overseas Marketing

Ms. Jin Huiyi (金惠义), aged 40, joined our Group in November 2005. She is the Deputy General Manager of Jiangsu Hengxin Technology Co. Ltd., and is responsible for overseas marketing. Since 2005, Ms. Jin had been the vice president of overseas marketing of the Group. From 2001 to 2005, Ms. Jin worked as an assistant to general manager of Yixing Chenyang Ceramics Co., Ltd. Ms. Jin obtained an associate degree in Computer Application and Maintenance from Yancheng Institute Of Technology in 1998 and a title of Senior Economist in 2012.

HUA YANPING
Deputy General Manager

Mr. Hua Yanping (華彦平), aged 49, joined our Group in August 2014. He is the Executive Vice President of Jiangsu Hengxin Wireless Technology Co., Ltd. (“**Jiangsu Wireless**”), responsible for the management of Jiangsu Wireless. From 2003 to 2014, Mr. Hua served as Senior Engineer, Director of Engineering Design and Technical Manager for Marketing of Andrew Telecommunication Equipment (China) Co., Ltd. From 1997 to 2003, Mr. Hua was the R&D manager of Yaxin Electronic Technology Co., Ltd. Mr. Hua obtained a Ph.D. in Digital Signal Processing of Power Engineering at Southeast University in 2005.

CORPORATE INFORMATION

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Jiangsu Province, The PRC

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PRINCIPAL PLACE OF BUSINESS IN HONG KONG
18th Floor, United Centre
95 Queensway
Hong Kong

BOARD OF DIRECTORS
Executive directors
Mr. Du Xiping
Mr. Xu Guoqiang

Non-executive directors
Mr. Cui Wei (Chairman)
Ms. Zhang Zhong

Independent non-executive directors
Mr. Tam Chi Kwan Michael
Dr. Li Jun
Mr. Pu Hong

AUDIT COMMITTEE
Mr. Tam Chi Kwan Michael (Chairman)
Mr. Cui Wei
Ms. Zhang Zhong
Dr. Li Jun
Mr. Pu Hong

REMUNERATION COMMITTEE
Dr. Li Jun (Chairman)
Mr. Cui Wei
Mr. Xu Guoqiang
Mr. Tam Chi Kwan Michael
Mr. Pu Hong

NOMINATING COMMITTEE
Mr. Cui Wei (Chairman)
Mr. Du Xiping
Mr. Tam Chi Kwan Michael
Dr. Li Jun
Mr. Pu Hong

AUTHORISED REPRESENTATIVES
Mr. Du Xiping
Ms. Wong Wai Han

JOINT COMPANY SECRETARIES
Mr. Chua Kern, LLB (Hons) (Singapore)
Ms. Wong Wai Han, LLB (Hons) (Hong Kong)

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Certified Public Accountants
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Partner-in-charge: Teo Han Jo
(Appointed since 6 December 2016)

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE
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HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE
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Jiangsu Province, The PRC

Agricultural Bank of China, Yixing Branch
No. 160 Renminzhong Road
Yicheng Town, Yixing City
Jiangsu Province, The PRC

STOCK CODE
Hong Kong Stock Code: 1085
Singapore Stock Code: I85

WEBSITE OF THE COMPANY
www.hengxin.com.sg

Corporate Governance Report

The Company is committed to setting in place corporate governance practices to provide the structure through which the objectives of protection of shareholders' interests and enhancement of long term shareholder value are met.

The Company is primarily listed on the Main Board of SEHK and is secondarily listed on the Main Board of the SGX-ST. Throughout FY2016, the Company had adopted, for corporate governance purposes, the code provisions as set out in the Corporate Governance Code (Appendix 14 of the Listing Rules) (the "**Hong Kong Code**"), and has complied with the code provisions as set out in the Hong Kong Code.

(A) BOARD MATTERS

The Board's Conduct of Affairs

As at 31 December 2016, the Board comprises two Executive Directors, two Non-Executive Directors, and three Independent Non-Executive Directors. During FY2016, all the Executive Directors, Non- Executive Directors and Independent Non-Executive Directors displayed diversity and competency in their skill sets, knowledge, experience and perspectives which enabled them to contribute effectively to the Company.

The Board's primary role is to safeguard shareholders' interests and enhance long-term shareholders' value. It sets the overall strategy for the Group and supervises the performance of the executive management (the "**Management**"). To fulfill this role, the Board is responsible for implementing effective controls and the overall corporate governance of the Group, including setting its strategic direction, establishing goals for the Management and monitoring the Management's performance towards the achievement of these goals.

The Group has set in place an approval matrix which sets out matters requiring the Board's approval and the extent of delegation assigned to the Management. In this manner, the Management can effectively carry out its business activities with a clear understanding of its operational limits.

Board Processes

To assist in the execution of its responsibilities, the Board has established a number of Committees, including a Nominating Committee, a Remuneration Committee and an Audit Committee. The effectiveness of each committee is constantly monitored. The Board has also established a framework for the Management of the Group for the establishment of an internal control system and appropriate ethical standards.

Board meetings are conducted regularly on a quarterly basis and ad-hoc meetings are convened whenever they are deemed necessary to address any specific issue of significance that may arise. Some important matters concerning the Group are also put to the Board for its decision by way of written resolutions. Board meetings may be conducted by way of tele-conference and video conference.

The meeting agendas are prepared in consultation with the Chairman. Agenda items include the management report, financial reports, strategic matters, governance, business risk issues and compliance. Executives of the Group are regularly invited to attend Board meetings to provide updates on operational matters.

Corporate Governance Report (cont'd)

The Board conducts an annual review of its processes to ensure that it is able to carry out its functions in the most effective manner.

During FY2016 and as of 31 December 2016, the number of general meetings, Board and Board Committee meetings held and the attendance by each member of the Board at these meetings are set out as follows:

Name of Director	General Meeting		Board		Audit Committee		Remuneration Committee		Nominating Committee	
	No. of Meetings Held	No. of Meetings Attended	No. of Meetings Held	No. of Meetings Attended	No. of Meetings Held	No. of Meetings Attended	No. of Meetings Held	No. of Meetings Attended	No. of Meetings Held	No. of Meetings Attended
Cui Wei	2	2	7	7	4	4	1	1	1	1
Du Xiping	2	2	7	7	NA	NA	NA	NA	1	1
Xu Guoqiang	2	2	7	6	NA	NA	1	1	NA	NA
Zhang Zhong	2	2	7	7	4	4	NA	NA	NA	NA
Tam Chi Kwan Michael	2	2	7	7	4	4	1	1	1	1
Pu Hong	2	2	7	5	4	4	1	0	1	0
Dr. Li Jun	2	2	7	7	4	4	1	1	1	1

NA: Not applicable

Matters Reserved for Board Approval

Board approval is required for matters such as corporate restructuring, mergers and acquisitions, major investments, material acquisitions and disposals of assets, major corporate policies on key areas of operations, release of the Group's half-yearly results, full year results, interim report and annual report, review of the annual budget, connected transactions, declaration of interim dividends and proposal of final dividends.

All other matters are delegated to the committees whose actions are reported to and monitored by the Board.

Training of Directors

The Directors are responsible for their own training needs. Any newly appointed Director shall receive appropriate induction, training and coaching in order to develop individual skills as required. During FY2016, the Directors have participated in continuous professional development to develop and refresh their knowledge and skills, including the training course provided by the legal advisor of the Company. Some of the Directors have also attended external trainings during FY2016 covering topics such as the revised Corporate Governance Code on risk management and internal controls under the Listing Rules as well as the Companies Ordinance of Hong Kong and new HKFRSs.

Board Composition and Guidance

During FY2016, the Board comprised the following:

Name of Director	Designation	Date of first appointment	Date of last re-election	Due for re-election at forthcoming annual general meeting ("AGM")
Cui Wei	Chairman and Non-Executive Director	14 October 2014	27 April 2015	Yes
Du Xiping	Executive Director	31 December 2015	28 April 2016	NA
Xu Guoqiang	Executive Director	20 December 2011	27 April 2015	Yes
Zhang Zhong	Non-Executive Director	23 June 2005	28 April 2016	NA
Tam Chi Kwan Michael	Independent Non-Executive Director	10 December 2010	28 April 2016	NA
Pu Hong	Independent Non-Executive Director	6 March 2015	27 April 2015	Yes
Dr. Li Jun	Independent Non-Executive Director	6 March 2015	27 April 2015	NA

The criterion of independence is based on the guidelines set out in the Listing Rules. The Board considers an "independent" director as one who has no relationship with the Company, its related companies, its shareholders who have 10% or more interest in the issued share capital of the Company or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the Director's independent judgment of the conduct of the Group's affairs. The independence of the Company's Independent Non-Executive Directors meets the guidelines set out in Rule 3.13 of the Listing Rules.

The composition of the Board is determined in accordance with the following principles:

- the Board should comprise a sufficient number of Directors to fulfill its responsibilities. This number may be increased when the Board feels that additional expertise is required in specific areas, or when an outstanding candidate is identified;

- the Board should have sufficient number of Directors to serve on various committees of the Board without encumbering the Directors or making it difficult for them to fully discharge their responsibilities; and

- the Board should consider its diversity from various aspects, including but not limited to, gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. All Board appointments will be based on merit, and candidates will be considered against certain objective criteria, having regard to the benefits of diversity on the Board.

The Nominating Committee conducts an annual review of the Director's independence. Based on the guidelines in the Listing Rules regarding independence, the Nominating Committee is of the view that the Independent Non-Executive Directors, during their respective terms of office with the Company, are deemed independent.

Through the Independent Non-Executive Directors, the Board is able to exercise independent judgment on corporate affairs and provide the Management with a diverse and objective perspective on various issues. Furthermore, the Board is able to interact and work with the Management through a robust exchange of ideas and views to help shape the Company's strategic direction.

The composition of the Board will be reviewed on an annual basis by the Nominating Committee to ensure that the Board has the appropriate size, diversity of skills, knowledge, experience and perspectives, and collectively possesses the necessary core competencies for effective functioning and informed decision-making. When a vacancy arises under any circumstance, or where it is considered that the Board would benefit from the services of a new Director with a particular skill set, the Nominating Committee, in consultation with the Board, will determine the selection criteria and select candidates with the appropriate expertise and experience for the position. Pursuant to the constitution of the Company (the "**Constitution**"), any Director appointed by the Board to fill a casual vacancy shall hold office until the next AGM of the Company after his appointment and be subject to re-election at such meeting.

The duties and responsibilities of the Executive Directors are clearly set out in their service agreements and the duties and responsibilities of the Non-Executive Directors are clearly set out in their letters of appointment.

The Non-Executive and Independent Non-Executive Directors of the Board exercise no management functions in the Group. While all the Directors have equal responsibility for the performance of the Group, the role of the Non-Executive and Independent Non-Executive Directors is particularly important in ensuring that the strategies proposed by the Management are discussed fully and rigorously examined, taking into account the long-term interests of not only the shareholders, but also of the employees, customers, suppliers and the many communities in which the Group conducts business.

The Board considers its Non-Executive and Independent Non-Executive Directors to be competent, sufficient in number and that their views hold weight in such a manner that no individual or small group can dominate the Board's decision-making processes. The Non-Executive and Independent Non-Executive Directors have no financial or contractual interests in the Group other than by way of their fees and shareholdings as set out in the Report of the Directors in this Annual Report.

The Board is of the view that its current composition is appropriate taking into account the scope and nature of the operations of the Company and the Group.

Other key information about the Directors is set out in pages 26 to 27 of this Annual Report. Their shareholdings in the Company are also disclosed in the Report of the Directors in this Annual Report. None of the Directors hold shares in the Company's subsidiaries.

Corporate Governance Report (cont'd)

Chairman and Chief Executive Officer

Code Provision A.2.1 of the Hong Kong Code stipulates that the roles of the Chairman and chief executive should be separate and should not be performed by the same individual. Mr. Cui Wei was appointed as the Chairman of the Board on 31 December 2015. The Chairman shall focus on the overall corporate development and strategic direction of the Group and oversee the efficient functioning of the Board. The Chairman will ensure that all Directors are properly briefed on issues arising at Board meetings and will also ensure information flow between the Management and the Board.

The Executive Directors are responsible for the daily operations of the Company while the Non-Executive and Independent Non-Executive Directors exercise no management functions in the Group. Such division of responsibilities helps to reinforce their independence and ensure a balance of power and authority. During FY2016, the Chairman had a meeting with the Non-Executive Directors, including the Independent Non-Executive Directors, without the presence of the other Executive Directors.

The Company did not appoint a Chief Executive Officer in FY2016 and has no intention to appoint a chief executive officer in the near future.

Joint Company Secretaries

Mr. Chua Kern and Ms. Wong Wai Han are the joint company secretaries of the Company (the "**Joint Company Secretaries**"). Mr. Chua Kern and Ms. Wong Wai Han are practising lawyers in Singapore and Hong Kong respectively and their primary corporate contact person at the Company is Mr. Leow Chin Boon, the Chief Financial Officer of the Company.

(B) NOMINATING COMMITTEE
Board Membership

The Company adopts a formal and transparent process of appointing new Directors to the Board and ensures that all Directors submit themselves for re-nomination and re-election at regular intervals. The Nominating Committee oversees this aspect of corporate governance, and comprises the following members:-

Cui Wei	Chairman, Non-Executive Director
Du Xiping	Member, Executive Director
Dr. Li Jun	Member, Independent Non-Executive Director
Pu Hong	Member, Independent Non-Executive Director
Tam Chi Kwan Michael	Member, Independent Non-Executive Director

The Nominating Committee holds at least one meeting per year. The Nominating Committee has convened one meeting during FY2016 to review the Directors' independence as well as the composition of the Board. The key functions of the Nominating Committee under its Terms of Reference are, amongst others:-

(a) to establish procedures for and make recommendations to the Board on all Board appointments, including re-nominations, having regard to the Director's contribution and performance (e.g. attendance, preparedness, participation and candour);

(b) to determine annually whether or not a Director is independent, bearing in mind the circumstances set forth in the Listing Rules and any other salient factors;

(c) in respect of a Director who has multiple board representations on various companies, to decide whether or not such Director is able to and has been adequately carrying out his/her duties as Director, having regard to the competing time commitments that are faced by him/her when serving on multiple boards;

(d) to decide how the Board's performance may be evaluated and propose an objective performance criteria, as approved by the Board, that allows comparison with its industry peers, and address how the Board has enhanced long term shareholders' value; and

(e) to review the board succession plans for the Directors.

The Terms of Reference of the Nominating Committee are posted on the websites of the Company and the SEHK.

The Directors will submit themselves for re-nomination and re-election at regular intervals of at least once every three years. The Non-Executive Directors are appointed for a term of three years, subject to retirement by rotation at the AGM and if eligible, may offer themselves for re-election.

Under the Constitution, one-third of the Directors for the time being (or if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation at each AGM of the Company. Each Director shall abstain from voting on any resolutions in respect of his or her re-appointment as a Director.

Pursuant to Article 89 of the Constitution, Mr. Cui Wei, Mr. Xu Guoqiang and Mr. Pu Hong shall retire at the forthcoming AGM of the Company and, being eligible, will offer themselves for re-election at such meeting.

Their profiles are shown on pages 26 and 27 of the Annual Report.

The Nominating Committee has considered the commitments level of each Directors serving on multiple boards. For FY2016, the Board is satisfied that each Director has allocated sufficient time and resources to the affairs of the Company during their term of office with the Company.

Board Performance

The Nominating Committee, when considering the re-appointment of a Director, will evaluate such Director's contribution and performance, such as his or her attendance at meetings of the Board and Board committees, and where applicable, participation, candour and any special contributions.

The Nominating Committee is tasked with the assessment of the Board's performance and will adopt certain performance criteria which will take into consideration quantitative and qualitative factors such as the success of the strategic and long-term objectives set by the Board.

The Nominating Committee has formulated evaluation procedures and performance criteria for the assessment of the Board's performance as a whole. It had conducted a Board performance evaluation for FY2016.

The Nominating Committee has established a process for assessing the effectiveness of the Board as a whole. The performance criteria for the Board evaluation includes an evaluation of the size and composition of the Board, the Board's access to information, accountability, the Board's processes and the Board's performance in relation to discharging its principal responsibilities in terms of the financial indicators. The factors taken into considerations for the re-nomination of the Directors for FY2017 are based on the Directors' attendance at meetings held during FY2016 and the contributions made by the Directors at the meetings.

The Board and the Nominating Committee will monitor to ensure that the Directors appointed to the Board possess the experience, knowledge and skills critical to the Group's business, so as to enable the Board to make sound and well-considered decisions.

Access to Information

The Directors receive regular updates of information from the Management about the Group so that they are well appraised to fully execute their role at Board meetings. Detailed Board papers are prepared for each meeting of the Board. The Board papers include sufficient information from the Management on financial, business and corporate issues to enable the Directors to be properly briefed on the issues to be considered at Board meetings. Information provided includes background or explanatory information relating to matters to be brought before the Board, copies of disclosure documents, budgets, forecasts and internal financial statements.

All Directors have unrestricted access to the Company's records and information and received detailed financial and operational reports from the senior management during FY2016 to enable them to carry out their duties. Directors also liaise with the Management as required, and may consult with other employees and seek additional information on request.

Corporate Governance Report (cont'd)

All Directors have separate and independent access to the Joint Company Secretaries. The Joint Company Secretaries or their representatives administer, attend and prepare minutes of Board meetings, and assist the Chairman in ensuring that Board procedures are followed and reviewed so that the Board functions effectively, and the rules and regulations that are applicable to the Company, including requirements of the Companies Act (Chapter 50) of Singapore (the "**Companies Act**") and SEHK, are complied with.

The Board has separate and independent access to the Management and the Joint Company Secretaries at all times. Should the Directors, whether as a group or individually, need independent professional advice in furtherance of their duties, the costs of such professional advice will be borne by the Company.

Under the Constitution, the decision to appoint or remove the Joint Company Secretaries can only be taken by the Board as a whole.

(C) REMUNERATION MATTERS
Remuneration Committee
Procedures for Developing Remuneration Policies

The Remuneration Committee comprises the following members:-

Dr. Li Jun	Chairman, Independent Non-Executive Director
Cui Wei	Member, Non-Executive Director
Xu Guoqiang	Member, Executive Director
Pu Hong	Member, Independent Non-Executive Director
Tam Chi Kwan Michael	Member, Independent Non-Executive Director

The Remuneration Committee holds at least one meeting per year. The key functions of the Remuneration Committee under its Terms of Reference are, amongst others:-

(a) to recommend to the Board on the remuneration packages of the Executive Directors and senior management, to assess performance of the Executive Directors and to determine specific remuneration packages for each Executive Director; such recommendations are to be submitted for endorsement by the entire Board and should cover all aspects of remuneration, including but not limited to the Director's fees, salaries, allowances, bonuses, options, and benefits in kind;

(b) in the case of service contracts, to consider what compensation commitments the Directors' contracts of service, if any, would entail in the event of early termination with a view to being fair and avoiding the rewarding of poor performance; and

(c) in respect of any share option schemes, to consider whether the Directors should be eligible for any benefits under such incentive schemes.

The Terms of Reference of the Remuneration Committee are posted on the websites of the Company and the SEHK.

The members of the Remuneration Committee shall not participate in any decision concerning their own remuneration. No Director will be involved in determining his or her own remuneration. During FY2016, the Remuneration Committee has convened one meeting and has performed its functions in accordance with its Terms of Reference and the Hong Kong Code.

Level and Mix of Remuneration

In setting the remuneration packages, the Company will take into account the pay and employment conditions within the same industry and in comparable companies, as well as the Group's relative performance and the performance of the individual Directors.

All the Non-Executive and Independent Non-Executive Directors receive directors' fees in accordance with their contributions, having taken into account factors such as effort and time spent and their responsibilities. The Directors' fees will be subject to approval at the forthcoming AGM.

The Executive Directors do not receive directors' fees. The remuneration for the Executive Directors and key senior executives comprise a basic salary component and a variable component which is the annual bonus, based on the performance of the Group as a whole and their individual performance.

The annual review of the remuneration packages of the Directors and the senior management will be carried out by the Remuneration Committee to ensure that the remuneration of the Executive Directors and the senior management is commensurate with their performance, giving due regard to the financial and commercial health and business needs of the Group. The performance of the Executive Directors (together with other senior executives) will be reviewed periodically by the Remuneration Committee and the Board.

Please refer to the financial statements for further details on the remuneration disclosure.

Share Option Scheme

The Scheme was approved by the Company's shareholders at the Company's extraordinary general meeting held on 27 October 2010.

The Scheme is administered by the Remuneration Committee.

No options were granted since the adoption of the Scheme on 27 October 2010 to the end of FY2016 to the Directors and the controlling shareholders of the Company and their associates.

(D) ACCOUNTABILITY AND AUDIT

Accountability

In presenting the annual financial statements and half-yearly announcements to shareholders, it is the aim of the Board to provide the shareholders with a detailed analysis, explanation and assessment of the Group's financial position and prospects. The Management currently provides the Board with management accounts of the Group's performance, position and prospects on a monthly basis.

Risk Management and internal control

The Board recognises that it is responsible for the governance of risk and setting the tone and direction for the Group in such a way that risks are managed in the Group's businesses. The Board has ultimate responsibility for approving the internal control processes of the Group in a manner which addresses stakeholders' expectations and does not expose the Group to an unacceptable level of operational, financial and compliance risks. The Board approves the key management policies and ensures a sound system of risk management and internal control. In addition to determining the approach to risk governance, the Board sets and establishes an appropriate risk culture throughout the Group for effective risk governance.

The Group has a risk management framework in place to assist the Board, including but not limited to, the following aspects:

i. assessment of the Group's overall risk tolerance and strategies;
ii. overseeing current risk exposures and future risk strategy of the Group;
iii. reviewing new businesses or corporate actions that the Group may plan to undertake.

Corporate Governance Report (cont'd)

In terms of discharging the Board's duties, the Audit Committee assists the Board in its oversight of internal control and risk management system. The Audit Committee in turn is assisted by the Management in executing the internal control processes and management of risks.

The Board acknowledges that it is responsible for the Group's overall internal control and risk management framework, but recognises that no cost-effective internal control and risk management system will preclude all errors and irregularities, as the system is designed to manage rather than to eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss. During FY2016, the Board has reviewed the effectiveness of the Group's internal control system and risk management framework and is satisfied with such systems and framework.

The Audit Committee has assisted the Board in conducting periodic reviews on the adequacy of the internal control system and risk management framework of the Group, which reviews include the areas of financial, operational and compliance risks.

In order to ensure that the Group's internal control system and risk management framework are managed adequately and effectively, during FY2016, the Audit Committee:

i. reviewed the risks which the Group is exposed to, as well as the internal control system and risk management measures which are in place to mitigate them; and
ii. reviewed the results of various assurance activities performed such as internal audit and external audit performed during the year.

Based on the above, the Board is of the opinion that the Group's internal control system and risk management framework which address the Group's operational, financial and compliance risks, are effective and adequate.

Audit Committee
The Audit Committee comprises the following members:-

Tam Chi Kwan Michael	Chairman, Independent Non-Executive Director
Cui Wei	Member, Non-Executive Director
Zhang Zhong	Member, Non-Executive Director
Dr. Li Jun	Member, Independent Non-Executive Director
Pu Hong	Member, Independent Non-Executive Director

The Board is of the view that the members of the Audit Committee are appropriately qualified as they have sufficient accounting or related financial management expertise and experience to discharge the Audit Committee's function.

The Audit Committee will assist the Board in discharging its responsibility to safeguard the Company's assets, maintain adequate accounting records, and develop and maintain effective internal control system with an overall objective of ensuring that the Management has created and maintained an effective control environment within the Group, and that the Management demonstrates the necessary aspect of the Group's internal control structure among all parties.

The Audit Committee will meet at least quarterly to discuss and review the following where applicable:

(a) the work conducted by KPMG LLP, and in connection with the external audit of the financial statements of the Group for FY2016, the external auditors, KPMG LLP, have reviewed aspects of the books, records, and internal accounting controls of the Group and have not noted any material internal control weakness;

(b) review the interim and annual financial statements, the statement of financial position and the statement of profit or loss and other comprehensive income before submission to the Board for approval, focusing in particular, on changes in accounting policies and practices, major risk areas, significant adjustments resulting from the audit, the going concern statement, compliance with accounting standards as well as compliance with any stock exchange and statutory/regulatory requirements;

(c) review the clarity and completeness of disclosures in the financial statements, interim and annual reports, preliminary announcements and related formal statements and press releases;

(d) implement and review the internal control system and risk management framework (including establishment of internal audit functions (the "**IA Function**")) and ensure co-ordination between the external auditors and the Management, assess the independence of the IA Function by reviewing the effectiveness of the IA Function and continuously reviewing its reporting and remuneration arrangements, review the assistance given by the Management to the auditors, and discuss problems and concerns, if any, arising from the interim and final audits, and any matters which the auditors may wish to discuss (in the absence of the Management where necessary);

(e) review and discuss with the external auditors (or such other parties) any suspected fraud or irregularity, or suspected infringement of any relevant laws, rules or regulations, which has or is likely to have a material impact on the Group's operating results or financial position, and the Management's response;

(f) identify, develop and review the effectiveness of the Group's policies, practices and performance in respect of key matters relating to environmental, social and governance;

(g) consider the appointment or re-appointment of the external auditors and matters relating to the resignation or dismissal of the auditors;

(h) review transactions falling within the scope of Chapters 14 and 14A of the Listing Rules;

(i) undertake such other reviews and projects as may be requested by the Board and will report to the Board its findings from time to time on matters arising and requiring the attention of the Audit Committee; and

(j) generally undertake such other functions and duties as may be required by the Listing Rules and by such amendments made thereto from time to time.

The Terms of Reference of Audit Committee are posted on the websites of the Company and the SEHK. The Audit Committee meets with the Group's external and internal auditors and its Management to review the accounting, auditing and financial reporting matters so as to ensure that an effective control environment is maintained within the Group.

The Audit Committee is primarily responsible for the selection and approval of the appointment or dismissal of the internal auditor. The internal auditor's primary line of reporting is to the Chairman of the Audit Committee.

Apart from the responsibilities set out above, the Audit Committee also reviews, implements and administers the Group's Fraud and Whistle-Blowing Policy which sets out the provisions by which employees and other persons may, in confidence, raise serious concerns about possible incorrect financial reporting or other matters that could have a large impact on the Company and the Audit Committee is authorised to do such acts as are necessary to ensure, amongst others, that (i) independent investigations are carried out in an appropriate and timely manner, (ii) appropriate action is taken to correct the weaknesses in internal control system and policies which had allowed such incidences to occur and to prevent recurrence and (iii) administrative, disciplinary, civil or other actions that are initiated following completion of the investigations are appropriately balanced and fair.

In addition, all future transactions with connected persons shall comply with the requirements of the Listing Rules. The Directors shall abstain from voting in any contract or arrangement, or proposed contract or arrangement in which he has a material interest.

The Audit Committee is authorised to investigate any matter within its Terms of Reference, and has full access to the Management and resources which are necessary to enable it to discharge its functions properly. It also has full discretion to invite any Executive Director or executives to attend its meetings.

The Audit Committee also meets with the external auditors, without the presence of the Management, and reviews the adequacy of audit arrangement, with emphasis on the scope and quality of their audit, the independence, objectivity and observations of the auditors.

The external auditors provide regular updates and periodic briefings to the Audit Committee on changes or amendments to accounting standards to enable the members of the Audit Committee to keep abreast of such changes and their corresponding impact on the financial statements, if any.

Corporate Governance Report (cont'd)

The Company has appointed a suitable auditing firm to meet its audit obligations, having regard to the adequacy of the resources and experience of the auditing firm and the audit engagement partner assigned to the audit.

The auditors of the Company's subsidiaries are disclosed in note 27 to the financial statements in this Annual Report.

The Audit Committee is satisfied with the independence and objectivity of the external auditors during FY2016 and has recommended to the Board the re-appointment of KPMG LLP as the external auditors at the forthcoming AGM.

During FY2016, the Audit Committee has convened four meetings and has performed its functions in accordance with its Terms of Reference and the Hong Kong Code.

Directors' and Auditors' Responsibilities for Financial Statements

The Directors are responsible for the preparation of financial statements for each financial period which give a true and fair view of the state of affairs of the Group. In preparing the financial statements for FY2016, the Directors have selected appropriate accounting policies and applied them consistently, and have prepared the financial statements on a going concern basis. The responsibilities of the external auditors are set out in the Independent Auditor's Report to the shareholders of the Company on pages 52 to 55 of the Annual Report.

Auditors' Remuneration

KPMG LLP, the external auditors of the Company, were responsible for providing services in connection with the audit of the financial statements of the Group for FY2016.

For FY2016, the total remuneration in respect of the review and audit services provided by KPMG LLP, Singapore and other member firm of KPMG international for the Group amounted to approximately RMB0.93 million and in respect of non-audit services provided by Deloitte LLP, amounted to approximately less than RMB0.26 million.

The Audit Committee has undertaken a review of all non-audit services provided by the external auditors and is satisfied that the nature and extent of such services do not affect the independence of the external auditors.

Internal Audit

The Company has appointed Yang Lee & Associates as the internal auditors to carry out internal audits covering the review of key internal control in selected areas based on key operational, financial and compliance risks as identified under the Framework of Risk Management and as advised by the Audit Committee and the Management. The internal auditors have a direct and primary reporting line to the Audit Committee and assist the Board in monitoring and managing risks and internal control of the Group.

The internal auditors will plan their internal audit schedules in consultation with, but independently of the Management. The audit plan will be submitted to the Audit Committee for approval prior to the commencement of the audit. The Audit Committee will review the activities of the internal auditors on a regular basis, including overseeing and monitoring the implementation of improvements on the weaknesses of the internal control.

The internal auditors have conducted an annual review in accordance with their audit plan, of the effectiveness of the Company's internal control system. Material non-compliance or failures in internal control and recommendations for improvements (if any) will be reported to the Audit Committee.

The Audit Committee has also reviewed the effectiveness and adequacy of the IA Function and the Audit Committee is satisfied that the IA Function is adequately resourced and has appropriate standing within the Group.

(E) SHAREHOLDERS' RIGHTS AND RESPONSIBILITIES

Shareholders' Rights, Communication with Shareholders and Conduct of Shareholders' Meetings

In line with the Hong Kong Code, the following information would be communicated to the shareholders of the Company from time to time:

- any significant changes in the Constitution;
- details of shareholders by type and their aggregate shareholding;
- details of the last shareholders' meeting, including the time and venue, major items discussed and voting particulars;
- indication of important shareholders' dates such as record dates and book closure dates in the coming financial years; and
- public float capitalisation as at the end of the financial year.

The Company does not have a dividend policy. However, the Company will work towards maintaining a balance between meeting shareholders' expectations and prudent capital management.

In line with continuous disclosure obligations of the Company, the Board's policy is that shareholders are informed of all major developments that impact the Group in compliance with the Companies Act and the Listing Rules. The Board will review the shareholders' communication policy from time to time as appropriate.

Information is disseminated to the shareholders of the Company on a timely basis. Where there is inadvertent disclosure made to a selected group, the Company will make the same disclosure publicly as soon as practicable. Communication is made through:

- annual reports that are prepared and issued to all shareholders;
- half-yearly financial statements containing a summary of the financial information and affairs of the Group for the period;
- notices of and explanatory memoranda for Annual General Meetings and Extraordinary General Meetings;
- press and analyst briefings for the Group's interim and annual results as well as other briefings, as appropriate;
- press releases on major developments of the Group;
- corporate announcements published on the websites of the SGX-ST and the SEHK;
- the Group's websites at http://www.hengxin.com.sg at which shareholders can access information on the Group. The website provides, amongst others, corporate announcements, press releases, annual reports, interim reports, contact details and profiles of the Group;
- shareholders may refer to the Constitution in relation to their rights together with the detailed requirements and procedures for requesting the Board to convene an Extraordinary General Meeting or putting forward proposals at general meetings. The Constitution is posted on the websites of the Company and the SEHK. Pursuant to Section 177 of the Companies Act, two or more shareholders holding not less than 10% of the total number of issued shares of the Company (excluding treasury shares) or, if the company has not a share capital, not less than 5% in number of the shareholders of the Company or such lesser number as is provided by the Constitution may call a general meeting. Section 177(4) of the Companies Act provides that, even if the Constitution does not have such provisions, notice of such meeting shall be served to members having a right to attend.
- shareholders may also direct their questions to the Company by writing to the Senior General Executive at hengxin@listedcompany.com (by email).

Corporate Governance Report (cont'd)

In addition, shareholders are encouraged to attend the AGM and other general meetings to ensure that the Company is held to a high level of accountability, and to stay informed of the Group's strategy and goals. Annual General Meetings and Extraordinary General Meetings are the principal forum for dialogue with shareholders.

A notice of the Annual General Meetings and Extraordinary General Meetings will be despatched to shareholders, together with explanatory notes or a circular on items of special business before the Annual General Meetings and Extraordinary General Meetings. The Board welcomes questions from shareholders who have an opportunity to raise issues either informally or formally before or at the general meeting. The Chairmen of the Audit, Remuneration and Nominating Committees and the external auditors will usually be available at general meetings to answer questions relating to the work of these Board committees and auditors.

Each item of special business included in the notice of the meeting will be accompanied, where appropriate, by an explanation for the proposed resolution. Separate resolutions will be proposed for substantially separate issues at the meeting.

All resolutions in general meetings held during FY2016 have been voted by poll and the detailed results showing the number of votes cast for and against each resolution and the respective percentages have been communicated to the shareholders accordingly.

(F) DEALING IN SECURITIES

The Company has adopted its own code of best practices on securities transactions by the Company and its officers with respect to dealings in securities by the Directors and the senior management of the Group (the "**Best Practices Code**"). The Best Practices Code is no less exacting than the required standard in the "Model Code for Securities Transactions by Directors of Listed Issuers" (the "**Model Code**") as set out in Appendix 10 of the Listing Rules. Having made specific enquiry of all Directors and the senior management of the Group, all Directors and the senior management of the Group have complied with the required standard set out in the Model Code and the Best Practices Code during FY2016.

Under the Best Practices Code, Directors, the Management and officers of the Group who are subject to the Best Practices Code or the Model Code are not permitted to deal in the Company's securities during the period commencing 30 days before the announcement of Company's half-year results, or if shorter, the period from the end of the relevant half-year period up to the announcement of the Company's half-year results, and 60 days before the announcement of the Company's full year results, or if shorter, the period from the end of the relevant full year period up to the announcement of the Company's full year results.

Directors and officers of the Group are also prohibited from dealing in the Company's securities when they are in possession of unpublished price sensitive or inside information of the Group. Directors and officers are also advised not to deal in the Company's securities for short term considerations and are expected to observe insider-trading laws at all times.

The Company issues regular internal memoranda to the Directors and officers of the Group to remind them of the aforementioned prohibitions.

(G) CONNECTED TRANSACTIONS

On 29 September 2016, the Company's wholly-owned subsidiary, Hengxin (Jiangsu), entered into the New Purchase Agreement and the New Sales Agreement i.e. the CCT Agreements with Suzhou Hengli for a term commencing from 1 January 2017 to 31 December 2019. The CCT Agreements were approved by shareholders at the extraordinary general meeting of the Company held on 6 December 2016.

Details of connected transactions for FY2016 which fall under Chapter 14A of the Listing Rules are set out in the section headed "Continuing Connected Transactions" in this Annual Report.

(H) CONSTITUTION

There was no significant change in the Constitution of the Company during FY2016.

Financial Contents

Directors' Statement

We are pleased to submit the annual report to the members of the Company together with the audited consolidated financial statements of the Group for the financial year ended 31 December 2016 ("**FY2016**").

In our opinion:

(a) the financial statements set out on pages 56 to 112 are drawn up so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2016 and the financial performance, changes in equity and cash flows of the Group for the year ended on that date in accordance with the provisions of the Singapore Companies Act, Chapter 50 (the "**Companies Act**") and International Financial Reporting Standards; and

(b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

The Board of Directors has, on the date of this statement, authorised these financial statements for issue.

DIRECTORS

The Directors in office during the financial year ended 31 December 2016 and at the date of this statement are as follows:

Cui Wei	Chairman and Non-executive Director
Du Xiping	Executive Director
Xu Guoqiang	Executive Director
Zhang Zhong	Non-executive Director
Tam Chi Kwan Michael	Independent Non-executive Director
Dr. Li Jun	Independent Non-executive Director
Pu Hong	Independent Non-executive Director

Arrangements to enable Directors to acquire benefits by means of the acquisition of shares and debentures

Neither at the end of nor at any time during the financial year ended 31 December 2016 did there subsist any arrangement, or was the Company a party to any arrangement, whose objects are, or one whose objects is, to enable the Directors of the Company to acquire benefits by means of the acquisition of shares or debentures in the Company or any other body corporate, except as disclosed under the "Share options" section of this statement.

Directors' interests

According to the register of Directors' shareholdings kept by the Company for the purposes of Section 164 of the Companies Act, particulars of interests of Directors who held office at the end of the financial year ended 31 December 2016 ("**FY2016**") (including those held by their respective spouses and infant children) in shares, debentures, warrants and share options in the Company and in related corporations (other than wholly-owned subsidiaries) are as follows:

Name of Director and corporation in which interests are held	Shareholdings at beginning of the year	Shareholdings at end of the year
Cui Wei		
Hengxin Technology Ltd.		
— ordinary shares		
— deemed interests[1]	90,294,662	90,294,662
Kingever Enterprises Limited[1]		
— ordinary shares		
— direct interest	90,294,662	90,294,662
Zhang Zhong		
Hengxin Technology Ltd.		
— ordinary shares		
— deemed interests[2]	28,082,525	28,082,525
Wellahead Holdings Limited[2]		
— ordinary shares		
— direct interest	28,082,525	28,082,525
Du Xiping		
Hengxin Technology Ltd.		
— ordinary shares		
— direct interest	11,468,000	11,468,000

1 Mr. Cui Wei beneficially owns the entire issued share capital of Kingever Enterprises Limited ("**Kingever**"), and Kingever in turn holds 90,294,662 issued shares in the Company. By virtue of Section 7 of the Companies Act, Mr. Cui Wei is deemed to have such interests as held by Kingever in the Company.

2 Ms. Zhang Zhong beneficially owns the entire issued share capital of Wellahead Holdings Limited ("**Wellahead**"), and Wellahead in turn holds 28,082,525 issued shares in the Company. By virtue of Section 7 of the Companies Act, Ms. Zhang Zhong is deemed to have such interests as held by Wellahead in the Company.

Except as disclosed in this statement, no Director who held office at the end of the financial year ended 31 December 2016 had interests in shares, debentures, warrants or share options of the Company, or of related corporations, either at the beginning or at the end of the financial year ended 31 December 2016.

There were no changes in any of the above mentioned interests in the Company between 31 December 2016 and 21 January 2017.

SHARE OPTIONS

Options to take up unissued shares

The Hengxin Share Option Scheme (the "**Share Option Scheme**") of the Company was approved and adopted by shareholders at the Company's extraordinary general meeting held on 27 October 2010. The Share Option Scheme is administered by the Remuneration Committee of the Company (the "**Remuneration Committee**") which comprises:

Dr. Li Jun	Chairman, Independent Non-executive Director
Cui Wei	Member, Non-executive Director
Xu Guoqiang	Member, Executive Director
Tam Chi Kwan Michael	Member, Independent Non-executive Director
Pu Hong	Member, Independent Non-executive Director

Directors' Statement (cont'd)

The Share Option Scheme is valid and effective for a period of 10 years from 27 October 2010. The purpose of the Share Option Scheme is to provide the people and the parties working for the interests of the Group with an opportunity to obtain an equity interest in the Company, thus linking their interest with the interest of the Group and thereby providing them with an incentive to work better for the interest of the Group. Pursuant to the Share Option Scheme, the Board may, at its discretion, offer to grant an option to all Directors (whether executive or non-executive and whether independent or not), any employee (whether full time or part time) of the Group (whether on an employment or contractual or honorary basis and whether paid or unpaid), who in the absolute opinion of the Remuneration Committee, have contributed to the Group. Under the Share Option Scheme, an option entitles the option holder to subscribe for a specific number of new ordinary shares in the Company. The total number of shares issued and to be issued upon exercise of the options granted to a grantee (including exercised, cancelled and outstanding options) in any 12-month period must not exceed 1% of the shares in issue at such time unless approved by the shareholders of the Company in general meeting at which the relevant participant and his/her associates shall abstain from voting. The option has an exercise price (more details below) per share determined with reference to the market price of the shares at the time of grant of the option. The consideration for the grant of an option is S$1.00 payable to the Company within 28 days from the offer date (or such other period as the Remuneration Committee may determine). Options granted with the exercise price set at the market price shall only be exercised after the first anniversary but before the tenth anniversary of the date of grant of that option. The shares under option may be exercised in whole or in part on the payment of the relevant exercise price (provided that an option may be exercised in part only in respect of a board lot or any integral multiple thereof). Options granted will lapse when the option holder ceases to be a full-time employee of the Company or any company of the Group subject to certain exceptions at the discretion of the Remuneration Committee. The period within which the options may be exercised under the Share Option Scheme shall not be more than 10 years from the date of grant of the relevant option.

There were no unissued shares of the Company under options granted pursuant to the Share Option Scheme. As at the date of the annual report, the total number of shares available for issue under the Share Option Scheme is 33,600,000 shares, representing approximately 8.66% of the shares in issue (i.e. 388,000,000 shares) as at the date of the annual report.

Exercise price or subscription price for an option shall be at least the highest of:

(i) the closing price of the shares of the Company as stated in the daily quotation sheet issued by The Stock Exchange of Hong Kong Limited ("**SEHK**") or the Singapore Exchange Securities Trading Limited ("**SGX-ST**") (whichever is higher) on the offer date, which must be a business day; and

(ii) the average closing price of the shares of the Company as stated in the daily quotation sheet issued by the SEHK or the SGX-ST for the five consecutive business days immediately preceding the offer date (whichever is higher).

Unissued shares under option and options exercised

During the financial year ended 31 December 2016, no options to take up unissued shares of the Company or any corporation in the Group were granted. There were no shares of the Company or any corporation in the Group issued by virtue of the exercise of an option to take up unissued shares.

Unissued shares under option

As at end of the financial year ended 31 December 2016, there were no unissued shares of the Company or any corporation in the Group under options.

AUDIT COMMITTEE

The Board has adopted the principles of corporate governance as described in the Code of Corporate Governance formulated by the SEHK with regards to the Audit Committee of the Company (the "**Audit Committee**").

The Audit Committee comprises the following members:

Tam Chi Kwan Michael	Chairman, Independent Non-executive Director
Cui Wei	Member, Non-executive Director
Zhang Zhong	Member, Non-executive Director
Dr. Li Jun	Member, Independent Non-executive Director
Pu Hong	Member, Independent Non-executive Director

During the financial year ended 31 December 2016, the Audit Committee has reviewed the following, where relevant, with the executive Directors and/or the external and internal auditors of the Company:

- the audit plans and results of the internal auditor's examination and evaluation of the Group's systems of internal accounting controls;
- the Group's financial and operating results and accounting policies;
- the consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company before their submission to the Directors of the Company and the external auditors' report on those financial statements;
- the interim and annual announcements as well as the related press release on the results and financial position of the Company and the Group;
- the co-operation and assistance given by the management to the Group's external auditors;
- the appointment and re-appointment of the external auditors of the Company;
- interested person transactions;
- all non-audit services provided by the Group's external auditors; and
- the financial reporting system, risk management and internal control systems of the Company.

The Audit Committee has full access to and co-operation of the management and has been given the resources required for it to discharge its function properly. It also has full discretion to invite any director and executive officer to attend its meetings. The external auditors have unrestricted access to the Audit Committee.

The Audit Committee has recommended to the Directors the nomination of KPMG LLP for the re-appointment as the external auditors of the Company at the forthcoming annual general meeting of the Company.

AUDITORS

On 24 October 2016, the Company received a notice from Messrs Deloitte & Touche LLP ("**Deloitte**") in relation to its resignation as the auditors of the Company with effect from 10 October 2016.

Following the resignation of Deloitte, the Company convened an extraordinary general meeting on 6 December 2016, at which the shareholders approved the appointment of KPMG LLP as the auditors of the Company and to hold office until conclusion of the forthcoming annual general meeting of the Company.

The Board, upon recommendation from the Audit Committee, will propose the re-appointment of KPMG LLP as the auditors of the Company at the forthcoming annual general meeting of the Company and KPMG have indicated their willingness to accept the re-appointment.

Directors' Statement (cont'd)

ADDITIONAL INFORMATION

The Directors are pleased to present in the report the following additional information as required under the Companies Ordinance (Chapter 622, the Laws of Hong Kong) and other relevant laws and regulations governed in Hong Kong.

Adoption of trading name

Pursuant to a special resolution passed at the extraordinary general meeting of the Company held on 27 October 2010, the Company has adopted "HX Singapore Ltd" as its trading name for carrying on business in Hong Kong.

Principal activities and business review

The Group is principally engaged in the research, design, development and manufacture of telecommunications and technological products, production of radio frequency coaxial cables for mobile communications and mobile communications systems exchange equipment.

Further discussion and analysis of these activities, the principal risks and uncertainties facing the Group, a business review of the Group as well as a discussion and analysis of the Group's performance during FY2016, the material factors underlying its results and financial position and an indication of likely future developments in the Group's business, can be found in the sections headed "Chairman's Message" and "Management Discussion and Analysis" as set out on pages 7 to 11 and pages 12 to 21 respectively of the annual report. These discussions form part of this Directors' statement.

In addition, details regarding the Group's performance by reference to environmental and social-related key performance indicators and policies, as well as relationships with its employees, customers and suppliers, required to be disclosed pursuant to Rule 13.91 of the Listing Rules will be provided in a separate report which will be published by the Company in due course.

Results and dividends

The Group's profit for FY2016 and the state of affairs of the Company and the Group as at 31 December 2016 are set out in the financial statements on pages 56 to 112 of the annual report.

A final dividend of RMB 2.97 cents per share in respect of the FY2015 was paid during FY2016 (2015: Nil). The Directors recommend the payment of a first and final dividend of RMB 2.57 cents (2015: RMB 2.97 cents) per share in respect of the FY2016 to shareholders of the Company whose names appear on the Company's register of members on Tuesday, 16 May 2017, and such dividend will be paid out on Monday, 29 May 2017. Upon approval by the shareholders, the payment will be incorporated in the financial statements as an allocation from accumulated profits within the equity section of the statement of financial position.

Board composition

During FY2016 and as at 31 December 2016, the Board comprised Mr. Du Xiping and Mr. Xu Guoqiang as Executive Directors, Mr. Cui Wei and Ms. Zhang Zhong as Non-Executive Directors, and Mr. Tam Chi Kwan Michael, Dr. Li Jun and Mr. Pu Hong as Independent Non-Executive Directors.

The Board composition during FY2016 is set out at the "Corporate Governance Report" on pages 29 to 40 of the annual report.

Five year summary

A summary of the consolidated results and assets and liabilities of the Group for the last five financial years is set out on pages 2 to 6 of the annual report. This summary does not form part of the audited financial statements.

Property, plant and equipment

Details of movements in the property, plant and equipment of the Group during FY2016 are set out in Note 17 to the financial statements.

Share capital
Details of the Company's share capital are set out in Note 21(B) to the financial statements.

Pre-emptive rights
There are no provisions for pre-emptive rights under the Company's Constitution or the laws of Singapore, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to the existing shareholders.

Purchase, redemption or sale of shares
Neither the Company, nor its subsidiaries, purchased, redeemed or sold its equity securities during FY2016.

Confirmation of independence
The Company has received from each of the Independent Non-Executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all of the Independent Non-Executive Directors to be independent.

Directors' service contracts
Each of the Executive Directors, Mr. Du Xiping and Mr. Xu Guoqiang, entered into a service contract with the Company for a term of three years commencing on 31 December 2015 and 20 December 2011 respectively, renewable automatically for any successive terms upon the date of expiry of each three-year period, unless terminated in accordance with the provisions of the service contract by either contractual party giving to the other not less than three months' prior notice in writing at the end of the initial term or at any time thereafter. The service agreement for Mr. Xu Guoqiang had been renewed for a term of another three years commencing 20 December 2014.

Save as disclosed above, none of the Directors has or is proposed to have entered into any service contracts with the Company or any of its subsidiaries which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

No Directors proposed for re-election at the forthcoming Annual General Meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

Directors' remuneration
Directors' remuneration is subject to approval by the Remuneration Committee of the Company with reference to the directors' duties, responsibilities and performance and the results of the Group. Details of the Directors' remuneration are set out in Note 11 of the financial statements.

Directors' interests in contracts
Details of the connected transactions and related party transactions are set out in the "Corporate Governance Report" and Note 30(B) to the financial statements.

Directors' Statement (cont'd)

Save as disclosed above, no transaction, arrangement or contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a director, or an entity connected with a director, had a material interest, whether directly or indirectly, subsisted at any time during FY2016 or at the end of FY2016.

Directors' and chief executive's interests and short positions in shares and underlying shares and debentures

As at 31 December 2016, the interests and short positions of the Directors and chief executives of the Company in shares and underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong, the "**SFO**")), which are required to be notified to the Company and the SEHK pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which are deemed or taken to have under such provisions of the SFO) or which are required to be entered into, as recorded in the register required to be kept by the Company pursuant to Section 352 of Part XV of the SFO, or as otherwise notified to the Company and the SEHK pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 of the Listing Rules, were as follows:

Long positions in the Company:

Name of Directors	Capacity and nature of interests	Number of ordinary shares held	Approximate percentage of the Company's issued share capital
Mr. Cui Wei [1]	Deemed interest and interest in controlled corporation	90,294,662	23.27%
Ms. Zhang Zhong [2]	Deemed interest and interest in controlled corporation	28,082,525	7.24%
Mr. Du Xiping	Beneficial owner	11,468,000	2.96%

Notes:

(1) Mr. Cui Wei beneficially owns the entire issued share capital of Kingever, and Kingever in turn holds approximately 23.27% of the total issued shares in the Company.

(2) Ms. Zhang Zhong beneficially owns the entire issued share capital of Wellahead, and Wellahead in turn holds approximately 7.24% of the total issued shares in the Company.

Saved as disclosed above, as at 31 December 2016, none of the Directors and chief executives of the Company nor their associates had or deemed to have any interests or short position in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which has been recorded in the register maintained by the Company pursuant to Section 352 of Part XV of the SFO or which has been notified to the Company and the SEHK pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2016, insofar as known to the Directors, the following shareholders having interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of Part XV of the SFO:

Long positions in the Company:

Name	Capacity and nature of interests	Number of ordinary shares held	Approximate percentage of the Company's issued share capital
Kingever	Beneficial owner	90,294,662	23.27%
Mr. Cui Wei [(1)]	Deemed interest and interest in controlled corporation	90,294,662	23.27%
Wellahead	Beneficial owner	28,082,525	7.24%
Mr. Zhang Zhong [(2)]	Deemed interest and interest in controlled corporation	28,082,525	7.24%

Notes:

(1) Kingever is a company incorporated in the British Virgin Islands, and the entire issued share capital of which is beneficially owned by Mr. Cui Wei.

(2) Wellahead is a company incorporated in the British Virgin Islands, and the entire issued share capital of which is beneficially owned by Ms. Zhang Zhong.

Saved as disclosed above, as at 31 December 2016, no person, other than the Directors, whose interests are set out in the section headed "Directors' and chief executives' interests and short positions in shares and underlying shares and debentures" above, had an interest or short position in the shares or underlying shares of the Company that was required to be recorded in the register required to be kept by the Company under section 336 of Part XV of the SFO.

EQUITY-LINKED AGREEMENTS

Save as the Share Option Scheme as disclosed in the section headed "Share Options" above, no equity-linked agreements were entered into during FY2016 or subsisted at the end of FY2016.

RESERVES

Details of movements in the reserves of the Company and the Group during FY2016 are set out in Note 21 to the financial statements.

DISTRIBUTABLE RESERVES

The Company's reserves available for distribution to shareholders as at 31 December 2016 amounted to approximately RMB163,367,000 (31 December 2015: approximately RMB181,390,000).

DONATIONS

The Group had made donations amounting approximately RMB500,000 (2015: approximately RMB500,000) which is part of a donation commitment to a charity association and payable in equal annual instalments over a period of 20 years commencing from 2007.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the latest practicable date prior to the issue of the annual report.

Directors' Statement (cont'd)

RELATIONSHIP WITH CUSTOMERS AND SUPPLIERS

The Group's sales are usually made through winning tender. For the Group's major customers such as the 3 telecom operators in the PRC, a centralised purchasing approach is adopted in which all purchases are tendered out by the central purchasing office annually or once every two years. Larger institutional customers such as telecom operators, equipment manufacturers and system integrators assess the Group regularly as to whether the Group fulfils their criteria to continue being included as their approved supplier. We have regular communications with our customers through which we can anticipate the development in the telecoms industry and coming tenders, and help us to keep abreast of our customers' product and demand trends, which enable the Group to continuously improve its product offerings.

The Group also adopts tender process for selection of qualified suppliers for all its purchases. Admission as a qualified supplier can only be made when all relevant requirements, including but not limited to background, validity of its licences/permits, production capacity, equipment, product quality assessment, etc., have been met. We do not give preference to any particular supplier, nor do we place all our purchase orders with only one supplier. Tender documents are issued to qualified suppliers every year. Generally, if qualified suppliers obtain similar scores in an overall assessment, the supplier with the most favourable price gets the highest allocation of purchase quantity. The tendered quantity of purchase will be allocated in descending amount to subsequent ranking suppliers. Evaluation of suppliers is also carried out quarterly, half-yearly or annually with respect to different materials. These evaluation results will be taken into account for consideration for the next annual tender. For major suppliers, on-site visits will be conducted at the supplier's facilities with inspections and testing being made on the required raw materials. We believe that these measures can help the Group in sourcing quality raw materials at competitive prices on one hand and can avoid heavy reliance on one particular supplier on the other.

MAJOR CUSTOMERS AND SUPPLIERS

In FY2016, sales to the Group's five largest customers accounted for approximately 71.0% of the total sales for the year and sales to the largest customer included therein amounted to approximately 23.7%. Purchases from the Group's five largest suppliers accounted for approximately 49.3% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 14.2%.

None of the Directors or any of their close associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and suppliers.

EMPLOYEES

As at 31 December 2016, we employed 966 (31 December 2015: 982) people on a full-time basis among whom, 104 were in product research and development, 140 were in sales and marketing, 601 were in manufacturing and distribution, and 121 were in general and administration.

Hiring, growing and retaining talented, experienced and innovative individuals are vital to the Company's success.

We regularly invest in developing our people with ongoing training. Retention strategies are in place to minimise employee turnover including talent and performance management, competitive remuneration, recognition and reward programmes of high-performance employees. Human resource policies are also in place to support, attract, retain and grow talent, as well as to create a conducive work environment.

RETIREMENT SCHEMES

Details of retirement schemes of the Group during FY2016 are set out in Note 10 to the financial statements.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group strives to operate in compliance with applicable environmental laws as well as to protect the environment by minimising the negative impact of the Group's existing business activities on the environment and supporting natural and environmental protection schemes.

The Company obtained the certification of OHSAS 18000 for assessment of environment system by effectively controlling the usage of water and electricity and raw materials, formulating assessment procedures on water and electricity consumption by equipment department and assessment system of utilization rate of raw materials by production department. Besides, the Group's key operating subsidiary, Hengxin (Jiangsu), has obtained the ISO 14001:2004 certification for Environmental Management Systems since 2007, and has always been in compliance with the national environmental policies of PRC.

COMPLIANCE WITH LAWS AND REGULATIONS

Throughout FY2016, to the best knowledge, information and belief, the Company was not aware of any non-compliance with any relevant laws and regulations that had a significant impact on the Company.

PERMITTED INDEMNITY PROVISIONS

A permitted indemnity provision for the benefit of the Directors is currently in force and was in force throughout FY2016. The Company has taken out and maintained appropriate insurance cover in respect of potential legal actions against its Directors and officers.

On behalf of the Board of Directors

Du Xiping
Director

Xu Guoqiang
Director

10 March 2017

Independent Auditor's Report

Members of the Company
Hengxin Technology Ltd.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the accompanying financial statements of Hengxin Technology Ltd. (the "**Company**") and its subsidiaries (the "**Group**"), which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 December 2016, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 56 to 112.

In our opinion, the accompanying consolidated financial statements of the Group and the statement of financial position of the Company are properly drawn up in accordance with the provisions of the Singapore Companies Act, Chapter 50 (the "**Act**") and International Financial Reporting Standards ("**IFRS**") so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2016 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group for the year ended on that date.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("**ISA**"). Our responsibilities under those standards are further described in the Auditors' responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority ("**ACRA**") Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities ("**ACRA Code**") together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of trade receivables (RMB515,022,000)
(Refer to Note 15 to the financial statements)

The key audit matter

The Group has significant trade receivables balances as at year end. Given the size of the balances and the risk that some of the trade receivables may not be recoverable, judgement is required to evaluate whether any allowance should be made to reflect the risk.

The Group assessed the recoverability of trade receivables with reference to industry practices for the allowance on impairment loss and ageing analysis of the trade receivables, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

How the matter was addressed in our audit

Our audit work was focused on trade receivables which are significant and long overdue as these are considered to be most susceptible to impairment.

We reviewed the ageing analysis of the Group's trade receivables and assessed the recoverability of significant and long overdue balances, with reference to sales and payment track records. This includes ascertaining that the trade receivables are aged correctly. We also examined subsequent receipts from the customers, or where there were no subsequent receipts, analysed their payment track records to assess the recoverability of the outstanding trade receivables. We considered whether management's assessment of the impact of current economic and credit conditions on the recoverability of trade receivables was appropriate given the changing economic conditions faced by customers. We have taken into consideration publicly available information of the Group's major customers, competitors, industry outlook and local country economic data to corroborate with management's assessment.

Our findings — We found management's assessment of the recoverability of trade receivables for the allowance on impairment loss and ageing analysis of the trade receivables, to be conservative.

Other matter

The financial statements for the year ended 31 December 2015 were audited by another auditor who expressed an unmodified opinion on those financial statements on 10 March 2016.

Other information

Management is responsible for the other information. The other information comprises the annual report but does not include the financial statements and our auditors' report thereon.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independent Auditor's Report (cont'd)

Responsibilities of management and directors for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and IFRSs, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Group's financial reporting process.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISA, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In our opinion, the accounting and other records required by the Act to be kept by the Company and by those subsidiary corporations incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditors' report is Teo Han Jo.

KPMG LLP
Public Accountants and Chartered Accountants

Singapore
10 March 2017

Statements of Financial Position

At 31 December 2016

	Note	Group		Company	
		2016	2015	2016	2015
		RMB'000	RMB'000	RMB'000	RMB'000
Assets					
Property, plant and equipment	17	146,112	154,343	8	17
Lease prepayment	18	50,695	52,049	—	—
Subsidiaries	27	—	—	396,385	396,385
Trade and other receivables	15	22,872	—	42,675	56,159
Associate	19	20,592	—	—	—
Other investments	20	32,947	10,647	—	—
Deferred tax assets	13(D)	77	3,417	—	—
Non-current assets		273,295	220,456	439,068	452,561
Lease prepayment	18	1,355	1,355	—	—
Inventories	14	170,296	115,694	—	—
Other investments	20	29,000	—	—	—
Trade and other receivables	15	593,656	602,708	15,153	16,904
Cash and cash equivalents	16	560,228	625,084	5,607	9,072
Current assets		1,354,535	1,344,841	20,760	25,976
Total assets		1,627,830	1,565,297	459,828	478,537
Equity attributable to owners of the Company					
Share capital	21(B)	295,000	295,000	295,000	295,000
General reserves	21(C)	200,601	182,898	—	—
Special reserve	21(C)	(6,017)	(6,017)	—	—
Fair value reserve	21(C)	18,955	—	—	—
Translation reserves	21(C)	(803)	(1,314)	—	—
Accumulated profits	21(A)	888,223	817,608	163,367	181,390
Total equity		1,395,959	1,288,175	458,367	476,390
Liabilities					
Deferred income	25	5,203	6,231	—	—
Deferred tax liabilities	13(D)	5,505	4,583	—	—
Non-current liabilities		10,708	10,814	—	—
Income tax payable		5,527	2,601	—	—
Short-term loans	23	27,000	117,404	—	—
Trade and other payables	24	188,636	146,303	1,461	2,147
Current liabilities		221,163	266,308	1,461	2,147
Total liabilities		231,871	277,122	1,461	2,147
Total equity and liabilities		1,627,830	1,565,297	459,828	478,537

The notes on page 60 to 112 are an integral part of these financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2016

	Note	2016 RMB'000	2015 RMB'000
Revenue	6	1,532,161	1,565,984
Cost of sales		(1,215,379)	(1,259,965)
Gross profit		316,782	306,019
Other operating income	7(A)	25,798	20,573
Selling and distribution expenses		(108,328)	(87,693)
Administrative expenses		(53,116)	(44,399)
Other operating expenses	7(B)	(53,262)	(52,328)
Operating profit		127,874	142,172
Finance costs	8	(1,479)	(7,001)
Share of loss of associate, net of tax	19	(4,936)	—
Profit before tax	7(C)	121,459	135,171
Income tax expense	13	(21,617)	(19,993)
Profit for the year attributable to owners of the Company		99,842	115,178
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss:			
Available-for-sale financial assets — net change in fair value		22,300	—
Foreign operations — foreign currency translation differences		511	(484)
Related tax	13(D)	(3,345)	—
Other comprehensive income for the year, net of tax		19,466	(484)
Total comprehensive income for the year attributable to owners of the Company		119,308	114,694
Basic and diluted earnings per share (RMB cents)	9	25.7	29.7

The notes on page 60 to 112 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

	Note	Share capital RMB'000	General reserves RMB'000	Special reserve RMB'000	Translation reserves RMB'000	Accumulated profits RMB'000	Total RMB'000
At 1 January 2015		295,000	163,829	(6,017)	(830)	721,499	1,173,481
Total comprehensive income for the year							
Profit for the year		—	—	—	—	115,178	115,178
Other comprehensive income		—	—	—	(484)	—	(484)
Total comprehensive income for the year		—	—	—	(484)	115,178	114,694
Transfer to statutory reserves	21(C)	—	19,069	—	—	(19,069)	—
Balance at 31 December 2015		295,000	182,898	(6,017)	(1,314)	817,608	1,288,175

	Note	Share capital RMB'000	General reserves RMB'000	Special reserve RMB'000	Fair value reserve RMB'000	Translation reserves RMB'000	Accumulated profits RMB'000	Total RMB'000
At 1 January 2016		295,000	182,898	(6,017)	—	(1,314)	817,608	1,288,175
Total comprehensive income for the year								
Profit for the year		—	—	—	—	—	99,842	99,842
Other comprehensive income		—	—	—	18,955	511	—	19,466
Total comprehensive income for the year		—	—	—	18,955	511	99,842	119,308
Transactions with owners of the Company								
Contributions and distributions								
Dividends paid	21(D)	—	—	—	—	—	(11,524)	(11,524)
Total transactions with owners of the Company		—	—	—	—	—	(11,524)	(11,524)
Transfer to statutory reserves	21(C)	—	17,703	—	—	—	(17,703)	—
Balance at 31 December 2016		295,000	200,601	(6,017)	18,955	(803)	888,223	1,395,959

The notes on page 60 to 112 are an integral part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	Note	2016 RMB'000	2015 RMB'000
Cash flows from operating activities			
Profit before tax		121,459	135,171
Adjustments for:			
— Allowance for/(Reversal of) doubtful trade receivables	15(A)	325	(1,649)
— Amortisation of lease prepayment	18(A)	1,354	1,355
— Deferred income		(1,028)	(4,269)
— Depreciation of property, plant and equipment	17(A)	21,002	21,334
— Finance costs	8	1,479	7,001
— Interest income	7(A)	(8,256)	(6,883)
— Loss on disposal of property, plant and equipment	7(B)	14	1,943
— Share of loss of associate, net of tax	19	4,936	—
— Write-down of inventory	14	24	234
— Unrealised foreign exchange gain		(9,773)	(12,322)
		131,536	141,915
Changes in:			
— Inventories		(54,142)	37,113
— Trade and other receivables		11,822	94,646
— Trade and other payables		40,797	(13,229)
Cash generated from operating activities		130,013	260,445
Interest received		8,256	6,883
Income tax paid		(17,774)	(20,972)
Net cash from operating activities		120,495	246,356
Cash flows from investing activities			
Acquisition of property, plant and equipment	17(A)	(16,582)	(30,212)
Acquisition of associate	19	(25,528)	—
Loans to the associate		(24,872)	—
Proceeds from disposal of property, plant and equipment		3,797	317
Acquisition of other investments		(29,000)	(647)
Net cash used in investing activities		(92,185)	(30,542)
Cash flows from financing activities			
Changes in pledged bank deposits		13,158	3,600
Dividends paid to owners of the Company	21(D)	(11,524)	—
Interest paid		(1,479)	(7,001)
Proceeds from short-term bank loans		27,870	165,713
Repayment of short-term bank loans		(118,274)	(253,157)
Net cash used in financing activities		(90,249)	(90,845)
Net (decrease)/increase in cash and cash equivalents		(61,939)	124,969
Cash and cash equivalents at 1 January		605,907	469,100
Effects of movements in exchange rates on cash held		10,241	11,838
Cash and cash equivalents at 31 December	16	554,209	605,907

The notes on page 60 to 112 are an integral part of these financial statements.

Notes to the Financial Statements

1 REPORTING ENTITY

Hengxin Technology Ltd. ("**the Company**") is incorporated in the Republic of Singapore. The address of the Company's principal place of business is 7 Temasek Boulevard, #04-02B, Suntec Tower One, Singapore 038987. The address of the Company's registered office is 55 Market Street, #08-01, Singapore 048941. The Company is primarily listed on the Main Board of the Stock Exchange of Hong Kong Limited with a secondary listing on the Main Board of the Singapore Exchange Securities Trading Limited.

The financial statements of the Group as at and for the year ended 31 December 2016 comprise the Company and its subsidiaries (together referred to as the "**Group**" and individually as "**Group entities**") and the Group's interest in equity-accounted investees.

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are disclosed in Note 27 to the financial statements.

2 BASIS OF ACCOUNTING

The financial statements have been prepared in accordance with the International Financial Reporting Standards ("**IFRS**"). They were authorised for issue by the Company's Board of Directors on 10 March 2017.

Details of the Group's accounting policies are included in Note 33.

3 FUNCTIONAL AND PRESENTATION CURRENCY

These financial statements are presented in Renminbi ("**RMB**"), which is the Company's functional currency. All financial information presented in RMB has been rounded to the nearest thousand, unless otherwise stated.

4 USE OF JUDGEMENTS AND ESTIMATES

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

A. Judgements

There is no critical judgement in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements.

B. Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ending 31 December 2017 is included in Note 15 — Recoverable amount of trade receivables.

4 USE OF JUDGEMENTS AND ESTIMATES (cont'd)

B. Assumptions and estimation uncertainties (cont'd)

i. *Measurement of fair values*

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Group has an established control framework with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for all significant fair value measurements, including Level 3 fair values, and reports directly to the Chief Financial Officer.

The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

Significant valuation issues are reported to the Group's Audit Committee.

When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in the Note 26 — Financial instruments.

Notes to the Financial Statements (cont'd)

5 OPERATING SEGMENTS

A. Basis for segmentation

The Group determines its operating segments based on internal reports about components of the Group that are regularly reviewed by the Executive Directors (the chief operating decision makers) in order to allocate resources to the segments and to assess their performance.

Based on the segment information reported to the Executive Directors, the Group is organised into five product lines — radio frequency coaxial cables, telecommunication equipment and accessories, high temperature resistant cables, antennas and antenna testing services.

The Group has presented the two main products, radio frequency coaxial cables and telecommunication equipment and accessories, as reportable segments. The other products do not meet any of the quantitative thresholds for determining reportable segments in 2015 and 2016 and have therefore been combined.

B. Information about reportable segments

Information related to each reportable segment is set out below. Segment profit (loss) before tax is used to measure performance because management believes that this information is the most relevant in evaluating the results of the respective segments relative to other entities that operate in the same industries.

	Reportable segments				
	Radio frequency coaxial cables RMB'000	Telecommunication equipment and accessories RMB'000	Total reportable segments RMB'000	All other segments RMB'000	Total RMB'000
Group					
2016					
Revenue	1,050,555	376,303	1,426,858	105,303	1,532,161
Segment profit before tax[1]	52,643	57,564	110,207	8,018	118,225
Interest income	5,661	2,028	7,689	567	8,256
Finance costs	(1,014)	(363)	(1,377)	(102)	(1,479)
Amortisation of lease prepayment	(929)	(332)	(1,261)	(93)	(1,354)
Allowance for inventory obsolescence	—	—	—	(24)	(24)
Depreciation expense	(14,395)	(5,156)	(19,551)	(1,442)	(20,993)
Segment assets[2]	1,112,099	398,348	1,510,447	111,472	1,621,919
Capital expenditure[3]	11,370	4,072	15,442	1,140	16,582
Segment liabilities[2]	157,985	56,589	214,574	15,836	230,410

5 OPERATING SEGMENTS (cont'd)

B. Information about reportable segments (cont'd)

	Reportable segments				
	Radio frequency coaxial cables RMB'000	Telecom-munication equipment and accessories RMB'000	Total reportable segments RMB'000	All other segments RMB'000	Total RMB'000
Group					
2015					
External revenue	1,059,713	408,058	1,467,771	98,213	1,565,984
Segment profit before tax[1]	67,177	64,331	131,508	1,276	132,784
Interest income	4,656	1,795	6,451	426	6,877
Finance costs	(4,740)	(1,827)	(6,567)	(434)	(7,001)
Amortisation of lease prepayment	(917)	(354)	(1,271)	(84)	(1,355)
Allowance for inventory obsolescence	—	—	—	(234)	(234)
Depreciation expense	(12,625)	(4,861)	(17,486)	(3,842)	(21,328)
Segment assets[2]	1,053,363	406,097	1,459,460	96,468	1,555,928
Capital expenditure[3]	8,859	3,415	12,274	17,928	30,202
Segment liabilities[2]	186,158	71,768	257,926	17,049	274,975

1 Segment profit before tax represent the profits earned by each segment without allocation of central administration costs, independent directors' fees, interest income, foreign exchange gains and losses and finance costs at corporate level.

2 Segment assets represent property, plant and equipment, lease prepayment, associate, other investments, deferred tax assets, inventories, trade and other receivables and prepayment, cash and cash equivalents which are attributable to each operating segments. Segment liabilities represent deferred income, deferred tax liabilities, short-term loans, trade and other payables, and income tax payable, which are attributable to each operating segments.

3 Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment, and intangible assets other than goodwill.

Notes to the Financial Statements (cont'd)

5 OPERATING SEGMENTS (cont'd)

C. Reconciliations of information on reportable segments to IFRS measures

	Group 2016 RMB'000	2015 RMB'000
Profit before tax		
Total profit before tax for reportable segments	110,207	131,508
Profit before tax for other segments	8,018	1,276
Unallocated amounts:		
— Other income	17,542	13,690
— Other expenses[1]	(832)	(2,703)
— Share of loss of associate	(4,936)	—
— Other unallocated amounts	(8,540)	(8,600)
Consolidated profit before tax	121,459	135,171

	Group 2016 RMB'000	2015 RMB'000
Assets		
Total assets for reportable segments	1,510,447	1,459,460
Assets for other segments	111,472	96,468
Other unallocated amounts[2]	5,911	9,369
Consolidated total assets	1,627,830	1,565,297
Liabilities		
Total liabilities for reportable segments	214,574	257,926
Liabilities for other segments	15,836	17,049
Other unallocated amounts[2]	1,461	2,147
Consolidated total liabilities	231,871	277,122

1 Excluding research and development expenses

2 Unallocated assets mainly represent cash and cash equivalents, other receivables and prepayments and property, plant and equipment at Company level. Unallocated liabilities represent deferred tax liabilities and other payables at Company level.

5 OPERATING SEGMENTS (cont'd)

C. Reconciliations of information on reportable segments to IFRS measures (cont'd)

Other material items

	Reportable and all other segment totals RMB'000	Adjustments RMB'000	Consolidated totals RMB'000
2016			
Depreciation expense	(20,993)	(9)	(21,002)
2015			
Interest income	6,877	6	6,883
Capital expenditure	30,202	10	30,212
Depreciation expense	(21,328)	(6)	(21,334)

D. Geographical information

The geographical regions of the customers of the Group principally comprise the People's Republic of China ("**PRC**"), India and other countries.

The geographic information analyses the Group's revenue and non-current assets by the Company's country of domicile and other countries. In presenting the geographic information, segment revenue has been based on the geographic location of customers and segment assets were based on the geographic location of the assets.

	Revenue from external customer		Non-current assets[1]	
	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
PRC	1,355,403	1,409,304	241,260	206,369
India	80,815	78,988	3	6
Other countries	95,943	77,692	8	17
	1,532,161	1,565,984	241,271	206,392

[1] Excluding other investments and deferred tax assets

Notes to the Financial Statements (cont'd)

5 OPERATING SEGMENTS (cont'd)

E. Major customer

Revenue from major customers which accounts for 10% or more of the Group's revenue are as follows:

	Group 2016 RMB'000	Group 2015 RMB'000
Customer A	363,371	469,672
Customer B	347,374	226,260
Customer C	222,517	211,389
Total	933,262	907,321

6 REVENUE

	Group 2016 RMB'000	Group 2015 RMB'000
Sales of goods:		
— Radio frequency coaxial cables	1,050,555	1,059,713
— Telecommunication equipment and accessories	376,303	408,058
— Others	105,104	97,397
Service income	199	816
	1,532,161	1,565,984

7 INCOME AND EXPENSE

A. Other operating income

	Note	Group 2016 RMB'000	Group 2015 RMB'000
Compensation claims received		669	551
Government grants	25	6,688	7,059
Interest income		8,256	6,883
Net foreign exchange gain		6,051	5,748
Rental income		2,857	—
Others		1,277	332
		25,798	20,573

7 INCOME AND EXPENSE (cont'd)

B. Other operating expenses

	Group 2016 RMB'000	Group 2015 RMB'000
Donation	700	700
Loss on disposal of property, plant and equipment	14	1,943
Research and development expenses	52,430	49,625
Others	118	60
	53,262	52,328

These research and development expenses were not capitalised as the Group cannot demonstrate that an intangible asset exists that will generate probable future economic benefits.

C. Profit for the year

The following items have been included in arriving at profit for the year:

	Note	Group 2016 RMB'000	Group 2015 RMB'000
Amortisation of lease prepayment	18(A)	1,354	1,355
Audit and related services fees paid to:			
— auditors of the Company		387	426
— other member firms of KPMG International		540	—
— other auditors		305	720
Depreciation of property, plant and equipment	17(A)	21,002	21,334
Employee benefit expenses	10	131,426	106,678
Non-audit fees paid to:			
— auditors of the Company		—	37
— other auditors		256	250
Operating lease expense		1,483	1,057
Recognition/(Reversal) of allowance for doubtful debts	15(A)	325	(1,649)
Write-down of inventory	14	24	234

8 FINANCE COSTS

	Group 2016 RMB'000	Group 2015 RMB'000
Interest expense on bank loans	1,479	7,001

Notes to the Financial Statements (cont'd)

9 EARNINGS PER SHARE

A. Basic earnings per share

The calculation of basic earnings per share at 31 December 2016 was based on the profit attributable to ordinary equity shareholders of RMB99,842,000 (2015: RMB115,178,000), and a weighted average number of ordinary shares outstanding of 388,000,000 (2015: 388,000,000), calculated as follows:

Weighted average number of ordinary shares:

	Group	
	2016	**2015**
	'000	**'000**
Issued ordinary shares and weighted average number of ordinary shares at 1 January and 31 December	388,000	388,000

B. Diluted earnings per share

There were no dilutive potential ordinary shares in existence for the years ended 31 December 2016 and 2015. The calculated diluted earnings per share equals the basic earnings per share at 31 December 2016 and 2015.

10 EMPLOYEE BENEFIT EXPENSES

		Group	
	Note	**2016**	**2015**
		RMB'000	**RMB'000**
Staff costs		122,673	96,767
Contributions to defined contribution plans		5,216	5,865
Executive directors' remuneration			
— directors of Company	11	1,944	2,148
— directors of the subsidiaries		3	36
Non-executive directors' fees	11	1,590	1,862
	7(C)	131,426	106,678

Pursuant to the relevant regulations of the PRC government, the PRC subsidiaries have participated in central pension schemes (**"the Schemes"**) operated by local municipal government whereby the subsidiary is required to contribute 24% of the basic salaries of their employees to the Schemes to fund their retirement benefits. The local municipal government undertake to assume the retirement benefit obligations of all existing and future retired employees of the subsidiary. The only obligation of the subsidiaries with respect to the Scheme is to pay the ongoing required contributions under the Schemes mentioned above. Contributions under the Schemes are charged to profit or loss as incurred.

As at 31 December 2016, the contributions due in respect of the year that had not been paid over to the schemes were approximately RMB616,000 (2015: RMB785,000). The amounts were paid subsequent to the end of the reporting period.

11 DIRECTOR'S EMOLUMENTS

Directors' emoluments is as follows:

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Total RMB'000
Group				
2016				
Executive directors				
Du Xiping	—	837	70	907
Xu Guoqiang	—	634	403	1,037
Non-executive directors				
Cui Wei	411	—	—	411
Zhang Zhong	323	—	—	323
Independent non-executive directors				
Tam Chee Kwan Michael	342	—	—	342
Dr. Li Jun	257	—	—	257
Pu Hong	257	—	—	257
	1,590	1,471	473	3,534
2015				
Executive directors				
Cui Genxiang[1]	—	823	272	1,095
Xu Guoqiang	—	646	404	1,050
Du Xiping	—	3	—	3
Non-executive directors				
Cui Wei	297	—	—	297
Zhang Zhong	307	—	—	307
Independent non-executive directors				
Tay Ah Kong Bernard[2]	278	—	—	278
Chee Teck Kwong Patrick[2]	255	—	—	255
Tam Chee Kwan Michael	325	—	—	325
Dr. Li Jun	200	—	—	200
Pu Hong	200	—	—	200
	1,862	1,472	676	4,010

[1] The executive director resigned on 31 December 2015.

[2] The independent non-executive directors resigned on 27 April 2015.

During 2015 and 2016, there were no amounts paid or payable by the Group to the directors or any of the highest paid individuals set out in Note 12 below as an inducement to join or upon joining the Group or as compensation for loss of office.

Notes to the Financial Statements (cont'd)

12 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2015: two) are directors whose emoluments are disclosed in Note 11. The aggregate of the emoluments in respect of the other three (2015: three) individuals are as follows:

	Group	
	2016	**2015**
	RMB'000	**RMB'000**
Salaries, allowances and benefits in kind	1,555	1,473
Performance related bonuses	1,247	1,095
Retirement scheme contributions	101	80
	2,903	2,648

The emoluments of the three (2015: three) individuals with the highest emoluments are within the following bands:

	Group Number of employees	
	2016	**2015**
HKD Nil to HKD1,000,000	2	2
HKD1,000,001 to HKD1,500,000	1	1
	3	3

13 INCOME TAXES

A. Amounts recognised in profit or loss

		Group	
	Note	**2016**	**2015**
		RMB'000	**RMB'000**
Current tax expense			
Current year		20,780	20,578
Changes in estimates related to prior years		(80)	(443)
		20,700	20,135
Deferred tax expense			
Origination and reversal of temporary differences	13(D)	917	(142)
Income tax expense		21,617	19,993

Tax expense excluded the Group's share of tax expense of the Group's equity-accounted investees which has been included in "share of loss of equity-accounted investee" in the consolidated statement of profit or loss and other comprehensive income. The Group's equity-accounted investees did not recognise any tax expense during the year ended 31 December 2016.

13 INCOME TAXES (cont'd)

B. Amounts recognised in other comprehensive income ("OCI")

	2016			2015		
	Before tax RMB'000	Tax expense RMB'000	Net of tax RMB'000	Before tax RMB'000	Tax expense RMB'000	Net of tax RMB'000
Group						
Available-for-sale financial assets	22,300	(3,345)	18,955	—	—	—

C. Reconciliation of effective tax rates

	Group			
	2016		2015	
	%	RMB'000	%	RMB'000
Reconciliation of effective tax rate				
Profit before tax		121,459		135,171
Tax using the PRC statutory tax rate of 25% (2015: 25%)	25.0%	30,365	25.0%	33,792
Effect of concessionary tax rate	(11.7%)	(14,152)	(11.7%)	(15,856)
Tax effect of:				
— Share of loss of associate reported, net of tax	1.0%	1,234	—	—
— Non-deductible expenses	3.5%	4,250	1.8%	2,500
Changes in estimates related to prior years	(0.1%)	(80)	0.3%	(443)
	17.8%	21,617	14.8%	19,993

Singapore, PRC and Indian income tax liabilities are calculated at the applicable rates in accordance with the relevant tax laws and regulation in respective countries.

Pursuant to a PRC Enterprise Income Tax Law promulgated on 16 March 2007, the enterprise income tax for both domestic and foreign-invested enterprises has been unified at 25% effective from 1 January 2008.

Jiangsu Hengxin Technology Co., Ltd ("**Jiangsu Hengxin**"), a wholly foreign-owned enterprise ("**WFOE**"), established in the city of the coastal open economic zone, is subjected to a PRC corporate tax rate of 25%. In 2008, the subsidiary has been awarded the High-Tech Enterprise Award status and the applicable effective tax rate was 15% based on PRC Enterprise Income Tax laws for the three financial years starting from 31 December 2008. Subsequently, the status was renewed in 2011 and 2014, and the concession will end on 30 June 2017.

Notes to the Financial Statements (cont'd)

13 INCOME TAXES (cont'd)

D. Movement in deferred tax balances

	Net balance at 1 January RMB'000	Recognised in profit or loss (see (A)) RMB'000	Recognised in OCI (see (B)) RMB'000	Balance at 31 December Net RMB'000	Balance at 31 December Deferred tax assets RMB'000	Balance at 31 December Deferred tax liabilities RMB'000
Group						
2016						
Allowance for doubtful receivables	2,364	(195)	—	2,169	2,169	—
Allowance for inventory obsolescence	102	(37)	—	65	65	—
Available-for-sale financial assets	—	—	(3,345)	(3,345)	—	(3,345)
Deferred income	934	(154)	—	780	780	—
Unrealised exchange loss	17	(1)	—	16	16	—
Undistributed reserves of the PRC subsidiaries	(4,583)	(530)	—	(5,113)	—	(5,113)
Tax assets/(liabilities) before set-off	(1,166)	(917)	(3,345)	(5,428)	3,030	(8,458)
Set-off of tax				—	(2,953)	2,953
Net tax assets/(liabilities)				(5,428)	77	(5,505)
2015						
Allowance for doubtful receivables	2,364	—	—	2,364	2,364	—
Allowance for inventory obsolescence	31	71	—	102	102	—
Deferred income	—	934	—	934	934	—
Unrealised exchange loss	253	(236)	—	17	17	—
Undistributed reserves of the PRC subsidiaries	(3,956)	(627)	—	(4,583)	—	(4,583)
Tax assets/(liabilities) before set-off	(1,308)	142	—	(1,166)	3,417	(4,583)
Set-off of tax				—	—	—
Net tax assets/(liabilities)				(1,166)	3,417	(4,583)

Deferred tax assets are recognised to the extent that realisation of the related tax benefits through future taxable profits is probable.

E. Unrecognised deferred tax liabilities

The total undistributed profits of the PRC subsidiaries are RMB722,188,000 (2015: RMB635,273,000). No deferred tax liability has been recognised for undistributed profits of RMB619,925,000 (2015: RMB543,613,000) because the Group controls the dividend policy of its subsidiaries and is of the opinion that these reserves will not be remitted back to the holding company in the foreseeable future.

14 INVENTORIES

	Group	
	2016	2015
	RMB'000	RMB'000
Raw materials	25,838	20,437
Work-in-progress	9,978	6,590
Finished goods	134,480	88,667
	170,296	115,694

In 2016, inventories of RMB1,215,379,000 (2015: RMB1,259,965,000) were recognised as an expense during the year and included in "cost of sales".

The write-down of inventories to net realisable value amounted to RMB24,000 (2015: RMB234,000), which is based on the inventory life cycles, expected future sales level and recoverable value. The write-downs are included in "administrative expenses".

15 TRADE AND OTHER RECEIVABLES

		Group		Company	
	Note	2016	2015	2016	2015
		RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables from:					
— third parties		462,107	503,882	—	—
— affiliated corporation		1,674	1,694	—	—
Bills receivables		65,679	43,630	—	—
Less: Allowance for doubtful debts	A	(14,438)	(14,113)	—	—
		515,022	535,093	—	—
Advance payment to suppliers	B	33,321	29,190	—	—
Advances to staff	C	5,042	5,815	—	—
Loans to the associate	D	24,872	—	—	—
Non-trade amounts due from:					
— subsidiaries	E	—	—	57,532	72,782
— associate	F	1,680	—	—	—
Refundable deposits	G	18,906	19,484	147	141
Tax recoverables	H	14,736	9,749	—	—
Others		702	2,808	—	—
		614,281	602,139	57,679	72,923
Prepayments		2,247	569	149	140
		616,528	602,708	57,828	73,063
Non-current		22,872	—	42,675	56,159
Current		593,656	602,708	15,153	16,904
		616,528	602,708	57,828	73,603

Notes to the Financial Statements (cont'd)

15 TRADE AND OTHER RECEIVABLES (cont'd)

An affiliated corporation is defined as one:

(a) in which a director of the Company has substantial financial interests or who is in a position to exercise significant influence; and/or

(b) which directly or indirectly, through one or more intermediaries, are under the control of a common shareholder.

A. Impairment losses

The Group maintains allowance for impairment losses at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by the Group with reference to industry practices for the allowance on impairment loss and ageing analysis of the trade receivables, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends. The Group reviews the ageing and status of receivables and identifies accounts which require allowance to be made on a monthly basis. The amount and timing of recorded expenses for any period would differ if the Group made different judgement or utilised different estimates. An increase in the Group's allowance for doubtful accounts would increase the Group's recorded administrative expenses and decrease trade and other receivables.

At the reporting date, the ageing of trade and other receivables excluding advance payment to suppliers, advances to staff and prepayments is as follows:

	Gross 2016 RMB'000	Impairment losses 2016 RMB'000	Gross 2015 RMB'000	Impairment losses 2015 RMB'000
Group				
Not past due	530,351	—	527,680	—
Past due 1–90 days	28,273	(164)	26,262	—
Past due 91–180 days	13,819	—	12,735	(9,826)
Past due over 180 days	17,913	(14,274)	14,570	(4,287)
	590,356	(14,438)	581,247	(14,113)

The change in impairment losses in respect of trade and other receivables excluding advance payment to suppliers, advances to staff and prepayments during the year is as follows:

	Group 2016 RMB'000	2015 RMB'000
At 1 January	14,113	15,762
Allowance made during the year	325	—
Amounts reserved during the year	—	(1,649)
At 31 December	14,438	14,113

15 TRADE AND OTHER RECEIVABLES (cont'd)

A. Impairment losses (cont'd)

At the reporting date, the ageing analysis of trade receivables (including bills receivables, which are included in trade and other receivables), based on the invoice date and net allowance for doubtful debts, is as follows:

	Group	
	2016	2015
	RMB'000	RMB'000
0 to 180 days	469,455	495,639
181 to 360 days	28,109	26,262
Over 360 days	17,458	13,192
	515,022	535,093

B. Advance payment to suppliers

Advance to suppliers are unsecured, interest-free and repayable on demand. There is no allowance for doubtful debts arising from the outstanding balance (2015: RMB Nil).

C. Advances to staff

The advances to staff are unsecured, interest-free and repayable on demand.

D. Loans to the associate

The Group's loans to the associate is unsecured, interest-free and repayable on demand in 7 semi-annual instalments from 30 December 2017 to 30 December 2020.

E. Non-trade amounts due from subsidiaries

The Company's non-trade amounts due from subsidiaries is unsecured, bears no interest and is repayable in five annual instalments from 30 December 2017 to 30 December 2020. The Company's non-trade amounts due from subsidiaries is recognised initially at fair value. The difference between the fair value and the absolute amount due from subsidiaries represents equity contribution to the subsidiaries (see Note 27). The Group believes that no impairment allowance is necessary for these outstanding balances in respect of the financial performance of these subsidiaries.

F. Non-trade amounts due from the associate

The non-trade amounts due from the associate are unsecured, interest-free and repayable on demand.

G. Refundable deposits

Included in the refundable deposits are tender deposits for bidding of customer contracts. Management represented that if the tender is not successful, these deposit paid will be refunded to the Group.

Notes to the Financial Statements (cont'd)

15 TRADE AND OTHER RECEIVABLES (cont'd)

H. Tax recoverables

Included in the tax recoverables are value added tax receivables in PRC arising from the purchase of raw materials for manufacturing.

I. Credit and currency risks

Information about the Group's exposure to credit and currency risks for trade and other receivables is included in Note 26(C).

16 CASH AND CASH EQUIVALENTS

	Group		Company	
	2016	2015	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Bank balances	550,799	595,759	5,607	8,797
Short-term deposits	3,410	10,148	—	275
Pledged bank deposit	6,019	19,177	—	—
Cash and cash equivalents in the statements of financial position	560,228	625,084	5,607	9,072
Less: pledged bank deposit	(6,019)	(19,177)	—	—
Cash and cash equivalents in the statements of cash flows	554,209	605,907	5,607	9,072

Deposits amounting to RMB6,019,000 (2015: RMB19,177,000) were pledged to bank as securities for other bank facilities (see Note 23). Pledged bank deposits bear interest at an average effective interest rates at 1.301% (2015: 1.788%) per annum and for a tenure of approximately 6 to 12 months (2015: 6 to 12 months).

17 PROPERTY, PLANT AND EQUIPMENT

A. Reconciliation of carrying amount

	Note	Building and leasehold improvement RMB'000	Plant and machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Under construction RMB'000	Total RMB'000
Group							
Cost							
Balance at 1 January 2015		81,497	161,423	21,982	6,152	6,676	277,730
Additions		1,880	7,086	2,395	124	18,727	30,212
Transfers		—	11,122	1,211	—	(12,333)	—
Disposals		—	(16,258)	(796)	(76)	—	(17,130)
Balance at 31 December 2015		83,377	163,373	24,792	6,200	13,070	290,812
Balance at 1 January 2016		83,377	163,373	24,792	6,200	13,070	290,812
Additions		593	1,267	2,592	171	11,959	16,582
Transfers		5,322	2,412	1,298	—	(9,032)	—
Disposals		—	(97)	(1,329)	—	(3,419)	(4,845)
Effect of movements in exchange rates		—	—	6	—	—	6
Balance at 31 December 2016		89,292	166,955	27,359	6,371	12,578	302,555
Accumulated depreciation							
Balance at 1 January 2015		19,397	95,789	11,228	3,591	—	130,005
Depreciation	7(C)	4,007	10,976	5,795	556	—	21,334
Disposals		—	(14,087)	(714)	(69)	—	(14,870)
Balance at 31 December 2015		23,404	92,678	16,309	4,078	—	136,469
Balance at 1 January 2016		23,404	92,678	16,309	4,078	—	136,469
Depreciation	7(C)	4,535	11,114	4,867	486	—	21,002
Disposals		—	(22)	(1,012)	—	—	(1,034)
Effect of movements in exchange rates		—	—	6	—	—	6
Balance at 31 December 2016		27,939	103,770	20,170	4,564	—	156,443
Carrying amounts							
At 1 January 2015		62,100	65,634	10,754	2,561	6,676	147,725
At 31 December 2015		59,973	70,695	8,483	2,122	13,070	154,343
At 31 December 2016		61,353	63,185	7,189	1,807	12,578	146,112

Notes to the Financial Statements (cont'd)

17 PROPERTY, PLANT AND EQUIPMENT (cont'd)

A. Reconciliation of carrying amount (cont'd)

	Office equipment RMB'000
Company	
Cost	
Balance at 1 January 2015	44
Additions	10
Balance at 31 December 2015 and 31 December 2016	54
Accumulated depreciation	
Balance at 1 January 2015	31
Depreciation	6
Balance at 31 December 2015	37
Balance at 1 January 2016	37
Depreciation	9
Balance at 31 December 2016	46
Carrying amounts	
At 1 January 2015	13
At 31 December 2015	17
At 31 December 2016	8

The Group's plant and buildings are all located in the People's Republic of China ("**PRC**").

18 LEASE PREPAYMENT

A. Reconciliation of carrying amount

	Note	Group 2016 RMB'000	2015 RMB'000
Cost			
Balance at beginning and end of the year		61,256	61,256
Accumulated amortisation			
Balance at beginning of the year		7,852	6,497
Amortisation	7(C)	1,354	1,355
Balance at end of the year		9,206	7,852
Carrying amount at end of the year		52,050	53,404
Non-current asset		50,695	52,049
Current asset		1,355	1,355
		52,050	53,404

The lease prepayment represent payments for 5 (2015: 5) land use rights located in the PRC. The leases run for a period of 42 to 48 years.

19 ASSOCIATE

	Group 2016 RMB'000	2015 RMB'000
Interest in associate	20,592	—

Details of the associate are as follows:

Name of associate	Principal activities	Principal place of business/Country of incorporation	Effective equity held by the Group 2016 %	2015 %
Held by Jiangsu Hengxin				
Mianyang Xin Tong Industrial Co., Ltd.[1] (**"Mianyang Xin Tong"**)	Manufacture and sale of communications equipment and related components, optical integrated circuits, precision zirconia ceramic instruments and equipment and electronic products	PRC	24%	—

[1] On 28 February 2016, the Group acquired 24% of the equity interest in Mianyang Xin Tong (formerly known as "Mianyang City Siemax Industrial Co., Ltd.") from third parties for a cash consideration of RMB25,528,000.

Notes to the Financial Statements (cont'd)

19 ASSOCIATE (cont'd)

The following table summarises the financial information of the associate as included in its own financial statements, adjusted for fair value adjustments at acquisition and differences in accounting policies. The table also reconciles the summarised financial information to the carrying amount of the Group's interest in the associate. The information for 2016 presented in the table includes the results of the associate for the period from 28 February 2016 to 31 December 2016, because the associate was acquired on 28 February 2016.

	Mianyang Xin Tong 2016 RMB'000
Percentage ownership interest	24%
Non-current assets	107,802
Current assets	63,590
Non-current liabilities	(23,376)
Current liabilities	(64,254)
Net assets (100%)	83,762
Group's share of net assets (24%)	20,103
Goodwill	489
Carrying amount of interest in associate	20,592
Revenue	45,971
Loss for the period from 27 February 2016 to 31 December 2016 (100%)	(20,567)
Other comprehensive income (100%)	—
Total comprehensive income (100%)	(20,567)
Group's share of total comprehensive income (24%)	(4,936)

20 OTHER INVESTMENTS

	Group 2016 RMB'000	 2015 RMB'000
Non-current asset		
Available-for-sale investments:		
— unquoted equity security, at fair value	32,300	10,000
— quoted equity shares, at fair value	647	647
	32,947	10,647
Current asset		
Investment in wealth management products, at cost	29,000	—

Wealth management products relates to investments that offer fixed rates of return for a fixed period of at least three months.

21 CAPITAL AND RESERVES

A. Movement in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity.

Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Note	Share capital RMB'000	Accumulated profits RMB'000	Total RMB'000
Company				
Balance at 1 January 2015		295,000	189,998	484,998
Loss and total comprehensive income for the year		—	(8,608)	(8,608)
Balance at 31 December 2015		295,000	181,390	476,390
Balance at 1 January 2016		295,000	181,390	476,390
Loss and total comprehensive income for the year		—	(6,499)	(6,499)
Transactions with owners of the Company				
Contributions and distributions				
Dividends paid	21(D)	—	(11,524)	(11,524)
Total transactions with owners of the Company		—	(11,524)	(11,524)
Balance at 31 December 2016		295,000	163,367	458,367

B. Share capital

	Group and Company			
	2016 No. of shares ('000)	2016 RMB'000	2015 No. of shares ('000)	2015 RMB'000
Issued and fully paid ordinary shares, with no par value				
At beginning and end of year	388,000	295,000	388,000	295,000

All ordinary shares rank equally with regard to the Company's residual assets.

i. *Ordinary shares*

Holders of these shares are entitled to dividends as declared from time to time and are entitled to one vote per share at general meetings of the Company. All rights attached to the Company's shares held by the Group are suspended until those shares are reissued.

Notes to the Financial Statements (cont'd)

21 CAPITAL AND RESERVES (cont'd)

C. Nature and purpose of reserves

i. *General reserves*

General reserves represent the statutory reserve arising from the PRC subsidiaries.

In accordance with the Foreign Enterprise Law applicable to the subsidiaries in the PRC, the subsidiaries are required to make appropriation to a statutory reserve.

In the PRC, at least 10% of the statutory profits after tax as determined in accordance with the applicable PRC accounting standards and regulations must be allocated to the statutory reserve until the cumulative total of the statutory reserves reach 50% of the subsidiaries' registered capital. Subject to approval from the relevant PRC authorities, the statutory reserve may be used to offset any accumulated losses or increase the registered capital of the subsidiaries. The statutory reserves in PRC are not available for dividend distribution to shareholders.

ii. *Special reserve*

The special reserve represents the difference between the acquisition cost and carrying amount of net assets of the PRC subsidiary arising from the acquisition of PRC subsidiary in 2004.

iii. *Fair value reserve*

The fair value reserve represents the gain in fair value arising from other investments.

iv. *Translation reserves*

The translation reserves comprise all foreign currency differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from that of the Group's presentation currency.

D. Dividends

The following exempt (one-tier) dividends were declared and paid by the Group and the Company during the year.

	Group and Company	
	2016 RMB'000	2015 RMB'000
RMB2.97 cents per qualifying ordinary share (2015: Nil)	11,524	—

After the reporting dates, the following exempt (one-tier) dividends were proposed by the Board of Directors. These exempted (one-tier) dividends have not been recognised as liabilities and there are no tax consequences.

	Group and Company	
	2016 RMB'000	2015 RMB'000
RMB2.57 cents per qualifying ordinary share (2015: RMB2.97 cents)	9,972	11,524

22 CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance, and to ensure that all externally imposed capital requirements are complied with. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which includes the bank loans and equity attributable to equity holders of the Company, comprising share capital, reserves and accumulated profits.

The Group's management reviews the capital structure on an on-going basis. As a part of this review, management considers the cost of capital and the risks associated with each class of capital and reserves. Based on recommendations of management, the Group will balance its overall capital structure through the payment of dividends, as well as the issue of new debt or the redemption of existing debt.

Management monitors capital based on the Group's net gearing ratio. The Group's net gearing ratio is calculated as net cash borrowings divided by total equity. Net cash borrowings are calculated as total bank loans less cash and cash equivalents at the end of the reporting period.

As at the end of the reporting period, the Group is in compliance with all capital requirements on its external borrowings.

The gearing ratio at the end of the reporting period is as follows:

	Group	
	2016	**2015**
	RMB'000	**RMB'000**
Net cash borrowings	(527,209)	(488,503)
Total equity	1,395,959	1,288,175
Net debt to equity ratio	(38%)	(38%)

23 SHORT-TERM LOANS

	Group	
	2016	**2015**
	RMB'000	**RMB'000**
Unsecured bank loans	27,000	117,404

Information about the Group's exposure to interest rate, foreign currency and liquidity risks is included in Note 26(C).

Notes to the Financial Statements (cont'd)

23 SHORT-TERM LOANS (cont'd)

A. Terms and debt repayment schedule

The terms and conditions of outstanding loans are as follows.

	Currency	Nominal interest rate	Year of maturity	Face value RMB'000	Carrying amount RMB'000
At 31 December 2016					
Unsecured bank loans	RMB	4.35%	2017	27,000	27,000
At 31 December 2015					
Unsecured bank loans	RMB	5.35%	2016	20,000	20,000
Unsecured bank loans	USD	LIBOR* +1.46%	2016	97,404	97,404
				117,404	117,404

* LIBOR stands for the London Interbank Offered Rate

At 31 December 2016, the Group had RMB1,680,331,000 (2015: RMB1,344,499,000) of unutilised bank borrowing facilities. These facilities are secured over deposits pledged of RMB6,019,000 (2015: RMB19,177,000) (see Note 16).

24 TRADE AND OTHER PAYABLES

	Group		Company	
	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
Trade payables to third parties	118,170	104,432	—	—
Accrued operating expenses	51,032	35,574	1,411	1,586
Receipt in advance from customers	10,657	—	—	—
Other payables	8,777	6,297	50	561
	188,636	146,303	1,461	2,147

As at the end of the reporting period, the ageing profile of trade payables of the Group, based on invoice date which are included in trade and other payables, is as follows:

	Group	
	2016 RMB'000	2015 RMB'000
0–90 days	117,519	100,819
91–180 days	9	2,273
181–360 days	—	587
Over 360 days	642	753
	118,170	104,432

25 DEFERRED INCOME

	Group 2016 RMB'000	2015 RMB'000
Deferred income	5,203	6,231

At 31 December 2016, the amount represents deferred revenue arising as a result of the special fund received from local government to support the Group's project of transformation of science and technology achievements in the People's Republic of China. The grants are related to assets and will be offset against relevant cost incurred in profit or loss within the next year (2015: next two years).

26 FINANCIAL INSTRUMENTS — FAIR VALUES AND RISK MANAGEMENT

A. Accounting classifications and fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

		Carrying amount				Fair value			
	Note	Loans and receivables RMB'000	Available-for-sale RMB'000	Other financial liabilities RMB'000	Total carrying amount RMB'000	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Group									
31 December 2016									
Financial assets measured at fair value									
Available-for-sale equity securities	20	—	32,947	—	32,947	647	32,300	—	32,947
Financial assets not measured at fair value									
Investment in wealth management products	20	29,000	—	—	29,000				
Loans to the associate	15	24,872	—	—	24,872	—	21,234	—	21,234
Trade and other receivables#	15	556,088	—	—	556,088				
Cash and cash equivalents	16	560,228	—	—	560,228				
		1,170,188	—	—	1,170,188				
Financial liabilities not measured at fair value									
Unsecured bank loans	23	—	—	27,000	27,000				
Trade and other payables##	24	—	—	177,979	177,979				
		—	—	204,979	204,979				

Exclude advance to suppliers, prepayments and loans to the associate

Exclude receipt in advance from customers

Notes to the Financial Statements (cont'd)

26 FINANCIAL INSTRUMENTS — FAIR VALUES AND RISK MANAGEMENT (cont'd)

A. Accounting classifications and fair values (cont'd)

		Carrying amount				Fair value			
	Note	Loans and receivables RMB'000	Available-for-sale RMB'000	Other financial liabilities RMB'000	Total carrying amount RMB'000	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Group									
31 December 2015									
Financial assets measured at fair value									
Available-for-sale equity securities*	20	—	10,647	—	10,647	647	—	16,300	16,947
Financial assets not measured at fair value									
Trade and other receivables#	15	572,949	—	—	572,949				
Cash and cash equivalents	16	625,084	—	—	625,084				
		1,198,033	—	—	1,198,033				
Financial liabilities not measured at fair value									
Unsecured bank loans	23	—	—	117,404	117,404				
Trade and other payables	24	—	—	146,303	146,303				
		—	—	263,707	263,707				

Exclude advance to suppliers and prepayments

* Fair value for unquoted equity shares is estimated using the discounted cash flow model, which includes significant assumptions that are not supportable by observable market prices or rates. In determining fair value, earnings growth factor between 5% and 30% and a weighted average cost of capital of 18% is used. Changes in these assumptions are not expected to be significant to total assets of the Group.

26 FINANCIAL INSTRUMENTS — FAIR VALUES AND RISK MANAGEMENT (cont'd)

A. Accounting classifications and fair values (cont'd)

		Carrying amount			Fair value			
	Note	Loans and receivables RMB'000	Other financial liabilities RMB'000	Total carrying amount RMB'000	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Company								
31 December 2016								
Financial assets not measured at fair value								
Non-trade amounts due from subsidiaries	15	57,532	—	57,532	—	57,524	—	57,524
Trade and other receivables#	15	147	—	147				
Cash and cash equivalents	16	5,607	—	5,607				
		63,286	—	63,286				
Financial liabilities not measured at fair value								
Trade and other payables	24	—	1,461	1,461				
31 December 2015								
Financial assets not measured at fair value								
Non-trade amounts due from subsidiaries	15	72,782	—	72,782	—	72,782	—	72,782
Trade and other receivables#	15	141	—	141				
Cash and cash equivalents	16	9,072	—	9,072				
		81,995	—	81,995				
Financial liabilities not measured at fair value								
Trade and other payables	24	—	2,147	2,147				

Exclude prepayments and non-trade amounts due from subsidiaries

Notes to the Financial Statements (cont'd)

26 FINANCIAL INSTRUMENTS — FAIR VALUES AND RISK MANAGEMENT (cont'd)

B. Measurement of fair values

i. Valuation techniques and significant unobservable inputs

The following tables show the valuation techniques used in measuring Level 2 and Level 3 fair values for financial instruments measured at fair value in the statement of financial position, as well as the significant unobservable inputs used. Related valuation processes are described in Note 4(B)(i).

Financial instruments measured at fair value

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Group			
Unquoted equity securities	*Market comparison technique:* As at 31 December 2016, the fair value is based on a recent observable arm's length transactions in the shares.	Not applicable.	Not applicable.

Financial instruments not measured at fair value

Type	Valuation technique
Group	
Loans to the associate	*Discounted cash flows:* The valuation model considers the present value of expected payment, discounted using a risk-adjusted discount rate.
Company	
Non-trade amounts due from subsidiaries	*Discounted cash flows:* The valuation model considers the present value of expected payment, discounted using a risk-adjusted discount rate.

ii. Transfers between levels 1 and 2

There were no transfers between levels 1 and 2 during the year.

26 FINANCIAL INSTRUMENTS — FAIR VALUES AND RISK MANAGEMENT (cont'd)

C. Financial risk management

The Group has exposure to the following risks arising from financial instruments:

- credit risk;
- liquidity risk; and
- market risk.

i. Risk management framework

The Company's Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board of Directors has established the risk management committee, which is responsible for developing and monitoring the Group's risk management policies. The committee is subsumed under the Audit Committee, which in turn reports regularly to the Board of Directors on its activities.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to maintain a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group Audit Committee is assisted in its oversight role by internal audit. The risk management committee undertakes both regular and ad hoc reviews of risk management controls and procedures, and together with results of internet audits and other internal controlled self-assessment work, the overall results are reported to the Audit Committee.

ii. Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's trade receivables.

The carrying amount of financial assets represents the Group and the Company's maximum credit exposures, before taking into account any collateral held. The Group and the Company do not hold any collateral in respect of their financial assets.

Notes to the Financial Statements (cont'd)

26 FINANCIAL INSTRUMENTS — FAIR VALUES AND RISK MANAGEMENT (cont'd)

C. Financial risk management (cont'd)

ii. Credit risk (cont'd)

Trade and other receivables

The Group's exposure to credit risk is mainly arising from trade receivables. The credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of its customer base, including the default risk associated with the industry and country in which customers operate. Details of concentration of revenue are included in Notes 5(D)–(E).

The Group has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, if they are available, financial statements, credit agency information, industry information, and in some cases bank references (if available). Sale limits are established for each customer and reviewed quarterly. Any sales exceeding those limits require approval from Management. Before accepting any new customer, the Group assesses the potential customers' credit quality and defines credit limits by customer. Limits and credit quality attributed to customers are reviewed periodically. The trade receivables that are neither past due nor impaired are receivables from customers with long standing relationship and are of sound credit quality. Management considers these receivables to be still recoverable.

The Group limits its exposure to credit risk from trade receivables by establishing a maximum payment period of nine months for corporate customers. For individuals, the Group strictly requires cash payment for goods received. The Group's average credit period on sales of goods is 180 days (2015: 180 days) after delivery. The Group has assessed the recoverability of trade receivables with reference to industry practices for the allowance on impairment loss and ageing analysis of these trade receivables, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

More than 87% of the Group's customers have been transacting with the Group for over four years, and no impairment loss has been recognised against these customers. In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or a legal entity, their geographic location, industry, trade history with the Group and existence of previous financial difficulties.

The Group monitors the global economic environment closely and will take actions to limit its exposure to customers in countries experiencing particular economic volatility, if required.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade receivables (see Note 33(O)(i)).

26 FINANCIAL INSTRUMENTS — FAIR VALUES AND RISK MANAGEMENT (cont'd)

C. Financial risk management (cont'd)

ii. Credit risk (cont'd)

At 31 December 2016, the maximum exposure to credit risk for trade receivables by geographical region was as follows.

	Group	
	2016	2015
	RMB'000	RMB'000
PRC	544,499	545,231
India	31,272	21,762
Other countries	147	141
	575,918	567,134

At 31 December 2016, 5 (2015: 5) major customers accounted for 63% (2015: 65%) of gross trade receivables. There are no other customers who represent more than 5% of the total balance of trade receivables.

Included in the Group's trade and other receivables balance are debtors with a carrying amount of RMB45,566,000 (2015: RMB39,454,000) which are past due at the reporting date for which the Group has not provided for impairment loss as there has not been a significant change in credit quality and the amounts are still considered recoverable.

Cash and cash equivalents

The Group held cash and cash equivalents of RMB560,228,000 at 31 December 2016 (2015: RMB625,084,000). The cash and cash equivalents are held with banks, which are regulated.

iii. Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Typically the Company ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days; including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

Undrawn credit facilities with financial institutions are disclosed in Note 23. Management monitors the utilisation of bank loans and ensures compliance with the loan covenants, if any.

Notes to the Financial Statements (cont'd)

26 FINANCIAL INSTRUMENTS — FAIR VALUES AND RISK MANAGEMENT (cont'd)

C. Financial risk management (cont'd)

iii. Liquidity risk (cont'd)

Exposure to liquidity risk

The following are the remaining contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted, and include contractual interest payments and exclude the impact of netting agreements.

		Contractual cash flows		
	Carrying amount RMB'000	Total RMB'000	Within 1 year RMB'000	More than 1 year RMB'000
Group				
2016				
Non-derivative financial liabilities				
Short-term loans	27,000	(27,392)	(27,392)	—
Trade and other payables[#]	177,979	(177,979)	(177,979)	—
	204,979	(205,371)	(205,371)	—
2015				
Non-derivative financial liabilities				
Short-term loans	117,404	(117,955)	(117,955)	—
Trade and other payables	146,303	(146,303)	(146,303)	—
	263,707	(264,258)	(264,258)	—
Company				
2016				
Non-derivative financial liabilities				
Trade and other payables	1,461	(1,461)	(1,461)	—
2015				
Non-derivative financial liabilities				
Trade and other payables	2,147	(2,147)	(2,147)	—

[#] Exclude receipt in advance from customers

The interest payments on variable interest rate loans in the table above reflect market forward interest rates at the reporting date and these amounts may change as market interest rates change.

The maturity analyses show the contractual undiscounted cash flows of the Company's financial liabilities on the basis of their earliest possible contractual maturity. It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

26 FINANCIAL INSTRUMENTS — FAIR VALUES AND RISK MANAGEMENT (cont'd)

C. Financial risk management (cont'd)

iv. Market risk

Market risk is the risk that changes in market prices — such as foreign exchange rates, interest rates and equity prices — will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

There has been no significant change to the Group's exposure to market risk or the manner in which it manages and measures the risk.

Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings, including inter-company sales, purchases and inter-company balances, that are denominated in a currency other than the respective functional currencies of Group entities. The currencies in which these transactions primarily are denominated are the United States dollars ("**USD**"), Singapore dollars ("**SGD**"), Hong Kong dollars ("**HKD**") and Euro ("**EUR**").

The Group is also exposed to currency translation risk arising from its net investments in foreign operations. The Group's net investments in India are not hedged as currency positions in INR are considered to be long-term in nature.

Exposure to currency risk

The summary quantitative data about the Group's exposure to currency risk as reported to the management of the Group is as follows.

	USD RMB'000	SGD RMB'000	HKD RMB'000	EUR RMB'000
Group				
2016				
Cash and cash equivalents	90,829	1,717	441	4,466
Trade and other receivables	15,647	296	—	784
Trade and other payables	(123)	(1,444)	(5)	—
Net exposure	106,353	569	436	5,250
2015				
Cash and cash equivalents	183,187	5,545	298	1,947
Trade and other receivables	21,335	281	—	484
Short-term loans	(97,404)	(17)	—	—
Trade and other payables	(198)	(2,144)	(3)	—
Net exposure	106,920	3,665	295	2,431

Notes to the Financial Statements (cont'd)

26 FINANCIAL INSTRUMENTS — FAIR VALUES AND RISK MANAGEMENT (cont'd)

C. Financial risk management (cont'd)

iv. Market risk (cont'd)

Currency risk (cont'd)

Exposure to currency risk (cont'd)

	2016			2015		
	USD	SGD	HKD	USD	SGD	HKD
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Company						
Cash and cash equivalents	3,449	1,717	441	3,228	5,545	298
Trade and other receivables	—	296	—	—	281	—
Trade and other payables	—	(1,444)	(5)	—	(2,144)	(3)
Net exposure	3,449	569	436	3,228	3,682	295

The following significant exchange rates have been applied.

	Average rate		Year-end spot rate	
	2016	2015	2016	2015
	RMB	RMB	RMB	RMB
USD 1	6.6401	6.2272	6.9370	6.4936
SGD 1	4.8115	4.5714	4.7984	4.5873
HKD 1	0.7841	0.7434	0.8955	0.8380
EUR 1	7.3426	6.9141	7.3068	7.0952

Sensitivity analysis

A change of 10% strengthening of the RMB, as indicated below, against the USD, SGD, HKD, EUR and INR at 31 December would have increased/(decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. This analysis is performed on the same basis for 2015.

	Group		Company	
	Profit or loss		Profit or loss	
	2016	2015	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000
USD	(10,635)	(10,692)	(345)	(323)
SGD	(57)	(367)	(57)	(368)
HKD	(44)	(30)	(44)	(30)
EUR	(525)	(243)	—	—

A weakening of the RMB against the above currencies would have the equal but opposite effect to the amounts shown above.

26 FINANCIAL INSTRUMENTS — FAIR VALUES AND RISK MANAGEMENT (cont'd)

C. Financial risk management (cont'd)

iv. Market risk (cont'd)

Interest rate risk

The Group's exposure to interest rate risks arises primarily from the Group's bank deposits and its debt obligations.

Exposure to interest rate risk

At the reporting date, the interest rate profile of the Group's interest-bearing financial instruments, as reported to management was as follows:

		Group Carrying amount		Company Carrying amount	
	Note	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
Fixed-rate instruments					
Pledged bank deposits	16	6,019	19,177	—	—
Short-term deposits	16	3,410	10,148	—	275
Short-term investment fund		29,000	—	—	—
Unsecured bank loans	23	(27,000)	(20,000)	—	—
		11,429	9,325	—	275
Variable-rate instruments					
Unsecured bank loans	23	—	(97,404)	—	—

Fair value sensitivity analysis for fixed-rate instruments

The Group does not account for any fixed-rate financial assets and liabilities at fair value through profit or loss, and the Group does not use derivatives to hedge interest rate risk. Therefore, in respect of the fixed rate instrument a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable-rate instruments

As at 31 December 2016, the Group does not have significant financial assets or liabilities that are exposed to interest rate risk.

As at 31 December 2015, a change of 20 basis points in interest rates at the reporting date would have increased/(decreased) equity and profit or loss by RMB194,000. This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant.

Notes to the Financial Statements (cont'd)

26 FINANCIAL INSTRUMENTS — FAIR VALUES AND RISK MANAGEMENT (cont'd)

C. Financial risk management (cont'd)

iv. Market risk (cont'd)

Equity price risk — sensitivity analysis

The Group has investment in quoted and unquoted equity securities. An increase of 5% (2015: 5%) in the underlying equity prices at the reporting date would increase equity by the following amounts shown below. This analysis assumes that all other variables remain constant.

	Group	
	2016	**2015**
	RMB'000	**RMB'000**
Quoted equity investments available-for-sale	32	32
Unquoted equity investment available-for-sale	1,615	815
	1,647	847

A decrease in the underlying equity prices would have the equal but opposite effect to the amounts shown above.

27 SUBSIDIARIES

		Company	
	Note	**2016**	**2015**
		RMB'000	**RMB'000**
Equity investment at cost		392,544	392,544
Discount on amounts due from subsidiary	15(E)	3,841	3,841
		396,385	396,385

27 SUBSIDIARIES (cont'd)

Details of the subsidiaries are as follows:

Name of subsidiary	Principal activities	Principal place of business/ Country of incorporation	Particulars of issued and paid up capital	Effective equity held by the Group	
				2016	2015
			RMB	%	%
Held by the Company					
Jiangsu Hengxin Technology Co., Ltd[1]	Research, design, development and manufacture of telecommunications and technological products, production of radio frequency coaxial cables for mobile communications and mobile communications systems exchange equipment	PRC	384,883,000	100	100
Hengxin Technology (India) Pvt Ltd[2,3]	Marketing and trading of the Group's products to telecommunication operators in India	India	7,661,000	100	100
Held by Jiangsu Hengxin					
Jiangsu Hengxin Wireless Technology Co., Ltd[1]	Research, design, development and manufacture sale and technical services of antennas and related telecommunications products for mobile communications systems	PRC	5,000,000	100	100
Hengxin Network Wireless (Shanghai) Co., Ltd [1]	Research, design, development and manufacture sale and technical services of antennas and related telecommunications products for mobile communications systems	PRC	20,000	100	100

[1] Audited by other member firm of KPMG International for consolidation purposes

[2] Audited by KPMG LLP, Singapore for consolidation purposes

[3] The financial year-end of the subsidiary is 31 March

Notes to the Financial Statements (cont'd)

28 OPERATING LEASES

A. Leases as lessee

Operating lease represent rentals leased by the Group and the Company for certain of its office and workshop properties. Leases are negotiated for an average of 1 to 3 years (2015: 1 to 3 years).

i. *Future minimum lease payment*

At 31 December, the future minimum lease payments under non-cancellable leases were payable as follows.

	Group		Company	
	2016	2015	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Less than one year	943	731	630	589
Between one and five years	759	196	759	196
	1,702	927	1,389	785

ii. *Amounts recognised in profit or loss*

	Group	
	2016	2015
	RMB'000	RMB'000
Lease expense	1,483	1,057

29 COMMITMENTS

A. Capital commitments

As at the respective reporting dates, the Group had entered into contracts for:

	Group		Company	
	2016	2015	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Contracted for but not provided for				
Property, plant and equipment	8,451	126	—	—

30 RELATED PARTIES

A. Transactions with key management personnel

i. *Key management personnel compensation*

Key management personnel are directors and those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. The amounts stated below for key management compensation are for all the executive directors and other key management personnel.

Key management personnel compensation comprised the following.

	Group	
	2016	**2015**
	RMB'000	**RMB'000**
Short-term employee benefits	5,716	5,413
Retirement benefits scheme contributions	125	109
	5,841	5,522
Key management personnel compensation comprised amounts paid to:		
— directors of the Company	1,944	2,148
— other key management personnel	3,897	3,374
	5,841	5,522

B. Other related party transactions

Other than as disclosed elsewhere in the financial statements, transactions carried out in the normal course of business on terms agreed with related parties are as follows:

	Group	
	2016	**2015**
	RMB'000	**RMB'000**
***Transactions with Suzhou Hengli Telecommunications Materials Co., Ltd*[1]**		
Sale of finished goods	204	1,238
Purchases of raw materials	26,817	20,111

[1] Suzhou Hengli Telecommunication Materials Co., Ltd is a subsidiary of Hengtong Group Co., Ltd., a company in which the father of Cui Wei, the non-executive chairman of the Company, is a substantial shareholder of. Cui Wei is a substantial shareholder with shareholding of 23.27% of the total issued shares in the Company and has significant influence over the Company.

The related party transactions in respect of sales and purchases above constitute continuing connected transactions or continuing connected transactions as defined in Chapter 14A of the Rules Governing the Listing of Securities on SEHK (the "**Listing Rules**").

Notes to the Financial Statements (cont'd)

31 BASIS OF MEASUREMENT

The financial statements have been prepared on the historical cost basis except as otherwise described in Note 32.

32 COMPARATIVE INFORMATION

The comparative figures for the financial year ended 31 December 2015 were audited by another auditor who expressed an unmodified opinion on those financial statements on 10 March 2016.

33 SIGNIFICANT ACCOUNTING POLICIES

The Company adopted new or new revised financial reporting standards and interpretations which became effective during the year. The initial adoption of these standards and interpretations did not have a material impact on the financial statements.

The Group has consistently applied the following accounting policies to all periods presented in the financial statements.

A. Basis of consolidation

i. *Business combinations*

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

ii. *Subsidiaries*

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

iii. *Non-controlling interest*

Non-controlling interest ("**NCI**") are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

iv. *Loss of control*

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

33 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

A. Basis of consolidation (cont'd)

v. *Interest in equity-accounted investee*

The Group's interests in equity-accounted investee comprise interests in an associate.

Associate is the entity in which the Group has significant influence, but not control or joint control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds 20% or more of the voting power of another entity.

Interests in the associate are accounted for using the equity method. They are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and other comprehensive income ("**OCI**") of equity-accounted investee, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date on which significant influence ceases.

vi. *Transactions eliminated on consolidation*

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investee are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

B. Foreign currency

i. *Foreign currency transactions*

Transactions in foreign currencies are translated into the respective functional currencies of Group companies at the exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are generally recognised in profit or loss.

ii. *Foreign operation*

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into RMB at the exchange rates at the reporting date. The income and expenses of foreign operations are translated into RMB at the exchange rates at the dates of the transactions.

Foreign currency differences are recognised in OCI and accumulated in the translation reserve, except to the extent that the translation difference is allocated to NCI.

When a foreign operation is disposed of in its entirety or partially such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. If the Group disposes of part of its interest in a subsidiary but retains control, then the relevant proportion of the cumulative amount is reattributed to NCI. When the Group disposes of only part of an associate or joint venture while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

Notes to the Financial Statements (cont'd)

33 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

C. Revenue

i. *Sale of goods*

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods and the amount of revenue can be measured reliably. Revenue is measured net of returns, trade discounts and volume rebates.

The timing of the transfer of risks and rewards varies depending on the individual terms of the sales agreement. Revenue is recognised when the goods are delivered and legal title has passed.

ii. *Rendering of services*

Revenue from rendering of services is recognised in profit and loss when the service is rendered.

iii. *Interest income*

Interest income is recognised as it accrues in profit and loss, using the effective interest method.

D. Employee benefits

i. *Short-term employee benefits*

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

ii. *Defined contribution plans*

Obligations for contributions to defined contribution plans are expensed as the related service is provided. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

iii. *Termination benefits*

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the reporting date, then they are discounted.

E. Government grants

Government grants are initially recognised as deferred income at fair value if there is reasonable assurance that they will be received and the Group will comply with the conditions associated with the grant; they are then recognised in profit or loss as other income on a systematic basis over the useful life of the asset.

Grants that compensate the Group for expenses incurred are recognised in profit or loss on a systematic basis in the periods in which the expenses are recognised.

F. Finance costs

The Group's finance costs include interest expense. Interest expense is recognised using the effective interest method.

33 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

G. Foreign currency gains and losses

Foreign currency gains and losses on financial assets and financial liabilities are reported on a net basis as either other income or other operating expense depending on whether foreign currency movements are in a net gain or net loss position.

H. Income tax

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in OCI.

i. Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

Current tax assets and liabilities are offset only if certain criteria are met.

ii. Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss; and

- temporary differences related to investments in subsidiaries and associates to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on business plans for individual subsidiaries in the Group and the reversal of temporary differences. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset only if certain criteria are met.

Notes to the Financial Statements (cont'd)

33 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

I. Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average cost principle. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

J. Property, plant and equipment

i. *Recognition and measurement*

Items of property, plant and equipment are measured at cost, which includes capitalised borrowing costs, less accumulated depreciation and any accumulated impairment losses.

If significant parts of an item of property, plant and equipment have different useful lives, then they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is recognised in profit or loss.

ii. *Subsequent expenditure*

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Group.

iii. *Depreciation*

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

The estimated useful lives of property, plant and equipment for current and comparative periods are as follows:

•	Buildings and leasehold improvement	20 years
•	Plant and machinery	10 years
•	Office equipment	5 years
•	Motor vehicles	5 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

K. Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss as incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. However, because of the nature of the Company's development activities, the criteria for the recognition of such costs as assets are generally not met, relevant development expenditure is recognised in profit or loss as incurred.

33 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

L. Lease prepayment

i. *Recognition and measurement*

Lease prepayment represent land use rights that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and any accumulated impairment losses.

ii. *Amortisation*

Amortisation is calculated to write off the cost of land use right less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss.

The estimated useful lives of land use right for current and comparative periods are 42 to 48 years.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

M. Financial instruments

The Group classifies non-derivative financial assets into the following categories: loans and receivables and available-for-sale financial assets.

The Group classifies non-derivative financial liabilities into other financial liabilities categories.

i. *Non-derivative financial assets and financial liabilities — Recognition and derecognition*

The Group initially recognises loans and receivables issued on the date when they are originated. All other financial assets and financial liabilities are initially recognised on the trade date when the entity becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognised financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Notes to the Financial Statements (cont'd)

33 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

M. Financial instruments (cont'd)

ii. *Non-derivative financial assets — Measurement*

Loans and receivables	These assets are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method.
Available-for-sale financial assets	These assets are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, are recognised in OCI and accumulated in the fair value reserve. When these assets are derecognised, the gain or loss accumulated in equity is reclassified to profit or loss.

iii. *Non-derivative financial liabilities — Measurement*

Other non-derivative financial liabilities are initially measured at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method.

N. Share capital

i. *Ordinary shares*

Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity.

O. Impairment

i. *Non-derivative financial assets*

Financial assets not classified as at fair value through profit or loss, including an interest in an equity accounted investee, are assessed at each reporting date to determine whether there is objective evidence of impairment.

Objective evidence that financial assets are impaired includes:

— default or delinquency by a debtor;

— restructuring of an amount due to the Group on terms that the Group would not consider otherwise;

— indications that a debtor or issuer will enter bankruptcy;

— adverse changes in the payment status of borrowers or issuers;

— the disappearance of an active market for a security because of financial difficulties; or

— observable data indicating that there is a measurable decrease in the expected cash flows from a group of financial assets.

33 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

O. Impairment (cont'd)

i. *Non-derivative financial assets (cont'd)*

For an investment in an equity security, objective evidence of impairment includes a significant or prolonged decline in its fair value below its cost. The Group considers a decline of 20% to be significant and a period of nine months to be prolonged.

Financial assets measured at amortised cost

The Group considers evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets are individually assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet individually identified. Assets that are not individually significant are collectively assessed for impairment. Collective assessment is carried out by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Group uses historical information on the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account. When the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through profit or loss.

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve to profit or loss. The amount reclassified is the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss previously recognised in profit or loss. If the fair value of an impaired available-for-sale debt security subsequently increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed through profit or loss. Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available-for-sale are not reversed through profit or loss.

Equity-accounted investees

An impairment loss in respect of an equity-accounted investee is measured by comparing the recoverable amount of the investment with its carrying amount. An impairment loss is recognised in profit or loss, and is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

Notes to the Financial Statements (cont'd)

33 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

O. Impairment (cont'd)

ii. Non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

P. Operating lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Q. Fair value measurement

"Fair value" is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When one is available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

33 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Q. Fair value measurement (cont'd)

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price — i.e. the fair value of the consideration given or received. If the Group determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

34 STANDARDS ISSUED BUT NOT YET EFFECTIVE

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2016 and earlier application is permitted; however, the Group has not early applied the following new or amended standards in preparing the financial statements.

Disclosure Initiative (Amendments to IAS 7)

The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.

The amendments are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted.

To satisfy the new disclosure requirements, the Group intends to present a reconciliation between the opening and closing balances for liabilities with changes arising from financing activities.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes.*

IFRS 15 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted.

As at the reporting date, the Group is assessing the potential impact of the adoption of IFRS 15 on its financial statements.

i. Sales of goods

For the sale of products, revenue is currently recognised when the goods are delivered to the customers' premises or when the goods are consumed by the customers, which is taken to be the point in time at which the customer accepts the goods and the related risks and rewards of ownership transfer. Revenue is recognised at this point provided that the revenue and costs can be measured reliably, the recovery of the consideration is probable and there is no continuing management involvement with the goods.

Under IFRS 15, revenue will be recognised when a customer obtains control of the goods.

Since the Group's current practice for revenue recognition is in accordance with IFRS 15, the Group does not expect that there will be a significant impact on its financial statements.

Notes to the Financial Statements (cont'd)

34 STANDARDS ISSUED BUT NOT YET EFFECTIVE (cont'd)

IFRS 15 Revenue from Contracts with Customers (cont'd)

ii. Rendering of services

The Group is involved in the testing of third party manufactured antennas. If the services under a single arrangement are rendered in different reporting periods, then the consideration is allocated on a relative fair value basis between the different services. Revenue is currently recognised using the stage-of-completion method.

Under IFRS 15, the total consideration in the service contracts will be allocated to all services based on their stand-alone selling prices. The stand-alone selling prices will be determined based on the list prices at which the Group sells the services in separate transactions.

Since these amounts are broadly similar, the Group does not expect significant differences in the timing of revenue recognition for these services.

iii. Transition

The Group plans to adopt IFRS 15 in its financial statements for the year ending 31 December 2018, using the cumulative effect approach. The Group plans to perform a detailed analysis under IFRS 15 and determine its election of the practical expedients and to quantify the transition adjustments on its financial statements.

IFRS 9 Financial Instruments

In July 2014, the International Accounting Standards Board issued the final version of IFRS 9 *Financial Instruments*.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The Group currently plans to apply IFRS 9 initially on 1 January 2018.

The actual impact of adopting IFRS 9 on the Group's financial statements in 2018 is not known and cannot be reliably estimated because it will be dependent on the financial instruments that the Group holds and economic conditions at that time as well as accounting elections and judgements that it will make in the future. The new standard will require the Group to revise its accounting processes and internal controls related to reporting financial instruments and these changes are not yet complete. However, the Group has performed a preliminary assessment of the potential impact of adoption of IFRS 9 based on its positions at 31 December 2016 under IAS 39.

i. Classification — Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income ("**FVOCI**") and fair value through profit or loss ("**FVTPL**"). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Based on its preliminary assessment, the Group does not believe that the new classification requirements, if applied at 31 December 2016, would have had a material impact on its accounting for trade receivables, loans, and investments in equity securities that are managed on a fair value basis. At 31 December 2016, the Group had equity investments classified as available-for-sale with a fair value of RMB 32,947,000 that are held for long-term strategic purposes. If these investments continue to be held for the same purpose at initial application of IFRS 9, the Group may elect then to classify them as FVOCI or FVTPL. The Group has not yet made a decision in this regard. In the former case, all fair value gains and losses would be reported in other comprehensive income, no impairment losses would be recognised in profit or loss and no gains or losses would be reclassified to profit or loss on disposal. In the latter case, all fair value gains and losses would be recognised in profit or loss as they arise, increasing volatility in the Group's profits.

34 STANDARDS ISSUED BUT NOT YET EFFECTIVE (cont'd)

IFRS 9 Financial Instruments (cont'd)

ii. Impairment — Financial assets

IFRS 9 replaces the "incurred loss" model in IAS 39 with a forward-looking "expected credit loss" ("**ECL**") model. This will require considerable judgement as to how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments, and to contract assets.

Under IFRS 9, loss allowances will be measured on either of the following bases:

— 12-month ECLs. These are ECLs that result from possible default events within the 12 months after the reporting date; and

— lifetime ECLs. These are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables without a significant financing component; an entity may choose to apply this policy also for trade receivables with a significant financing component.

The Group does not expect that there will be a significant impact on the impairment losses.

iii. Classification — Financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

However, under IAS 39 all fair value changes of liabilities designated as at FVTPL are recognised in profit or loss, whereas under IFRS 9 these fair value changes are generally presented as follows:

— the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and

— the remaining amount of change in the fair value is presented in profit or loss.

The Group has not designated any financial liabilities at FVTPL and the Group has no current intention to do so. The Group's did not expect any material impact if IFRS 9's requirements regarding the classification of financial liabilities were applied at 31 December 2016.

iv. Disclosures

IFRS 9 will require extensive new disclosures, in particular about hedge accounting, credit risk and expected credit losses. The Group plans to perform assessment included an analysis to identify data gaps against current processes and the Group plans to implement the system and controls changes that it believes will be necessary to capture the required data.

v. Transition

The Company plans to adopt the standard when it becomes effective in 2018 without restating comparative information; and is gathering data to quantify the potential impact arising from the adoption.

Notes to the Financial Statements (cont'd)

34 STANDARDS ISSUED BUT NOT YET EFFECTIVE (cont'd)

IFRS 16 Leases

IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard — i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance including IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases — Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16.

The Group plans to start assessment of the potential impact on its financial statements. So far, the potential impact identified is that the Group will recognise new assets and liabilities for its operating leases of office and warehouses. In addition, the nature of expenses related to those leases will now change as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. The Group has not yet decided whether it will use the optional exemptions.

i. ***Transition***

As a lessee, the Group can either apply the standard using a:

— Retrospective approach; or

— Modified retrospective approach with optional practical expedients.

The lessee applies the election consistently to all of its leases. The Group currently plans to apply IFRS 16 initially on 1 January 2019. The Group has not yet determined which transition approach to apply.

The Group has not yet quantified the impact on its reported assets and liabilities of adoption of IFRS 16. The quantitative effect will depend on, inter alia, the transition method chosen, the extent to which the Group uses the practical expedients and recognition exemptions, and any additional leases that the Group enters into. The Group expects to disclose its transition approach and quantitative information before adoption.

Other amendments

The following new or amended standards are not expected to have a significant impact on the financial statements.

— Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).

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