ANNUAL REPORT 2019

HENGXIN TECHNOLOGY LTD

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 integrated antennas and feeder cables for mobile communications in the People's Republic of China (the "**PRC**").

Based in Yixing city in Jiangsu Province in the PRC, the Company now have an aggregate annual production capacity of approximately 168,000 kilometres for RF coaxial cables for mobile communications, 7,860,000 pieces for accessories and 120,000 pieces for antennas.

The Group 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 the 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 Company is listed on the Main Board of The Stock Exchange of Hong Kong Limited ("**SEHK**").

PRODUCT PORTFOLIO

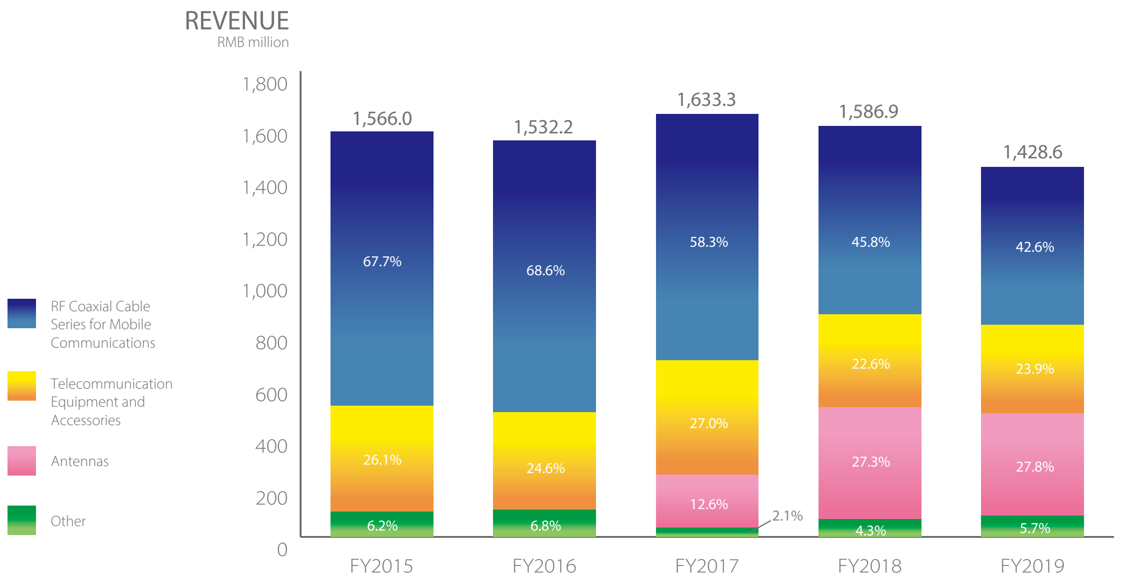
RF coaxial cable series for mobile communications ("**RF Coaxial Cables**")	Telecommunications equipment and accessories ("**Accessories**")	Antennas ("**Antennas**")	Others
• Transmission of high-frequency signals between antenna and base station equipment in outdoor base station wireless signal coverage system and indoor wireless signal coverage system in buildings • The leaky cables products can be 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	• 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	• Antennas adopted by telecom operators for use in signal transmission for wireless communications	• High temperature resistant cables which are used as part of the raw material components for antennas • Antenna testing services

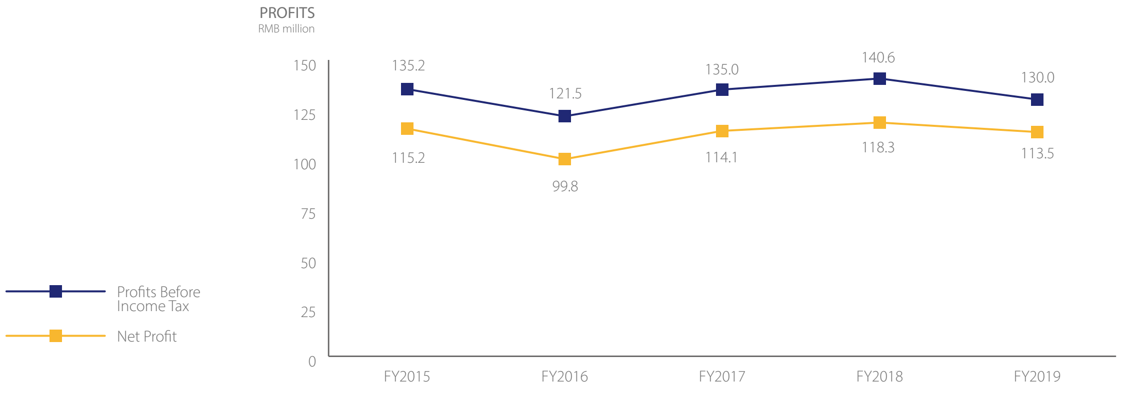
Five-Year Financial Summary

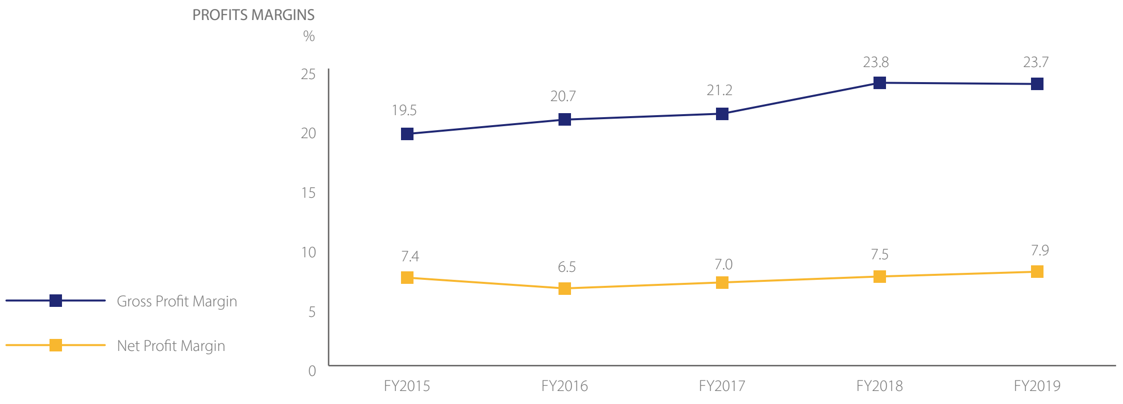
A summary of the consolidated results and assets and liabilities of the Group for the last five financial years, as extracted from the published audited financial statements is set out below.

	Year ended 31 December				
	2015	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
RESULTS					
REVENUE	1,565,984	1,532,161	1,633,327	1,586,950	1,428,564
Cost of sales	(1,259,965)	(1,215,379)	(1,286,701)	(1,210,021)	(1,090,208)
Gross profit	306,019	316,782	346,626	376,929	338,356
Other operating income	20,573	25,798	22,552	30,048	35,476
Selling and distribution expenses	(87,693)	(108,328)	(101,228)	(102,429)	(114,708)
Administrative expenses	(44,399)	(53,116)	(59,057)	(56,883)	(45,389)
Reversal of impairment loss/(impairment loss) on trade and other receivables	–	–	1,045	(19,183)	(641)
Other operating expenses	(52,328)	(53,262)	(66,698)	(74,407)	(68,041)
Interest expense	(7,001)	(1,479)	(62)	(1,042)	(15,024)
Share of loss of an associate	–	(4,936)	(8,152)	(12,440)	–
Profit before income tax	135,171	121,459	135,026	140,593	130,029
Income tax	(19,993)	(21,617)	(20,969)	(22,317)	(16,558)
NET PROFIT	115,178	99,842	114,057	118,276	113,471
ASSETS AND LIABILITIES					
TOTAL ASSETS	1,565,297	1,627,830	1,731,356	2,136,080	2,192,853
TOTAL LIABILITIES	(277,122)	(231,871)	(250,411)	(548,572)	(510,744)
NET ASSETS	1,288,175	1,395,959	1,480,945	1,587,508	1,682,109

Financial Highlights







Financial Ratios and Performance

FINANCIAL PERFORMANCE	UNIT	FY2015	FY2016	FY2017	FY2018	FY2019
Revenue	RMB'000	1,565,984	1,532,161	1,633,327	1,586,950	1,428,564
Including: Revenue from regions outside of PRC	*RMB'000*	*156,680*	*176,758*	*233,871*	*325,132*	*199,853*
Proportion of revenue from other regions to total revenue	*%*	*10.0*	*11.5*	*14.3*	*20.5*	*14.0*
Gross margin	%	19.5	20.7	21.2	23.8	23.7
Profit before income tax	RMB'000	135,171	121,459	135,026	140,593	130,029
Income tax	RMB'000	(19,993)	(156,680)	(176,758)	(233,871)	(16,558)
Net profit	RMB'000	115,178	99,842	114,057	118,276	113,471

FINANCIAL POSITION	UNIT	FY2015	FY2016	FY2017	FY2018	FY2019
Net assets	RMB'000	1,288,175	1,395,959	1,480,945	1,587,508	1,682,109

FINANCIAL RATIOS	NOTE	UNIT	FY2015	FY2016	FY2017	FY2018	FY2019
Earnings per share		RMB	0.297	0.257	0.294	0.305	0.292
Net asset per share		RMB	3.32	3.60	3.82	4.09	4.34
Return on total equity		%	8.9	7.2	7.7	7.5	6.7
Debt-to-assets ratio	a	%	18	14	14	26	23
Interest cover ratio	b	times	20.3	83.1	2,178.8	135.9	9.65
Current ratio	c	times	5.0	6.1	6.2	3.6	4.0
Trade receivables turnover		days	140	128	139	169	202
Inventory turnover		days	39	43	54	57	44

a Debt-to-assets ratio = Total liabilities/Total assets
b Interest cover ratio = EBIT/Interest expense
c Current ratio = Current assets/Current liabilities

Chairman's Message

During 2019, China continued to face a difficult economic transformation. With the domestic economy experiencing significant structural contradictions, the shortage of corporate funding worsened while the total social demand remained insufficient. Coupled with the Sino-US trade friction and other factors, the export market of Chinese enterprises became further deteriorated. In response to unfavorable market conditions, the government introduced a series of fiscal, financial, and industrial policies to revive the economy. Driven by various factors at home and abroad, the domestic market witnessed a decelerating GDP growth.

In the communications sector, there were noticeable structural contradictions between the shrinking total market demand and product demand. At that point, the domestic market underwent the transition from the 4G technology to the 5G technology, and the 5G license was not be granted by the government until June 2019, as a result of which there was no massive market demand for 5G products during the year, and the demand for 4G products started to wane. Against such backdrop, the four major telecommunication operators continued to reduce their total investments, directly impacting our traditional products, such as feeder wires and connectors.

Despite severe and complicated market conditions, all members of the Group joined forces to embrace these challenges and persist in business transformation. We were proactively positioned to realign our development strategy and organizational structure, while deepening the innovation of our production and operation models and marketing management mechanism. By increasing investments in and commitments to the research and development of the 5G technology and applications over a year of challenges, we finally achieved remarkable results against the unfavorable conditions. Our annual revenue and net profit were RMB1,428.6 million and RMB113.5 million, representing a decrease of approximately 10.0% and approximately 4.1% as compared to those last year. Meanwhile, the product offering was optimized, in which case, owing to the shrinking market, RF Coaxial Cables witnessed

"Adhere to business transformation and speed up products mix adjustment to enhance competitiveness"

Chairman's Message

their proportion of sales drop from 39.5% for 2018 to 30.7% for 2019, while the proportion of leaky cables, antennas, and telecommunication equipment and accessories, all of which enjoy a higher gross profit margin, increased to 11.8%, 27.8% and 23.9%, respectively. As a result, the Group's general gross profit margin amounted to 23.7%, which basically remains the same as last year.

I. PRODUCTION

1. To ensure our leading industrial position amid the declining feeder wire market and the cutthroat market competition, the Group was required to identify its inherent potential and innovation, lower production costs, and enhance its comprehensive competitiveness. On top of the milestone achieved for our integrated flexible manufacturing model last year, we comprehensively pressed ahead with the promotion and implementation of subsequent projects. By optimizing the production layout of feeder wires and leaky cables as well as the connection between their production processes, we succeeded in significantly slashing the storage and circulation of unfinished products, curtailing the production workshop area, and saving production time. Furthermore, we also produced less waste. As a result, our production efficiency and overall workshop utilization rate were significantly improved;

2. As for antenna production, we accomplished the construction of the automated circulation for antenna workshops during 2019, altering the situation where low production efficiency arises from manual transportation of materials and circulation of antenna carts under the original production model in addition to various uncontrollable factors. As for the construction for 5G antenna workshops, we completed its installation and commissioning, and entered the production phase;

3. As for leaky cables, the Group developed the 5G leaky cables for the specialized 5G channel particularly suitable for domestic operators, which is simultaneously compatible for the 3G/4G applications. Currently, we won the tenders for, and completed, the product supply required by Daxing Airport Express and the southern extension of Batong Line. The compatible 5G leaky cables developed to cover metro tunnels were successfully tested in Ji'nan Metro Lines, the outcome of which outperformed our expectation. In addition, we won the tenders for, and partially completed, the product supply required by various metro line projects in Shanghai, Shenzhen, and Hohhot. As for our leaky cables specialized for unmanned metro operation systems, we won the tenders for metro line projects in Shanghai and Hefei. Our leaky cables specialized for the LTE-M signal system for metro lines successfully won 15 tenders for metro signal construction projects in 2019;

4. The Amoeba operating model was further deepened and promoted on the basis of trials in 2018. Through Amoeba, precise calculation for costs and expenses was promoted, and the concept of internal workshop management was optimized, which enhanced the overall employee awareness and team capacity to

significantly improve the efficiency per capita at the workshop as a whole.

II. SALES

1. Facing the weakening communications market, especially a shrinking customer demand from the operators, the Group adjusted its both sales strategy and product structure, paid more attention to the changing customer portfolio, and vigorously developed enterprise-level customers, such as equipment providers and general contractors. These actions aim to gradually rationalize the distribution of traditional and new products, and form a new balanced development structure of operators, equipment providers, overseas customers, and enterprise-level customers, both of which will in return advance our transformation;

2. In response to our adjusted sales strategy, our measures for the organization structure were commensurately adopted to actively streamline the hierarchical marketing and apply the regional management. As a result, our sales and marketing personnel improved their market response and execution. Furthermore, we restructured the marketing team into the Operator Division and an Enterprise-level Customer Division;

3. The evaluation and incentive mechanism of the sales team was constantly optimized, and the sales team was directed to focus on the marginal contribution of orders, which helped improve their overall value creation. To this end, the Group successively introduced a series of systems and rules in 2019, such as "Incentives for the Wireless Product Research and Sales", "Administrative Measures for the Debriefing, Recruitment, Promotion and Dismissal for Domestic Sales and Marketing Personnel", and "Incentives for Sales and Promotion of New Products". In addition, we strengthened the efforts to evaluate new products and new businesses, and continued to implement an evaluation system where sales and marketing personnel's year-end settlement is linked to marginal contributions. As a result, our sales and marketing personnel paid closer attention to the changes in order prices and copper prices, thereby achieving mutual benefits between the Company and the sales and marketing personnel.

   In addition, sales and R & D personnel also act as important participants in the Employee Equity Incentive Scheme of the Group adopted in 2019.

III. RESEARCH AND DEVELOPMENT

The Group has always recognized technology research and innovation as vital forces, especially in the technology iteration period of the communications field. By capitalizing on the opportunities arising from the 5G technology, the Group also made significant investments in the research and development of various technologies and products, and achieved encouraging results. In 2019, we made applications for a total of 51 patents, including 20 invention patents and 7 PCT patents. In 2019, the Group completed the development of 18 national and industry standards, of which 6 industry standards were published, and 3 IEC standards and 4 industry standards were newly introduced. Seven new products passed the New Product Appraisal in Jiangsu

Chairman's Message

Province, of which 6 were rated as internationally advanced products. Hengxin Wireless was qualified as a High and New Technology Enterprise;

1. In terms of antennas, in line with the 5G commercialization and the overseas market expansion of antennas, our antenna research and development focused on shifting to antennas for 5G products and multisystem integrations. In 2019, a total of 32 projects were established, 21 of which were completed, while the research and development of 13 5G antennas and products were carried out, 4 of which were completed;

2. In terms of filters, three research and development projects commenced, which achieved separate milestones, including qualified sample acceptance, small batch verification and small batch production;

3. The specialized 5G leaky cables and the compatible 5G leaky cables, both of which were newly developed by the Group, not only passed the test and verification by our customers, but also received some orders and completed their delivery. We also received two national invention patents and one German utility model patent for the equal-level leaky communications solution, and achieved satisfactory results in the joint tests with the relevant entities, which also won the related tenders.

EFFECTS OF MAJOR EVENTS

The unexpected advent of COVID-19 in early 2020 halts social and economic development throughout China, which also almost causes the stagnation of economic activities. Since then, the epidemic has gradually spread globally. The raging epidemic caused a significant decline in the overall economy, with almost no demand and greatly damaged supply chain. The grave impacts will inevitably prejudice the development of the telecommunication industry and the operation of the Group. Currently, the epidemic is gradually brought under control in China, evidenced by resumed production activities in companies, as well as recovering market demand and supply chain. In this view, the Group is mainly exposed to negative impacts during the first quarter. At this point, the Group has at large resumed our production activities on the condition that our employees' safety is safeguarded. We will keep a close track of the epidemic development, and give all-out efforts to recover our losses as soon as normal market activities are restored.

PROSPECT AND OUTLOOK

Looking into 2020, unfavorable factors will continue to constrain China's economic development. For instance, due to the insufficient total social demand, enterprises demonstrate weaker investment ability and appetite, while the consumers' capacity and willingness is also limited by the income growth level. Although the U.S.-China "Phase 1" trade agreement has been concluded, the economic and trade relations between the United States and China will remain obscure, coupled with the rising protectionism in international trade and the impact of COVID-19, thereby overshadowing China's exports. However, formal commercialization of 5G technology undoubtedly highlights the development of the telecommunications industry in the PRC, as the government has clearly put forward that 5G would be an important avenue for expanding related investments and stimulating new consumer demands. Considering that the commercialized 5G technology becomes increasingly crystalized and shaped in the areas, such as the Industrial Internet of Things, smart factories, and the Internet of Vehicles, in addition to the rapidly increasing number of 5G base stations and users and the constant expanding applications, the industrial players find hope and a bright future against the adverse conditions. In this regard, the Group proposes to strategically re-position from "the world's leading expert of antenna feeder systems" to "the world's leading expert of wireless access systems". Furthermore, the Group will strive to break through "the research and development of 5G network RF products" and "the research and development of various intelligent terminal communication modules vertically integrated with the 5G technology". These actions will help drive and facilitate the Company's overall transformation. In 2020, we will strengthen our commitments to mainly 5G antennas, filters, 5G room split cables, 5G leaky cables, and UHF cables. By comprehensively tapping into the strengths of all parties in research and development, production and sales, we will actively explore new products, businesses, markets and areas, while advancing the development of enterprise-level customers. Besides seeking breakthroughs in system solutions, the Group will gradually evolve from a simple manufacturer into a system solution provider and engineering contractor in terms of business model. We recognize that the business transformation will experience a myriad of difficulties, uncertainties and setbacks, which are believed to be the only path for the Group to the prosperity in the future.

RESEARCH AND DEVELOPMENT

Management Discussion and Analysis

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Material fluctuations of the consolidated statement of profit or loss items are explained below:

Revenue

The Group's revenue for the financial year ended 31 December 2019 ("**FY2019**" or the "**Reporting Period**") decreased by approximately RMB158.4 million, or approximately 10.0% from approximately RMB1,587.0 million in the previous financial year ended 31 December 2018 ("**FY2018**") to approximately RMB1,428.6 million in FY2019.

RF Coaxial Cables

Revenue generated from the segment of RF Coaxial Cables decreased by approximately RMB119.1 million or approximately 16.4% from approximately RMB727.2 million in FY2018 to approximately RMB608.1 million in FY2019. In particular, the decrease in sales for this segment is due to the decrease in sales of feeder cables of approximately RMB188.4 million or 30.0% from FY2018's approximately RMB627.5 million to approximately RMB439.1 million in FY2019 amidst the declining demand in feeder cable in the context of weakening 4G investment with 5G technology being at the initial stage of official commercial application.

Included in the segment revenue of RF Coaxial Cables are the revenue from leaky cables of approximately RMB169.0 million for FY2019, representing an increase of approximately RMB69.2 million or 69.3% from approximately RMB99.8 million in FY2018. Leaky cables are special coaxial cables commonly used for the tunnels and underground mobile communication in mass transit railways and thus normally have higher gross profit margins than other RF Coaxial Cables products. In FY2019, the overall gross profit margin of RF Coaxial Cables increased by approximately 1.3 percentage point as compared with that of FY2018 due to the improvement of the gross profit margin of leaky cables as compared with that of FY2018, despite that the gross profit margin of RF Coaxial Cables (feeder cables) decreased as a result of weakened demand. During FY2019, the Group has continued to increase its effort in business transformation, and also allocated more resources for promoting leaky cables relating to usage in tunnels and underground mobile communications while consolidating its position in existing RF Coaxial Cables (feeder cables) markets and expanding into the overseas markets.

Telecommunication equipment and accessories

Revenue generated from the segment of telecommunication equipment and accessories decreased by approximately RMB17.6 million or approximately 4.9% from approximately RMB359.0 million in FY2018 to approximately RMB341.4 million in FY2019. As the demand for feeder cables decreased, the revenue for related telecommunication equipment and accessories also decreased.

Antennas

Revenue generated from Antennas during FY2019 was approximately RMB396.7 million and the revenue of Antennas during FY2018 was approximately RMB433.1 million, representing a decrease of approximately RMB36.4 million or approximately 8.4%. As 4G products entered its life cycle tail stage during FY2019 with 5G products pending large-scale commercialization, our sales of 5G related Antennas remained yet to achieve the satisfactory results. In line with gradual introduction of commercialized 5G products, the Group will continue to increase its efforts in antennas market promotion during the future telecommunications network upgrade for the major domestic telecom operators.

Others (HTRC and antennas testing services)

Revenue generated in this segment increased by approximately RMB14.7 million or approximately 21.7% from approximately RMB67.6 million during FY2018 to approximately RMB82.3 million during FY2019, of which the increase was mostly attributable to the increase in sales of HTRC during FY2019. Such increase was mainly because the Group has managed to establish favourable business relationships with a number of domestic antennas and equipment companies in FY2019 and thus can boost revenue for this business segment.

Gross profit margin

The Group achieved an overall gross profit margin of approximately 23.7% during FY2019 compared to approximately 23.8% during FY2018, representing a decrease of approximately 0.1 percentage point year-on-year. Although higher than average gross profit margin for the product line of leaky cables in FY2019 of approximately 8.7 percentage points has lifted the overall gross profit margin of the Group, facing intense market competition and declining market demand, gross profit margin of RF Coaxial Cables (feeder cables) has decreased by approximately 2.0 percentage points from FY2018's approximately 18.3% to approximately 16.3% in FY2019. On the other hand, the gross profit margin of Antennas has increased by approximately 1.0 percentage point from FY2018's 25.4% to approximately 26.4% in FY2019 (mainly because the Antennas sold in FY2019 generally have higher profitability), but revenue from Antennas reported a year-to-year decrease. As a result, the overall gross profit margin of the Group did not increase. The Group will continue 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 operating income

Other income increased by approximately RMB5.5 million or approximately 18.3% from approximately RMB30.0 million in FY2018 to approximately RMB35.5 million in FY2019. The increase is primarily due to:

(i) increase in interest income earned due to a significant year-to-year increase in cash and cash equivalents and time deposits in FY2019;

(ii) no rental income earned from the lease of the Group's testing facilities during FY2019; and

(iii) exchange losses of approximately RMB0.4 million arising from movements in renminbi exchange rate in FY 2019, which was classified as other operating expenses as compared to net exchange gains of approximately RMB5.6 million in FY2018.

Selling and distribution expenses

Selling and distribution expenses increased by approximately RMB12.3 million or approximately 12.0% from approximately RMB102.4 million in FY2018 to approximately RMB114.7 million in FY2019 due to an increase in salary expenses under selling and distribution expenses, which is attributed to the increase in the salary payable to our sales staff in FY 2019 for the purpose of motivating our sales staff to boost the marketing activities of the Group and stimulate the market demand for our products.

Administrative expenses

Administrative expenses decreased by approximately RMB11.5 million or approximately 20.2% from approximately RMB56.9 million in FY2018 to approximately RMB45.4 million in FY2019. The decrease is mainly due to the decrease in staff costs attributable to a decrease in the number of staff of the Group in FY2019, as well as a decrease in annual incentives payable to our staff in light of the decrease in revenue.

Impairment loss on trade and other receivables

The impairment loss on trade and other receivables for FY2018 represented the combined effects of (i) the expected credit loss of approximately RMB22.9 million relating to the other receivables of the outstanding amount of the loan to Mianyang Xintong Industrial Co., Ltd. (formerly known as Mianyang City Siemax Industrial Co., Ltd.) ("**Mianyang Xintong**"), a limited liability company established in PRC held through Jiangsu Hengxin Technology Co., Ltd. ("**Jiangsu Hengxin**") due to the poor operating results of Mianyang Xintong in FY2018 and the expected deteriorating future business of Mianyang Xintong and (ii) the reversal of the allowance for impairment in respect of trade receivables of the amount of approximately RMB3.7 million. Upon the assessment on the recoverability of the outstanding amount of the loan to Mianyang Xintong, no change in the expected credit loss relating to Mianyang Xintong is recorded in FY2019.

Other operating expenses

Other operating expenses decreased by approximately RMB6.4 million or approximately 8.6% from approximately RMB74.4 million in FY2018 to approximately RMB68.0 million in FY2019. Such decrease is mainly due to (i) a decrease in research and development ("**R&D**") expenses incurred from continuing R&D activities undertaken for the modifications and improvements to the Group's products; and (ii) net exchange losses of RMB0.4 million incurred in FY2019 (as compared to net exchange gains of approximately RMB5.6 million in FY2018 recorded as other income).

Interest expense

Interest expense increased by approximately RMB14.0 million from approximately RMB1.0 million in FY2018 to approximately RMB15.0 million in FY2019, mainly because the Group has increased its short-term loans during the final quarter of FY2018 and such short-term loans incurred interest expenses during FY2019.

Share of loss of an associate

As the Group provided full allowances for impairment of the equity interests of Mianyang Xintong in FY2018, the Group recorded no share of loss of an associate for FY2019. The amount of approximately RMB12.4 million for FY2018 represents: (i) the Group's proportionate share of the loss incurred by the Group's 24% equity interest in Mianyang Xintong recognised during FY2018 of approximately RMB1.8 million (after tax); and (ii) the impairment loss on the equity interest in Mianyang Xintong of approximately RMB10.6 million.

Profit before tax

Profit before tax decreased by approximately RMB10.6 million or approximately 7.5% from approximately RMB140.6 million in FY2018 to approximately RMB130.0 million in FY2019.

Income tax

The Group's main subsidiary, Jiangsu Hengxin, 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 for a further three years commencing on 7 December 2018.

Income tax expense decreased by approximately RMB5.7 million or approximately 25.6% from approximately RMB22.3 million in FY2018 to approximately RMB16.6 million in FY2019, mainly due to the increase in additional deduction for qualified research and development costs during the Reporting Period.

Net profit

In view of the above, net profit attributable to equity holders of the Company decreased approximately RMB4.8 million or approximately 4.1% from approximately RMB118.3 million in FY2018 compared to approximately RMB113.5 million in FY2019.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Material fluctuations of the consolidated statement of financial position items are explained below:

Trade and other receivables

(i) Net trade and bills receivables increased by approximately RMB82.6 million or approximately 11.2% from approximately RMB737.7 million as at 31 December 2018 to approximately RMB820.3 million as at 31 December 2019.

Average trade receivables turnover days was 202 days as at 31 December 2019 compared to 169 days as at 31 December 2018. The increase in trade receivables turnover by approximately 33 days was mainly because more customers have used bills for settlement thus leading to an extension of the settlement cycle. Bill receivables was approximately RMB129.1 million as at 31 December 2019, representing an increase by approximately RMB57.0 million from approximately RMB72.1 million as at 31 December 2018. Although the collection of trade receivables from certain customers of the Group had been stretched longer as some adopted the payment by bank bills of exchange which had a longer period of maturity, the Group focused on other collections to mitigate the longer turnover effects by certain customers as mentioned above.

Nonetheless, most of the trade and bills receivables balances were recent sales which were within the average credit period given to the Group's customers. As at 31 December 2019, approximately 74.2% of the trade and bills receivable were within the credit period given as compared with that of approximately 82.2% as at 31 December 2018.

For amounts due more than six months and longer, they mainly pertain to final payment owed by the two main PRC telecom operators. These operators have been the Group's long-time customers and the Group has been receiving regular payments from them. In view of the Group's long-standing dealings with such two main PRC telecom operators and the regular receipts of payments from these customers, the Group does not foresee any issue in the collection of these receivables. The Group will continue to endeavour in its collection efforts on the outstanding balances.

(ii) Net prepayments and non-trade receivables increased by approximately RMB14.2 million or approximately 27.9% from approximately RMB50.9 million as at 31 December 2018 to approximately RMB65.1 million as at 31 December 2019. The increase was mainly due to (i) the increase in advance payment to suppliers for the purchase of raw materials; and (ii) an increase in the bid bond for certain projects.

Inventories

Inventories (comprising raw materials, work-in-progress and finished goods) decreased by approximately RMB74.1 million or approximately 43.9% from approximately RMB168.9 million as at 31 December 2018 to approximately RMB94.8 million as at 31 December 2019. The decrease was mainly due to a significant decrease in raw materials for inventories, work in progress, and finished goods amidst the decrease in revenue for FY2019 and the Group's measure to control inventory level on implementing business transformation.

Other investments

Other investments relates to an equity investment held by the Group. As at 31 December 2019, based on the valuation report prepared by an independent valuer, an adjustment for the decrease in the valuation of that equity investment of RMB1.2 million as compared with 31 December 2018 is recorded as an other comprehensive income item.

Short-term loans

During the second half of FY2018, the Group has raised funds from short-term loans provided by banks in the PRC, which expired in the fourth quarter of FY2019 and was extended at a fixed interest rate. Such short-term loans aim to enhance the working capital position of the Group. Short-term loans as at 31 December 2019 will become due for repayment by the fourth quarter of 2020.

Trade payables

Trade payables decreased by approximately RMB21.4 million or approximately 18.2% from approximately RMB117.8 million as at 31 December 2018 to approximately RMB96.4 million as at 31 December 2019. The decrease is mainly due to the gradual decrease in revenue throughout FY2019 and is in line with the decrease in the inventory levels.

Income tax payable

Income tax payable decreased by approximately RMB14.1 million or approximately 84.9% from RMB16.6 million as at 31 December 2018 to approximately RMB2.5 million as at 31 December 2019. The decrease mainly arose from the timing differences in the payment of income taxes.

Deferred income

Deferred income increased by approximately RMB3.2 million or approximately 103.2% from approximately RMB3.1 million as at 31 December 2018 to approximately RMB6.3 million as at 31 December 2019. This relates to the subsidies received from local government on acquisition of equipment for certain projects for supporting the Group's project of transformation of science and technology achievements in the PRC.

Cash and cash equivalents and time deposits

Cash and cash equivalents and time deposits increased by approximately RMB38.0 million or approximately 3.9% from approximately RMB978.6 million as at 31 December 2018 to approximately RMB1,016.6 million as at 31 December 2019. The increase is mainly due to the cash of approximately RMB82.9 million generated from operating activities, cash outflows of approximately RMB18.6 million on acquisition of fixed assets from investing activities, finance costs of approximately RMB14.9 million incurred from funds raised from short-term loans and final dividends of approximately RMB17.7 million paid for FY2018 during the Reporting Period under financing activities.

SUBSIDIARIES

The subsidiaries of the Company are Jiangsu Hengxin, Jiangsu Hengxin Wireless Technology Co., Ltd, Hengxin Technology (India) Pvt Ltd and Hengxin Technology International Co., Limited. Details of the subsidiaries of the Company are set out in Note 28 to the financial statements.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2019, the Group's total assets were approximately RMB2,192,853,000 (2018: RMB2,136,080,000) (of which current assets were approximately RMB1,996,765,000 (2018: RMB1,937,369,000) and non-current assets were approximately RMB196,088,000 (2018: RMB198,711,000)), the total liabilities were approximately RMB510,744,000 (2018: RMB548,572,000) (of which current liabilities were approximately RMB496,551,000

(2018: RMB539,073,000) and non-current liabilities were approximately RMB14,193,000 (2018: RMB9,499,000)), and shareholder's equity reached approximately RMB1,682,109,000 (2018: RMB1,587,508,000). As at 31 December 2019, the Group's cash and cash equivalents and time deposits were RMB1,016.6 million (31 December 2018: RMB978.6 million). The Group's time deposits were all due within one year. As at 31 December 2019, the Group has short-term bank borrowings due within one year of RMB310,000,000 (2018: RMB315,000,000) carrying fixed interest rate.

The Group generally finances its operations from cash flows generated internally and short-term bank borrowings.

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

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**"), Hong Kong dollars ("**HKD**") 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 at 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 2019, the capital commitments of the Group in respect of the purchase of property, plant and equipment were approximately RMB1,474,000 (2018: approximately RMB1,250,000).

The Group's PRC subsidiary has signed an intention letter and committed to donate RMB500,000 per annum from 2007 for a period of 20 years to a charitable organization in the PRC when making profit in the year. As at 31 December 2019, the donation commitment was approximately RMB3,500,000 (2018: approximately RMB4,000,000).

CHARGE OR PLEDGE OF ASSETS

As at 31 December 2019, the Group did not charge nor pledge any assets (2018: Nil) as securities for banking facilities granted by its bankers.

Management monitors capital based on the Group's debt-to-assets ratio. This ratio is calculated as total liabilities divided by total assets.

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

The debt-to-assets ratio at the end of the reporting period is as follows:

	As at 31 December 2019 RMB'000	2018 RMB'000
Total liabilities	510,744	548,572
Total assets	2,192,853	2,136,080
Debt-to-assets ratio	23%	26%

The following tables show the remaining contractual maturities at the end of the reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay:

	Contractual cash flows Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	Total RMB'000	Carrying amount at 31 December RMB'000
2019					
Non-derivative financial liabilities					
Short-term loans	322,503	–	–	322,503	310,000
Trade and other payables#	163,480	–	–	163,480	163,480
Lease liabilities	884	514	484	1,882	1,786
At 31 December 2019	486,867	514	484	487,865	475,266

	Contractual cash flows Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	Total RMB'000	Carrying amount at 31 December RMB'000
2018					
Non-derivative financial liabilities					
Short-term loans	315,000	–	–	315,000	315,000
Trade and other payables#	184,995	–	–	184,995	184,995
At 31 December 2018	499,995	–	–	499,995	499,995

Exclude contract liabilities, advanced receipt, value added tax, business tax and other taxes payable.

CONTINGENT LIABILITIES

There were no material contingent liabilities as at 31 December 2019.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2019, there were 824 (31 December 2018: 845) 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 and life 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. No option has been granted under the Share Option Scheme since its adoption and up to the date of this report.

The Company also adopted the Incentive Scheme at its extraordinary general meeting held on 26 April 2019 to implement the long-term incentive and binding mechanism of Jiangsu Hengxin and fully mobilize the proactiveness of core and key employees of Jiangsu Hengxin to ensure the sustainable and healthy development of the Company.

MATERIAL LITIGATION AND ARBITRATION

As at 31 December 2019, the Group was not involved in any material litigation or arbitration.

DISCLOSEABLE TRANSACTIONS DURING THE REPORTING PERIOD

During the year ended 31 December 2019, the Company has not carried out any discloseable transaction.

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.

Management Discussion and Analysis

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 FY2019:

No.	RISK	DESCRIPTION	MITIGATING ACTIONS/MEASURES
1	Business and industry risk	(a) Due to the overall slowdown in economy, decrease in profitability for telecom operators and 5G is in the wait and see phase before and during the initial commercial phase, the speed and progress of network construction of telecom operators have faced significant influence, thus leading to a decrease in the acquisition of facilities. The roller coaster-like trend of copper prices in FY2019 has increased the difficulty of cost control.	(i) Continue to build on the Group's momentum in overseas expansion; (ii) Increase marketing presence in more geographic 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) The Group has also strengthened the development with enterprise level customers. (viii) Introduce new product offerings to reduce reliance on a few product models; and (ix) Actively seek appropriate acquisition targets to form positive synergies or to complement the Group's growth.
		(b) The adoption of optic fibres over copper cables for the telecommunications sector has continued during FY2019.	(i) To strengthen the effort on research and development and market exploration for high profit margin products like antennas, leaky cables and accessories and by securing more approvals as a qualified supplier for the Group's major customers and entering into new geographic markets.

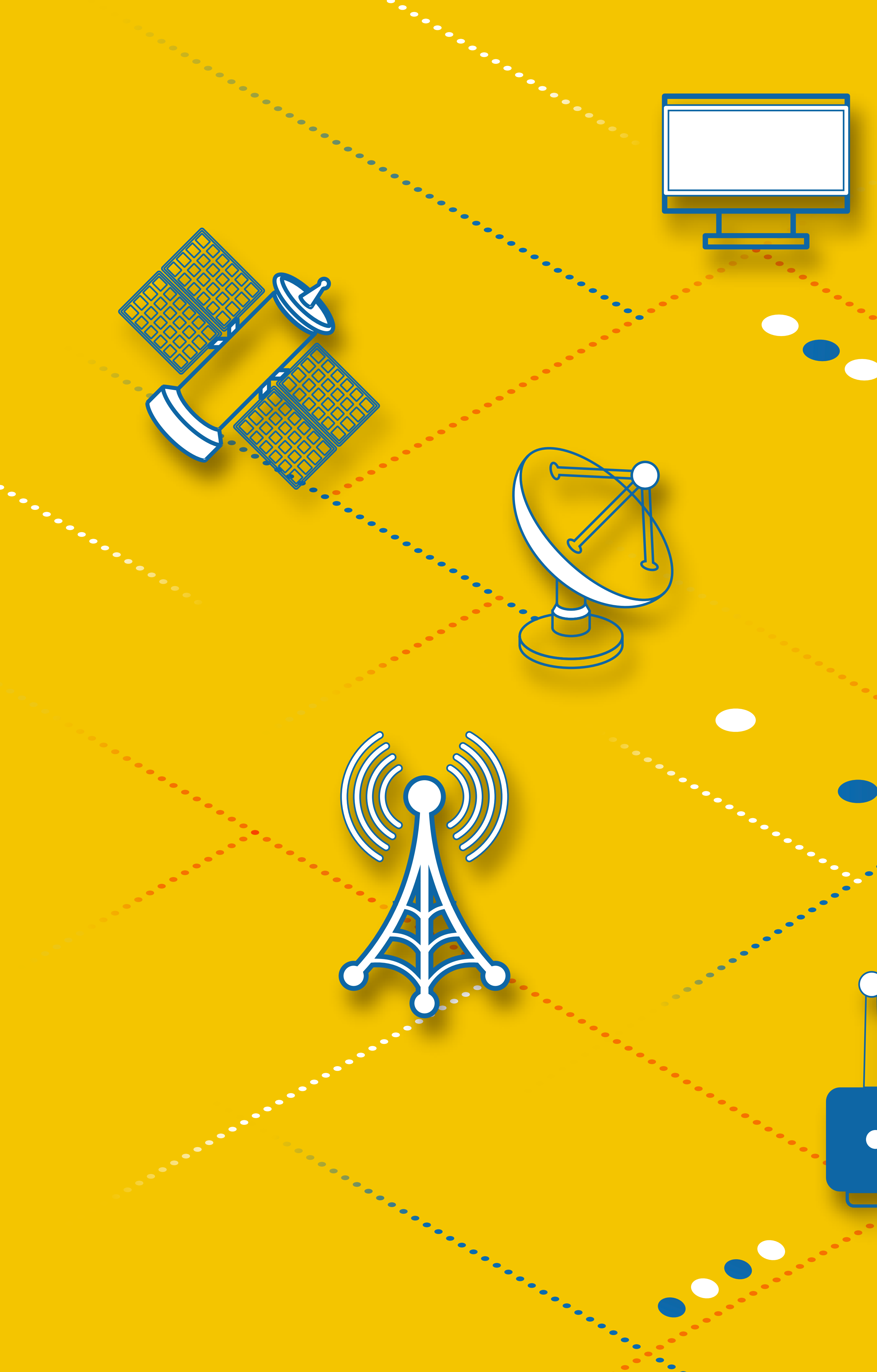
Management Discussion and Analysis

No.	RISK	DESCRIPTION	MITIGATING ACTIONS/MEASURES
2	Technology risk	In the initial phase of the formal commercialization of 5G technology, product forms and 5G application models are constantly being explored, and there are many uncertainties, which may increase the risk of research and development and large-scale production.	(i) It is of paramount importance for the Group to understand technology trends and the tendencies of telecom operators to adopt particular technologies in order 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; (ii) Direct the Group's efforts to ramp up R&D to introduce new range of products; (iii) 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 are launched; (iv) Actively introduce the Group's 4G capable antennas and other accessories to new customers and geographical markets; (v) 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; and (vi) Explore and commence R&D on the miniaturisation of RF cables, accessories and antennas.

No.	RISK	DESCRIPTION	MITIGATING ACTIONS/MEASURES
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. The potential risk associated with the non-performance of the contractual obligations by the borrower or transaction counter-party will increase the credit risk.	Adopt the policy of only dealing with credit worthy 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.
4	Foreign currency risk	The drastic changes in China's foreign trade environment have caused significant fluctuations in the RMB exchange rate, which poses significant exchange risks for the Group's expanding overseas business.	(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.

Management Discussion and Analysis

No.	RISK	DESCRIPTION	MITIGATING ACTIONS/MEASURES
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 control 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 FY2019.



Continuing Connected Transactions

The significant related party transactions set out in Note 31(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 FY2019, 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

On 29 September 2016, Jiangsu Hengxin entered into a raw materials purchase master agreement (the "**2017 Purchase Agreement**") with Suzhou Hengli Telecommunications Materials Co., Ltd. ("**Suzhou Hengli**") to renew the raw materials purchase master agreement entered on 20 August 2015 in relation to the purchase of raw materials for a term up commencing from 1 January 2017 to 31 December 2019, 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 2017, 2018 and 2019 are RMB50,000,000. During the year ended 31 December 2019, the aggregate net amount paid by the Group for the purchase of the raw materials under the 2017 Purchase Agreement amounted to approximately RMB33,200,362 (excluding VAT payable to the State Administration of Taxation of the PRC).

In view of the 2017 Purchase Agreement expiring on 31 December 2019, on 10 October 2019, Jiangsu Hengxin and Suzhou Hengli entered into a new raw materials purchase master agreement (the "**New Purchase Agreement**") to renew the 2017 Purchase Agreement for a term commencing from 1 January 2020 to 31 December 2022, and to revise the annual cap to RMB50,000,000 for each of the years ending 31 December 2020, 2021 and 2022.

PRODUCT SALES MASTER AGREEMENT

On 29 September 2016, Jiangsu Hengxin entered into a products sales master agreement (the "**2017 Sales Agreement**") with Suzhou Hengli to renew the raw materials purchase master agreement entered on 30 October 2014, 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 2017 Sales Agreement for each of the years ended 31 December 2017, 2018 and 2019 are RMB10,000,000. During the year ended 31 December 2019, the aggregate net amount received by the Group for the sales of its products under the 2017 Sales Agreement amounted to approximately RMB8,548,175 (excluding VAT payable to the State Administration of Taxation of the PRC).

In view of the 2017 Sales Agreement expiring on 31 December 2019, on 10 October 2019, Jiangsu Hengxin and Suzhou Hengli entered into a new products sales master agreement (the "**New Sales Agreement**") to renew the 2017 Sales Agreement for a term commencing from 1 January 2020 to 31 December 2022, and to revise the annual cap to RMB10,000,000 for each of the years ending 31 December 2020, 2021 and 2022.

Continuing Connected Transactions

LISTING RULES' IMPLICATIONS

In compliance with Chapter 14A of the Listing Rules, the respective annual caps under the 2017 Purchase Agreement and the 2017 Sales Agreement (collectively, the "**2017 CCT Agreements**") and that under the New Purchase Agreement and the New Sales Agreement (collectively, the "**New 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 2017 CCT Agreements and New CCT Agreements exceeds 5%, the 2017 CCT Agreements and New 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 2017 CCT Agreements and New CCT Agreements at the Company's extraordinary general meeting held on 6 December 2016 and 17 December 2019 respectively.

The price and the terms of the 2017 CCT Agreements have been determined in accordance with the pricing policies and guideline set out in the circular of the Company dated 18 November 2016.

BACKGROUND OF HENGTONG GROUP AND 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 as to approximately 15.66% 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 as to 58.7% and 41.3% 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 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 Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The Board has received a letter from the auditors which has confirmed the matters required under Rule 14A.56 of the Listing Rules.

Board of Directors

CUI WEI

Chairman and Non-Executive Director

Mr. Cui Wei (崔巍), born in 1986, is chairman of the Board (the "**Chairman**") of the Company and chairman of Jiangsu Hengxin. He 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's degree in Mechanical Engineering from Saint Louis University and a master degree in Engineering Management from University of Southern California. Mr. Cui has extensive experience in direct investment, management of equity interests and debentures.

DU XIPING

Executive Director

Mr. Du Xiping (杜西平), born in 1962, 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. (深圳市東方泓達投資有限公司), 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 the 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 (徐國強), born in 1972, is our Executive Director and the General Manager of Jiangsu Hengxin 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 Jiangsu Hengxin 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 Jiangsu Hengxin 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, China Economy Top 10 Innovation Award in 2012, and award for Wuxi Top 100 Businessman and Industry Excellence Entrepreneur in 2019 . Mr. Xu has begun his EMBA program at Nanjing University from 2016.

ZHANG ZHONG

Non-Executive Director

Ms. Zhang Zhong (張鍾), born in 1954, is our Non-Executive Director and was appointed on 23 June 2005. Ms. Zhang was one of the founders and directors o f 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 (四川省農機供銷總公司) and was responsible for the market development and sales in the company. Between 1972 and 1982, she worked at Sichuan Chain Factory (四川省鏈條廠). From 1988 to 2004, she was the manager of the metals branch at Sichuan Science and Industrial Trade Agricultural Machinery Co. Ltd (四川省科工貿農機公司金屬材料分公司) and was responsible for the sales and marketing in the company.

TAM CHI KWAN MICHAEL

Independent Non-Executive Director

Mr. Tam Chi Kwan Michael (譚志昆), born in 1964, 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 30 years of experience in tax consulting and auditing. He holds an Honours Diploma in Accountancy from Lingnan University (formerly known as 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.

Board of Directors

DR. LI JUN

Independent Non-Executive Director

Dr. Li Jun (李珺博士), born in 1961, 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 Suncity Group Holdings Limited (Stock Code: 1383, a company listed on the main board of the Stock Exchange) until 1 June 2012. He is currently an independent non-executive director of CMMB Vision Holdings Limited (Stock Code: 0471, a company listed on the main board of the Stock Exchange).

PU HONG

Independent Non-Executive Director

Mr. Pu Hong (浦洪), born in 1964, is our Independent Non-Executive Director and was appointed on 6 March 2015. Mr. Pu holds a master degree in Accounting and Finance obtained from Anhui Finance and Economics College, a master degree 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 encompass a wide range of corporate advisory work such as mergers and acquisitions, corporate restructuring and initial public offerings.

Key Management

LAU FAI LAWRENCE

Financial Controller

Mr. Lau Fai Lawrence (劉斐), born in 1971, joined our Group in June 2017. He is the Financial Controller and is responsible for the finance, legal, tax, compliance and reporting functions of the Group. Mr. Lau is a member of the Hong Kong Institute of Certified Public Accountants, a practising certified public accountant in Hong Kong and a fellow member of the Association of Chartered Certified Accountants in the United Kingdom.

Mr. Lau holds a bachelor degree in business administration from The University of Hong Kong and a master degree in corporate finance from The Hong Kong Polytechnic University. Mr. Lau is the company secretary of BBMG Corporation, a company listed on the main board of The Stock Exchange of Hong Kong (the "**Stock Exchange**"). Before joining BBMG Corporation, Mr. Lau has served as the group financial controller and qualified accountant of Founder Holdings Limited and Peking University Resources (Holdings) Company Limited, both companies are listed on the main board of the Stock Exchange. From 1994 to 1998, Mr. Lau worked for Price Waterhouse as a senior accountant. Mr. Lau is currently an executive director of Future World Financial Holdings Limited (Stock Code: 572), an independent non-executive director of Primeview Holdings Limited (Stock Code: 789), Titan Petrochemicals Group Limited (Stock Code: 1192), HKBridge Financial Holdings Limited (Stock Code: 2323), Tenwow International Holdings Limited (Stock Code: 1219) and China Energine International (Holdings) Limited (Stock Code: 1185), all the above companies are listed on the main board of the Stock Exchange. Mr. Lau is also the independent non-executive director of Sinopharm Tech Holdings Limited (Stock Code: 8156, a company listed on the GEM of the Stock Exchange). From February 2017 to December 2018, Mr. Lau was the non-executive director of Alltronics Holdings Limited (Stock Code: 833, a company listed on the main board of the Stock Exchange) and the independent non-executive director of Winto Group (Holdings) Limited (Stock Code: 8238, a company listed on the GEM of the Stock Exchange) from April 2019 to November 2019.

JIN HUIYI

Deputy General Manager – Overseas Marketing

Ms. Jin Huiyi (金惠義), born in 1976, 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

Executive vice President

Mr. Hua Yanping (華彥平), born in 1967, joined our Group in August 2014. He is the executive vice president of Jiangsu Hengxin Wireless Technology Co., Ltd. ("**Jiangsu Wireless**"), responsible for the technology and product development of Jiangsu Wireless. From 2003 to 2014, Mr. Hua served as senior engineer, principle engineer and product line manager 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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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
Mr. Lai Yang Chau, Eugene

JOINT COMPANY SECRETARIES
Ms. Wong Jing Ting, Renee (Singapore)
Mr. Lai Yang Chau, Eugene (Hong Kong)

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(Appointed since 17 December 2019)

As for Singapore Statutory Reporting
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Certified Public Accountants
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Partner-in-charge: Teo Han Jo
(Appointed since 6 December 2016)

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

STOCK CODE
1085

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 was listed on the Main Board of the SEHK. Throughout FY2019, the Company had adopted, for corporate governance purposes, the code provisions as set out in the Corporate Governance Code in 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.

In respect of code provision E.1.2 of the Hong Kong Code, Cui Wei (Non-executive Director as well as the Chairman of the Board) was unable to attend the extraordinary general meeting of the Company held on 17 December 2019 due to business commitments.

(A) BOARD MATTERS

The Board's Conduct of Affairs

As at 31 December 2019, the Board comprises of two Executive Directors, two Non-Executive Directors, and three Independent Non-Executive Directors. During FY2019, 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 of the Company (the "**Management**"). To fulfill this role, the Board is responsible for implementing effective internal controls and for the overall corporate governance of the Group, including setting its strategic direction, establishing goals for the Management and monitoring the Management's performance towards achieving these goals.

The Group has set in place an approval matrix which sets out the 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 Board committees, including the Nomination Committee, the Remuneration Committee and the Audit Committee (the "**Board Committees**"). The effectiveness of each committee is constantly monitored. The Board has also established a framework for the Management to establish 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 agenda for Board meetings are prepared in consultation with the Chairman–Agenda items include the management report, financial reports, strategic matters, corporate governance, business risk issues and compliance. Executives of the Group are regularly invited to attend Board meetings to provide updates on operational matters.

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.

Corporate Governance Report (cont'd)

During FY2019, the number of general meetings, Board meetings and Board Committee meetings held, and the attendance by each member of the Board at these meetings are set out below:

Name of Director	Annual General Meeting		Extraordinary General Meeting		Board meetings		Audit Committee meetings		Remuneration Committee meetings		Nominating Committee meetings	
	No. of Meeting Held	No. of Meeting 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	No. of Meetings Held	No. of Meetings Attended
Cui Wei	1	1	2	1	6	5	5	3	1	1	1	1
Du Xiping	1	1	2	2	6	6	NA	NA	NA	NA	1	1
Xu Guoqiang	1	1	2	1	6	6	NA	NA	1	1	NA	NA
Zhang Zhong	1	1	2	1	6	6	5	5	NA	NA	NA	NA
Tam Chi Kwan Michael	1	1	2	2	6	5	5	5	1	1	1	1
Dr. Li Jun	1	1	2	2	6	6	5	5	1	1	1	1
Pu Hong	1	1	2	2	6	6	5	5	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. Each newly appointed Director shall receive appropriate induction, training and coaching in order to develop individual skills as required for the discharge of their duties and responsibilities as Directors of the Company. During FY2019, the Directors have participated in continuous professional development to develop and refresh their knowledge and skills, including the training course provided by the legal advisors of the Company. Some of the Directors have also attended external trainings during FY2019 covering topics on Corporate Governance Code on risk management and internal controls under the Listing Rules, the Companies Ordinance of Hong Kong and new Hong Kong Financial Reporting Standards and legal framework update.

Board Composition and Guidance

During FY2019, the Board comprised the following Directors:

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	28 April 2017	Yes
Du Xiping	Executive Director	31 December 2015	28 April 2018	Yes
Xu Guoqiang	Executive Director	20 December 2011	26 April 2019	NA
Zhang Zhong	Non-Executive Director	23 June 2005	28 April 2018	Yes
Tam Chi Kwan Michael	Independent Non-Executive Director	10 December 2010	26 April 2019	NA
Dr. Li Jun	Independent Non-Executive Director	6 March 2015	28 April 2018	NA
Pu Hong	Independent Non-Executive Director	6 March 2015	26 April 2019	NA

(NA: Not applicable)

The criteria for assessing independence of the Independent Non-Executive Directors are based on the guidelines set out in the Listing Rules. The Board considers an independent director is a director 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 be likely to interfere, with the exercise of the director's independent judgment in the conduct of the Group's affairs. The independence of the Company's Independent Non-Executive Directors meets the guidelines for assessing independence as 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 fulfil its responsibilities. This number of Directors may be increased when the Board considers that additional expertise is required in specific areas, or when an outstanding candidate has been 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 appointments to the Board will be based on merits, and candidates will be considered against certain objective criteria, having regard to the benefits of diversity on the Board.

The Nomination Committee conducts an annual review of the Independent Non-Executive Director's independence. Based on the guidelines of the Listing Rules for assessing independence, the Nomination 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 Nomination Committee to ensure that the Board has the appropriate size, diversity, skills, knowledge, experience and perspectives, and possesses the core competencies necessary for the effective functioning of the Board and making informed decisions. 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 particular expertise in specific areas, the Nomination 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 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 Directors and Independent Non-Executive Directors exercise no management functions in the Group. While all the Directors have equal responsibility for the performance of the Group, the respective roles of the Non-Executive Directors and Independent Non-Executive Directors are 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 Directors and Independent Non-Executive Directors to be competent, sufficient in number and that their views hold equal weight such that no individual or groups of Directors can dominate the Board's decision-making processes. The Non-Executive Directors and Independent Non-Executive Directors have no financial or contractual interests in the Group other than 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 28 to 30 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 any of the Company's subsidiaries.

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 has been appointed as the Chairman of the Board since 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 Directors 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 FY2019, 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 FY2019 and has no intention to appoint a chief executive officer in the near future.

Joint Company Secretaries

The Company's secretarial functions are outsourced to external services provider. Ms. Wong Jing Ting, Renee ("**Ms. Wong**") and Mr. Lai Yang Chau, Eugene ("**Mr. Lai**") are the joint company secretaries of the Company (the "**Joint Company Secretaries**"). Ms. Wong is a qualified company secretary under the laws of Singapore. Mr. Lai is qualified to practise as solicitor in Hong Kong. Ms. Wong and Mr. Lai have complied with the requirement under Rule 3.29 of the Listing Rules during the year.

Their primary corporate contact person at the Company is Mr. Lau Fai Lawrence, the financial controller of the Company.

(B) NOMINATION 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, and the Nomination Committee oversees this aspect of corporate governance.

The Nomination Committee comprises the following members:

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

The Nomination Committee holds at least one meeting each year. The Nomination Committee has convened one meeting during FY2019 to review the independence of the Independent Non-Executive Directors as well as the composition of the Board.

The key functions of the Nomination Committee under its Terms of Reference are, amongst others:

(a) to establish procedures for, and make recommendations to the Board on all appointments to the Board, 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 an Independent Non-Executive Director is independent, bearing in mind the requirements set forth in the Listing Rules and any other relevant factors;

(c) in respect of a Director who holds 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 such Director when serving on multiple boards;

(d) to decide how the Board's performance may be evaluated and propose an objective performance criterion, 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 Nomination 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 may, if eligible, offer themselves for re-election.

Pursuant to 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. 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. Du Xiping and Ms. Zhang Zhong shall retire at the forthcoming AGM and, being eligible, will offer themselves for re-election at the forthcoming AGM. Their profiles are shown on pages 28 to 29 of the Annual Report.

The Nomination Committee has considered the level of commitment of each Director serving on multiple boards. For FY2019, 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 Diversity

The Company recognizes and embraces the benefits of having a diverse Board to enhance the quality of its performance.

When determining the composition of the Board, the Company will consider Board diversity in terms of, among other things, gender, age, cultural, educational background, professional experience, skills and know-how. All Board appointments will be based on merits, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

Selection of candidates for Board membership will be based on a range of diversity perspectives, including but not limited to gender, age, cultural, educational background, professional experience, skills and know-how.

The Nomination Committee will review its board diversity policy, as appropriate, to ensure the effectiveness of the policy. The Nomination Committee will discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

Board Performance

The Nomination 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, his or her participation, candour and any special contributions.

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

The Nomination Committee has formulated a set of evaluation procedures and performance criteria for the assessment of the Board's performance as a whole. It had conducted an assessment of the performance of the Board for FY2019.

The Nomination Committee has established a set of procedures for assessing the effectiveness of the performance of the Board as a whole. Such performance criteria includes an evaluation of the Board's size, composition, access to information, accountability, processes and performance in relation to discharging its principal responsibilities in terms of the financial indicators. The factors taken into consideration for the re-nomination of the Directors for FY2019 are based on the Directors' attendance at meetings held during FY2019 and the contributions made by the Directors at the meetings.

The Board and the Nomination 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-informed 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 in 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 in Board meetings. The information provided includes background or explanatory information relating to matters to be considered by 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 regular detailed financial and operational reports from the senior management during FY2019 to enable them to carry out their duties. The Board also liaises with the Management as required, and may consult with other employees and seek additional information on request.

All Directors have separate and independent access to the Joint Company Secretaries at all times. 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 applicable to the Company, including requirements under the Companies Act (Chapter 50) of Singapore (the "**Companies Act**") and under the Listing Rules, are complied with.

The Board also 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.

Pursuant to the Constitution, the decision to appoint or to 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
Tam Chi Kwan, Michael	Member, Independent Non-Executive Director
Pu Hong	Member, Independent Non-Executive Director

The Remuneration Committee holds at least one meeting each year.

The key functions of the Remuneration Committee under its Terms of Reference are, amongst others:

- 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 Board and should cover all aspects of remuneration, including but not limited to the Director's fees, salaries, allowances, bonuses, options, and other benefits in kind;

- in the case of service contracts, to consider what compensation commitments, if any, would entail under the Directors' contracts of service in the event of early termination with a view to be fair and avoid the rewarding of poor performance; and

- 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 FY2019, 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 Directors 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 management comprise a basic salary component and a variable annual bonus component which is 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, commercial and business needs of the Group. The performance of the Executive Directors (together with other senior management) 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 extraordinary general meeting of the Company held on 27 October 2010.

The Scheme is administered by the Remuneration Committee.

No options have been granted by the Company to the Directors and the controlling shareholders of the Company and their associates since the adoption of the Scheme on 27 October 2010 to the end of FY2019.

Incentive Scheme

On the extraordinary general meeting of the Company held on 26 April 2019, the Company adopted the employee equity incentive scheme (the "**Incentive Scheme**") to implement the long-term incentive and binding mechanism of Jiangsu Hengxin Technology Co., Ltd. ("**Jiangsu Hengxin**"), a wholly-owned subsidiary of the Company, and fully mobilize the proactiveness of core and key employees of Jiangsu Hengxin to ensure the sustainable and healthy development of the Company and Jiangsu Hengxin, and for which this Incentive Scheme is formulated with reference to the actual situation of the Company and Jiangsu Hengxin. For details of the Incentive Scheme, please refer to the announcements of the Company dated 29 March 2019, 12 November 2019 and 28 February 2020 and the circular of the Company dated 29 March 2019.

Subsequent to the shareholders' approval of the Incentive Scheme at the extraordinary general meeting held on 26 April 2019, the Company is in the process of implementing the Incentive Scheme. As at the date of this report, the Incentive Scheme has not yet acquired any shares of the Company.

(D) ACCOUNTABILITY AND AUDIT

Accountability

In presenting the annual financial statements and half-yearly announcements to the shareholders, it is the aim of the Board to provide the shareholders with a balanced, clear and comprehensive analysis, explanation and assessment of the Group's performance, financial position and prospects.

The Management provides the Board, on a monthly basis, the management accounts of the Group to enable the Board to undertake informed, balanced and understandable assessment of the Group's financial and other information, and also its performance, financial position and prospects from time to time.

Risk Management and Internal Control

The Board recognises that it is responsible for the evaluation and management 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 process 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 risk management framework and internal control system. In addition to determining the approach to risk management, the Board sets and establishes an appropriate risk culture throughout the Group for effective risk management.

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

- assessment of the Group's overall risk tolerance and strategies;
- oversight of the Group's current risk exposures and future risk strategies; and
- review of the new businesses or corporate actions that the Group may undertake.

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

The Board acknowledges that it is responsible for the Group's risk management framework and overall internal control system, but recognises that no risk management framework and internal control system will preclude all errors and irregularities because the system is designed to manage, rather than to eliminate, the risk of failure to achieve business objectives, and can therefore provide reasonable but not absolute assurance against material misstatement or loss. During FY2019, the Board has reviewed the effectiveness of the Group's internal control system and risk management framework and is satisfied with such system and framework and has adopted the recommendations suggested by its internal auditor for further improvements of the internal control system and risk management framework.

The Audit Committee has assisted the Board in conducting periodic reviews on the adequacy of the risk management framework and internal control system of the Group, which covers 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 FY2019, the Audit Committee:

- reviewed the risks which the Group is exposed to, as well as the risk management framework and internal control system in place to mitigate such risks; and
- 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 are effective and adequate to address the Group's operational, financial and compliance risks.

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 functions.

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 holds meetings at quarterly intervals each year. The Audit Committee has convened five meetings during FY2019 to discuss and review the following where applicable:

- to monitor the work conducted by Messrs KPMG LLP as the external auditors of the Company, and in connection with the external audit of the financial statements of the Group for the year ended 31 December 2018, Messrs KPMG LLP has not noted any material weaknesses in the Company's internal control system after reviewing aspects of the books and records and internal accounting controls of the Group;

- to recommend on the proposed appointment of KPMG as the new auditor in Hong Kong for FY2019;

- to discuss with KPMG and Messrs KPMG LLP on the audit planning for FY2019;

- to review the quarterly, interim and annual financial statements, statement of financial position, statement of profit or loss and other comprehensive income before submitting 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 the Listing Rules, the SEHK and other statutory/regulatory requirements;

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

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

- to review and discuss with the external auditors (or such other parties) any suspected fraud, 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;
- to identify, develop and review the effectiveness of the Group's policies, practices and performance in respect of environmental, social and governance issues;
- to consider the selection, appointment, re-appointment, resignation or dismissal of the external auditors of the Company;
- to review notifiable transactions and/or connected transactions of the Company falling respectively within the scope of Chapters 14 and 14A of the Listing Rules (if any);
- to undertake such other reviews and projects as may be requested by the Board from time to time, and to report its findings to the Board on matters arising and requiring the attention of the Audit Committee; and
- to undertake such other functions and duties as may be required by the Listing Rules.

The Terms of Reference of the 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 the Management to review the accounting, auditing and financial reporting matters to ensure that an effective control environment is maintained within the Group.

The Audit Committee is primarily responsible for the selection, appointment and removal of the internal auditors. The internal auditors' 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 mechanism by which the employees of the Company and other persons may, in confidence, raise serious concerns and complaints about possible incorrect financial reporting and/or other matters that could have a large impact on the Company. The Audit Committee is authorised by the Company to do all such acts as are necessary to ensure, amongst others, that:

- independent investigations are carried out in an appropriate and timely manner;
- appropriate action is taken to correct any such weaknesses in the internal control system to prevent the recurrence of similar events in the future; and
- any administrative, disciplinary, civil or other actions initiated upon 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 or she 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 senior management 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 external 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.

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 appointed and the audit engagement partner assigned to the audit.

The auditors of the Company's subsidiaries are disclosed in note 17 to the financial statements in this Annual Report.

The Audit Committee is satisfied with the independence and objectivity of Messrs KPMG LLP as the external auditors of the Company during FY2019 and has recommended to the Board the re-appointment of Messrs KPMG LLP. Messrs KPMG LLP has been re-appointed as the external auditors of the Company for Singapore statutory reporting at the AGM held on 26 April 2019.

Pursuant to section 20ZB of the Financial Reporting Council Ordinance (Cap 588) of Hong Kong (the "**FRCO**"), Messrs KPMG LLP is regarded as an overseas auditor and must first be recognized by the Financial Reporting Council in Hong Kong before Messrs KPMG LLP can undertake any audit engagement for the Company for FY2019. In order to streamline the future auditing arrangement of the Company and not to be bound by the requirements of the FRCO, the Board proposed that KPMG be appointed as the auditor of the Company to fulfil the requirements of the Listing Rules and the FRCO. As such, Messrs KPMG LLP will remain as the Company's registered auditor in Singapore and there is no change in Messrs KPMG LLP's current appointment.

The financial statements of the Company to be audited by Messrs KPMG LLP are prepared in accordance with the Singapore Financial Reporting Standards (International) issued by the Accounting Standards Council and International Financial Reporting Standards issued by the International Accounting Standards Board while the financial statements of the Company to be audited by KPMG are prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board. Such audit arrangement therefore fulfils the relevant requirements under the Singapore Companies Act, the Listing Rules and FRCO. At the extraordinary general meeting of the Company held on 17 December 2019, the proposed appointment of KPMG as the new auditor in Hong Kong was duly passed. For details of the proposed appointment of KPMG as the new auditor in Hong Kong, please refer to the announcement of the Company dated 10 October 2019 and the circular of the Company dated 22 November 2019.

During FY2019, the Audit Committee has convened five 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 acknowledge that they are responsible for the preparation of the financial statements of the Company for each financial period which give a true and fair view of the financial position, financial performance, and state of affairs of the Group.

In preparing the financial statements for FY2019, the Directors have selected appropriate accounting policies and applied them consistently. The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue its business as a going concern, and therefore the Directors 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 as set out in pages 65 to 70 of this Annual Report.

Auditors' Remuneration

KPMG and Messrs KPMG LLP, the external auditors of the Company for Hong Kong reporting and Singapore statutory reporting respectively, are responsible for providing services in connection with the audit of the financial statements of the Group for FY2019.

During FY2019, the total remuneration in respect of the review and audit services provided by Messrs KPMG LLP, Singapore and other member firms of KPMG International (KPMG Huazhen LLP) for the Group amounted to approximately RMB1,724,000.

During FY2019, other than the provision of services in connection to the audit of the financial statements of the Group, Messrs KPMG LLP was not involved in the provision of other non-audit services to the Group. The Audit Committee is satisfied that the independence of the external auditors was uphold.

Internal Audit

The Company has appointed Yang Lee & Associates as the internal auditors to carry out internal audit of the Company covering the review of key internal controls in selected areas based on key operational, financial and compliance risks as identified under the risk management framework and as advised by the Audit Committee and the Management. The internal auditors report directly and primarily to the Audit Committee and assist the Board in monitoring and managing the risks and internal controls of the Group.

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

In accordance with their audit plan, the internal auditors have conducted an annual review of the effectiveness of the Company's system of internal controls. Weaknesses in internal controls and recommendations for areas of improvements (if any) have been reported to the Audit Committee. Following the receipt of such recommendations, the Company has fully implemented the recommendations to further strengthen the risk management framework and internal control system during FY2019.

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.

During FY2019, in response to the relevant requirements of the Hong Kong Code, the Company has formulated a dividend policy. Accordingly, the Company will work towards maintaining a balance between meeting shareholders' expectations and prudent capital management in accordance with the dividend policy.

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 AGMs 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 SEHK;
- the Company's website at http://www.hengxin.com.sg at which shareholders can access information on the Group. The website provides, amongst others, annual reports, interim reports, corporate announcements, press releases, 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; and
- shareholders may also direct their questions to the Company by writing to the Senior General Executive of the Company at hengxin@listedcompany.com (by email).

In addition, shareholders are encouraged to attend the AGMs 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. AGMs and extraordinary general meetings are the principal forum for dialogue with shareholders.

Notices of the AGMs and extraordinary general meetings are despatched to shareholders, together with explanatory notes or a circular on items of special business before the AGMs and extraordinary general meetings. The Board welcomes questions from shareholders who have an opportunity to raise issues either informally or formally before or at any general meetings. The chairmen of the Audit Committee, Remuneration Committee, Nomination Committee and the external auditors of the Company will usually be available at general meetings of the Company to answer questions relating to the work of the Board Committees and the external auditors.

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

All resolutions in the AGM and extraordinary general meetings held during FY2019 have been decided on a poll demanded 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) DIVIDEND POLICY

The objective of the dividend policy of the Company is to reward its shareholders by sharing a portion of profits/ earning, while also ensuring that enough funds are retained for the future growth and prospects of the Company.

The Company will distribute dividends subject to the distributable profits in the financial statements prepared in accordance with the Companies Act of Singapore, International Financial Reporting Standards and the provisions of the Company's Constitution, as well as all applicable laws.

The Board will take into account of the following factors when considering the payment of any dividends:

- financial results;
- shareholders' interests;
- general business conditions and strategies;
- capital requirements;
- contractual restrictions on the payment of dividends by the Company to its shareholders or by its subsidiaries to the Company;
- taxation consideration;
- possible effects on the Company's creditworthiness;
- statutory and regulatory restrictions; and
- any other factors the Board may deem relevant.

The Board may, from time to time, declare and pay to the shareholders such interim dividends as appear to the Board to be justified by the profits of the Company.

The Board may recommend final dividend to the shareholders for their approval in the general meeting of the Company and any final dividend recommended by the Board will be subject to the shareholders' approval, at the ensuing annual general meeting of the Company. The Board may additionally declare and pay special dividends in special circumstances including but not limited to one-off profits, non-recurring incomes and disposal of assets. Dividend may be paid in cash or in stock.

(G) 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 enquiries on all the 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 FY2019.

Under the Best Practices Code, the Directors, the Management and other officers of the Group who are subject to the Best Practices Code or the Model Code are not permitted to deal in any of the Company's securities during the period set out below:

- commencing 30 days before the announcement of Company's half-yearly results, or if shorter, the period from the end of the relevant half-year period up to the announcement of the Company's half-yearly results; and

- commencing 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.

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

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

(H) CONNECTED TRANSACTIONS

The Company has entered into new continuing connected transactions during FY2019 for the three years ending 31 December 2020, 2021 and 2022.

Details of the continuing connected transactions for FY2019 which fall under Chapter 14A of the Listing Rules are set out in the section headed "Continuing Connected Transactions" in this Annual Report.

(I) THE CONSTITUTION

There was no change in the Constitution of the Company during FY2019.

FINANCIAL CONTENTS

Directors' Statement

The directors submit herewith their annual report together with the audited financial statements for the year ended 31 December 2019.

PRINCIPAL PLACE OF BUSINESS

Hengxin Technology Ltd. (the Company) is a company incorporated and domiciled in the Republic of Singapore ("**Singapore**") and has its registered office and principal place of business at 5 Tampines Central 1, #06-05 Tampines Plaza, Singapore 529541.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activities of the Company and its subsidiaries (the Group) are 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, including a discussion of the principal risks and uncertainties facing the Group and an indication of likely future developments in the Group's business, can be found in the Chairman's Message and Management Discussion and Analysis set out on pages 5 to 9 and pages 12 to 23 respectively of this Annual Report. This discussion forms part of this directors' report.

Major customers and suppliers

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	Percentage of the Group's total	
	Sales	Purchases
The largest customer	21%	
Five largest customers in aggregate	56%	
The largest supplier		13%
Five largest suppliers in aggregate		42%

At no time during the year have the directors, their associates or any shareholder of the Company (which to the knowledge of the directors owns more than 5% of the number of issued shares of the Company) had any interest in these major customers and suppliers.

FINANCIAL STATEMENTS

The results of the Group for the year ended 31 December 2019 are set out in the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income on page 71 and 72 of this Annual Report.

The financial position of the Group as at 31 December 2019 is set out in the consolidated statement of financial position of the Group on pages 73 to 74 of this Annual Report. The financial position of the Company as at 31 December 2019 is set out in Note 33 to the financial statement on page 151 of this Annual Report.

The cash flows of the Group for the year ended 31 December 2019 are set out in the consolidated cash flow statement on pages 76 to 77 of this Annual Report.

RECOMMENDED DIVIDEND

A final dividend of RMB0.0457 per share in respect of the FY2018 was paid during FY2019 (2018: RMB 0.0294 per share). The directors now recommend the payment of a final dividend of RMB0.0292 per share (2018: RMB 0.0457 per share) in respect of the year ended 31 December 2019.

CHARITABLE DONATIONS

The Group had made donations amounting approximately RMB830,000 (2018: approximately RMB650,000).

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group during the year are set out in Note 15 to the financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in Note 29(c) to the financial statements.

RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in Note 29 to the financial statements and in the consolidated statements of changes in equity, respectively.

DISTRIBUTABILITY OF RESERVES

At 31 December 2019, the aggregate amount of reserves available for distribution to equity shareholders of the Company was RMB152,592,000 (2018: RMB131,556,000).

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.

DIRECTORS

The directors during the financial year were:

Non-executive directors

Cui Wei (Chairman)
Zhang Zhong

Executive directors

Du Xiping
Xu Guoqiang

Independent non-executive directors

Tam Chi Kwan Michael
Dr. Li Jun
Pu Hong

The Company has received from each of the independent non-executive directors an annual confirmation of independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") and considers all the independent non-executive directors to be independent.

In accordance with article 89 of the Company's constitution, Mr. Cui Wei, Mr. Du Xiping and Ms. Zhang Zhong shall retire from the board by rotation at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

Directors' interests and short positions in shares, underlying shares and debentures

As at 31 December 2019, the interests and short positions of the Directors and chief executives of the Company in shares, underlying shares or 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 The Stock Exchange of Hong Kong Limited ("**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**") 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
Cui Wei [1]	Deemed interest and interest in controlled corporation	96,868,662	24.97%
Zhang Zhong [2]	Deemed interest and interest in controlled corporation	28,082,525	7.24%
Du Xiping	Beneficial owner	11,468,000	2.96%

Short 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
Zhang Zhong [2]	Deemed interest and interest in controlled corporation	12,000,000	3.09%

Notes:

(1) Mr. Cui Wei beneficially owns the entire issued share capital of Kingever Enterprises Limited ("**Kingever**"), and Kingever in turn holds approximately 24.97% of the total issued shares in the Company.

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

Save as disclosed above, as at 31 December 2019, none of the Directors and chief executives of the Company nor their associates had or were 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 have been recorded in the register maintained by the Company pursuant to Section 352 of Part XV of the SFO or which have been notified to the Company and the SEHK pursuant to the Model Code.

Substantial shareholders' interests and short positions in shares and underlying shares

Long positions in the Company:

Name of substantial shareholders	Capacity and nature of interests	Number of ordinary shares held	Approximate percentage of the Company's issued share capital
Kingever [1]	Beneficial owner	96,868,662	24.97%
Cui Wei [1]	Deemed interest and interest in controlled corporation	96,868,662	24.97%
Wellahead [2]	Beneficial owner	28,082,525	7.24%
Zhang Zhong [2]	Deemed interest and interest in controlled corporation	28,082,525	7.24%
Du Xiping	Beneficial owner	11,468,000	2.96%

Short positions in the Company:

Name of substantial shareholders	Capacity and nature of interests	Number of ordinary shares held	Approximate percentage of the Company's issued share capital
Zhang Zhong [2]	Deemed interest and interest in controlled corporation	12,000,000	3.09%

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 2019, no person, other than the Directors, whose interests are set out in the section headed "Directors' and chief executive's 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.

Sufficiency of public float

Based on the information that is publicly available to the Company and within the knowledge of the directors of the Company as at the date of this annual report, the Company has maintained the prescribed public float under the Listing Rules.

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 2019 was the Company a party to any arrangement, whose objects are, or one of 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" and "Incentive Scheme" sections of this statement.

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)	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

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 2010 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 SEHK 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 for the five consecutive business days immediately preceding the offer date.

Unissued shares under option and options exercised

During the financial year ended 31 December 2019, 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 2019, there were no unissued shares of the Company or any corporation in the Group under options.

INCENTIVE SCHEME

On the extraordinary general meeting of the Company held on 26 April 2019, the Company adopted the employee equity incentive scheme (the "**Incentive Scheme**") to implement the long-term incentive and binding mechanism of Jiangsu Hengxin Technology Co., Ltd ("**Jiangsu Hengxin**"), a wholly-owned subsidiary of the Company, and fully mobilize the proactiveness of core and key employees of Jiangsu Hengxin to ensure the sustainable and healthy development of the Company and Jiangsu Hengxin, and for which this Incentive Scheme is formulated with reference to the actual situation of the Company and Jiangsu Hengxin. For details of the Incentive Scheme, please refer to the announcements of the Company dated 29 March 2019, 12 November 2019 and 28 February 2020 and the circular of the Company dated 29 March 2019.

Subsequent to the shareholders' approval of the Incentive Scheme at the extraordinary general meeting held on 26 April 2019, the Company is in the process of implementing the Incentive Scheme. As at the date of this report, the Incentive Scheme has not yet acquired any shares of the Company.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Details of the connected transactions and related party transactions are set out in the "Corporate Governance Report" and Note 32 to the financial statements.

Save as disclosed above, no transaction, arrangement or contract of significance to which the Company, or any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a director of the company had a material interest, subsisted at the end of the year or at any time during the year.

DIRECTORS' SERVICE CONTRACTS

Each of the Executive Directors, Mr. Du Xiping and Mr. Xu Guoqiang, entered into a service contract with the Company for an initial 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 2017. The service agreement for Mr. Du Xiping had been renewed for a term of another three years commencing 31 December 2018.

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 COMPETING BUSINESSES

None of the Directors or their respective close associates has any competing interests which need to be disclosed pursuant to Rule 8.10 of the Listing Rules of SEHK.

EQUITY-LINKED AGREEMENTS

Saved as the Share Option Scheme and Incentive Scheme as disclosed in the sections headed "Share Options" and "Incentive Scheme" above, no equity-linked agreements were entered into during the year or subsisted at the end of the year.

BANK LOANS

Particulars of bank loans of the Group as at 31 December 2019 are set out in Note 25 to the financial statements.

FIVE YEAR SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 2 of the annual report.

RELATIONSHIPS 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 People's Republic of China ("**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.

INDEMNITY OF DIRECTORS

A permitted indemnity provision (as defined in section 469 of the Hong Kong Companies Ordinance) for the benefit of the directors of the company is currently in force and was in force throughout this year. The Company has taken out and maintained appropriate insurance cover in respect of potential legal actions against its Directors and officers.

PURCHASE, SALES OR REDEMPTION OF SHARES

During the year ended 31 December 2019 neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares.

EMPLOYEES

As at 31 December 2019, we employed 824 (2018: 845) people on a full-time basis, among whom, 155 were in product research and development, 147 were in sales and marketing, 389 were in manufacturing and distribution, and 133 were in general and administration.

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

Salaries of employees are maintained at a competitive level and are reviewed on a continuing basis with close reference to individual performance, working experience, qualification and the current relevant industry practices. 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.

The Group has not experienced any material dispute with its employees or disruption to its operations due to employee dispute and has not experienced any difficulties in the recruitment and retention of experienced staff or skilled personnel. The Group maintains a good relationship with its employees.

RETIREMENT SCHEMES

Details of retirement schemes of the Group during the year set out in Note 9(b) 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, Jiangsu Hengxin, 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 the year, 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.

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

Directors' Statement (cont'd)

During the financial year ended 31 December 2019, 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 and Messrs KPMG LLP for the re-appointment as the external auditors of the Company for fulfilling the reporting and legal requirements of Hong Kong and Singapore respectively at the forthcoming annual general meeting of the Company.

Directors' Statement (cont'd)

AUDITORS

KPMG were first appointed as auditors of the Company for Hong Kong at the extraordinary general meeting held on 17 December 2019 to fulfil the reporting requirements under the Listing Rules and the Financial Reporting Council Ordinance (Cap 588) of Hong Kong. Separate resolutions for the re-appointment of KPMG and Messrs KPMG LLP as auditors of the Company are to be proposed at the forthcoming Annual General Meeting.

By order of the board

Du Xiping
Director

16 March 2020

Independent Auditors' Report

Independent auditor's report to the shareholders of Hengxin Technology Ltd.
(Incorporated in Republic of Singapore with limited liability)

OPINION

We have audited the consolidated financial statements of Hengxin Technology Ltd. (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 71 to 152, which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board ("**IASB**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("**the Code**") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in Republic of Singapore ("**Singapore**"), and we have fulfilled our other ethical responsibilities in accordance in accordance with these requirements and the 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 consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent Auditors' Report (cont'd)

Revenue recognition

Refer to Note 6 to the consolidated financial statements and the accounting policies on page 94.

The key audit matter	How the matter was addressed in our audit
The Group's revenue principally comprises income from sales of radio frequency coaxial cables, telecommunication equipment and accessories. Management evaluates the terms of individual contracts to determine the Group's performance obligations and appropriate timing of revenue recognition. Revenue from domestic and overseas sales is recognised at the point in time when the control of the goods is transferred to customers, which is generally when the goods are accepted by the customers for domestic sales, or when the goods are loaded on board of shipping vessels for overseas sales, respectively in accordance with the terms of the sales contracts. We identified recognition of revenue as a key audit matter because revenue is one of the key performance indicators of the Group and therefore there is an inherent risk of manipulation of the timing of recognition of revenue by management to meet specific targets or expectations.	Our audit procedures to assess the recognition of revenue included the following: • obtaining an understanding of and assessing the design, implementation and operating effectiveness of management's key internal controls in relation to revenue recognition; • inspecting customer contracts, on a sample basis, to identify performance obligations and terms and conditions relating to transfer of control of the goods and assessing the Group's timing of recognition of revenue with reference to the requirements of the prevailing accounting standards; • comparing revenue transactions recorded during the current year, on a sample basis, with invoices, sales contracts and goods delivery notes to assess whether the related revenue was recognised in accordance with the Group's revenue recognition accounting policies; • comparing, on a sample basis, specific revenue transactions recorded before and after the financial year end date with underlying documentation, which included goods delivery notes, goods acceptance notes, and customs declaration forms, to assess whether revenue had been recognised in accordance with the terms of the sales contracts and in the correct financial year; and • inspecting underlying documentation for manual journal entries relating to revenue which were recorded during the year which met specific risk-based criteria.

Loss allowance for trade receivables

Refer to Note 21 to the consolidated financial statements and the accounting policies on page 86.

The key audit matter	How the matter was addressed in our audit
As at 31 December 2019, the Group's gross trade receivables amounted to RMB701 million, against which a loss allowance of RMB10 million was recorded. Management measures the loss allowance at an amount equal to lifetime expected credit loss based on estimated loss rates for each category of receivables. The estimated loss rates take into account the ageing of trade receivable balances, the repayment history of the Group's customers of different risk characteristics, current market conditions, customer-specific conditions, and forward-looking information. Such assessment involves significant management judgement. We identified the loss allowance for trade receivables as a key audit matter because determining the level of the loss allowance requires the exercise of significant management judgement which is inherently subjective.	Our audit procedures to assess the loss allowance for trade receivables included the following: • obtaining an understanding of and assessing the design, implementation and operating effectiveness of key internal controls relating to credit control, debt collection and estimating the credit loss allowance; • evaluating the Group's policy for estimating the credit loss allowance with reference to the requirements of the prevailing accounting standards; • assessing whether items were correctly categorised in the trade receivables ageing report by comparing individual items therein with sales invoices and other relevant underlying documentation, on a sample basis; • obtaining an understanding of the key parameters and assumptions of the expected credit loss model adopted by the management, including the basis of segmentation of the accounts receivable based on credit risk characteristics of customers and the historical default data in management's estimated loss rates; • assessing the reasonableness of management's loss allowance estimates by examining the information used by management to form such judgements, including testing the accuracy of the historical default data and evaluating whether the historical loss rates are appropriately adjusted based on current economic conditions and forward-looking information; • re-performing the calculation of the loss allowance as at 31 December 2019 based on the Group's credit loss allowance policies; and • inspecting, on a sample basis, cash receipts from debtors subsequent to the reporting date relating to trade receivable balances as at 31 December 2019.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

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

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

If, based on the work we have performed, 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.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are 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 the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for 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 consolidated 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. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs 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 consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated 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 control 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 the directors.

- Conclude on the appropriateness of the directors' 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 auditor's report to the related disclosures in the consolidated 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 auditor's 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 consolidated financial statements, including the disclosures, and whether the consolidated 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 Audit Committee 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 Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

Independent Auditors' Report (cont'd)

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated 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.

The engagement partner on the audit resulting in this independent auditor's report is Chan Ting Yuen.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

16 March 2020

Consolidated Statement of Profit or Loss

For the year ended 31 December 2019 *(Expressed in Renminbi ("RMB"))*

	Notes	2019	2018 (Note)
		RMB'000	RMB'000
Revenue	6	1,428,564	1,586,950
Cost of sales		(1,090,208)	(1,210,021)
Gross profit		338,356	376,929
Other operating income	7	35,476	30,048
Selling and distribution expenses		(114,708)	(102,429)
Administrative expenses		(45,389)	(56,883)
Impairment loss on trade and other receivables		(641)	(19,183)
Other operating expenses	8	(68,041)	(74,407)
Profit from operations		145,053	154,075
Interest expense	9(a)	(15,024)	(1,042)
Share of loss of an associate		–	(12,440)
Profit before taxation	9	130,029	140,593
Income tax	10	(16,558)	(22,317)
Profit for the year		113,471	118,276
Attributable to:			
Equity shareholders of the Company		113,471	118,276
Profit for the year		113,471	118,276
Earnings per share (RMB)	14		
Basic		0.292	0.305
Diluted		0.292	0.305

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See Note 4.

The notes on pages 78 to 152 form part of these financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2019 *(Expressed in Renminbi ("RMB"))*

	Notes	2019 RMB'000	2018 (Note) RMB'000
Profit for the year		113,471	118,276
Other comprehensive income for the year (after tax and reclassification adjustments)			
Items that will not be reclassified to profit or loss:			
Equity investments at fair value through other comprehensive income – net movement in fair value reserves (non-recycling)	13	(1,020)	–
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of			
– financial statements of entities with functional currencies other than RMB	13	(118)	(306)
Other comprehensive income for the year		(1,138)	(306)
Total comprehensive income for the year		112,333	117,970
Attributable to:			
Equity shareholders of the Company		112,333	117,970
Total comprehensive income for the year		112,333	117,970

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See Note 4.

The notes on pages 78 to 152 form part of these financial statements.

Consolidated Statement of Financial Position

At 31 December 2019 *(Expressed in Renminbi ("RMB"))*

	Notes	31 December 2019 RMB'000	31 December 2018 (Note) RMB'000
Non-current assets			
Property, plant and equipment	15	177,748	129,391
Lease prepayments	16	–	47,985
Interest in an associate	18	–	–
Other investments	19	9,647	10,847
Deferred tax assets	28(b)	8,693	10,488
		196,088	198,711
Current assets			
Lease prepayments	16	–	1,355
Inventories	20	94,847	168,853
Trade and other receivables	21	885,354	788,557
Time deposits with original maturity more than 3 months	22	400,000	–
Cash and cash equivalents	23	616,564	978,604
		1,996,765	1,937,369
Current liabilities			
Trade and other payables	24	183,230	207,446
Short-term loans	25	310,000	315,000
Lease liabilities	27	828	–
Income tax payable	28(a)	2,493	16,627
		496,551	539,073
Net current assets		1,500,214	1,398,296
Total assets less current liabilities		1,696,302	1,597,007

The notes on pages 78 to 152 form part of these financial statements.

Consolidated Statement of Financial Position (cont'd)

At 31 December 2019 *(Expressed in Renminbi ("RMB"))*

	Notes	31 December 2019 RMB'000	31 December 2018 (Note) RMB'000
Non-current liabilities			
Deferred income	26	**6,255**	3,146
Lease liabilities	27	**958**	–
Deferred tax liabilities	28(b)	**6,980**	6,353
		14,193	9,499
NET ASSETS		**1,682,109**	1,587,508
CAPITAL AND RESERVES			
Share capital	29(c)	**295,000**	295,000
General reserves	29(d)	**252,344**	233,658
Special reserve	29(d)	**(6,017)**	(6,017)
Fair value reserve	29(d)	**(850)**	170
Translation reserves	29(d)	**(1,541)**	(1,423)
Accumulated profits	29(d)	**1,143,173**	1,066,120
Total equity attributable to equity shareholders of the Company		**1,682,109**	1,587,508
TOTAL EQUITY		**1,682,109**	1,587,508

Approved and authorised for issue by the board of directors on 16 March 2020.

Du Xiping
Director

Xu Guoqiang
Director

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See Note 4.

The notes on pages 78 to 152 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019 *(Expressed in Renminbi ("RMB"))*

		Attributable to equity shareholders of the Company						
	Notes	Share capital	General reserves	Special reserve	Fair value reserve	Translation reserves	Accumulated profits	Total
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2018		295,000	217,391	(6,017)	170	(1,117)	975,518	1,480,945
Changes in equity for 2018:								
Profit for the year		–	–	–	–	–	118,276	118,276
Other comprehensive income for the year		–	–	–	–	(306)	–	(306)
Total comprehensive income		–	–	–	–	(306)	118,276	117,970
Dividends paid	29(b)	–	–	–	–	–	(11,407)	(11,407)
Transfer to general reserves	29(d)	–	16,267	–	–	–	(16,267)	–
Balance at 31 December 2018		295,000	233,658	(6,017)	170	(1,423)	1,066,120	1,587,508
Balance at 1 January 2019		295,000	233,658	(6,017)	170	(1,423)	1,066,120	1,587,508
Changes in equity for 2019:								
Profit for the year		–	–	–	–	–	113,471	113,471
Other comprehensive income for the year		–	–	–	(1,020)	(118)	–	(1,138)
Total comprehensive income		–	–	–	(1,020)	(118)	113,471	112,333
Dividends paid	29(b)	–	–	–	–	–	(17,732)	(17,732)
Transfer to general reserves	29(d)	–	18,686	–	–	–	(18,686)	–
Balance at 31 December 2019		295,000	252,344	(6,017)	(850)	(1,541)	1,143,173	1,682,109

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See Note 4.

The notes on pages 78 to 152 form part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2019 *(Expressed in Renminbi ("RMB"))*

	Notes	2019	2018
			(Note)
		RMB'000	RMB'000
Operating activities			
Profit before tax		130,029	140,593
Adjustments for:			
Impairment loss on trade and other receivables	9(c)	641	19,183
Amortisation of lease prepayments	9(c)	–	1,355
Amortisation of deferred income		(1,451)	(1,029)
Depreciation of property, plant and equipment	9(c)	21,404	25,233
Interest expense	9(a)	15,024	1,042
Interest income	7	(20,445)	(8,311)
Gain on disposal of property, plant and equipment	7	(260)	(18)
Share of loss of an associate		–	12,440
(Reversal of)/allowance for stock obsolescence provision	9(c)	(135)	38
		144,807	190,526
Changes in working capital:			
Inventories		74,008	42,316
Trade and other receivables		(97,733)	(29,403)
Trade and other payables		(19,326)	(19,466)
Cash generated from operating activities		101,756	183,973
Interest received		9,268	6,963
Income tax paid	28(a)	(28,090)	(23,235)
Net cash generated from operating activities		82,934	167,701

The notes on pages 78 to 152 form part of these financial statements.

Consolidated Statement of Cash Flows (cont'd)

For the year ended 31 December 2019 *(Expressed in Renminbi ("RMB"))*

	Notes	2019 RMB'000	2018 (Note) RMB'000
Investing activities			
Acquisition of property, plant and equipment		(18,560)	(15,033)
Proceeds on maturity of other investments		–	50,000
Interest received from other investments		–	1,348
Proceeds from disposal of property, plant and equipment		1,045	116
Payment for time deposits		(757,498)	–
Proceeds from time deposits		357,498	–
Interest received from time deposits		11,177	–
Changes in pledged bank deposits		7,233	(4,948)
Net cash (used in)/generated from investing activities		(399,105)	31,483
Financing activities			
Dividends paid to shareholders of the Company	23(b)	(17,732)	(11,407)
Capital element of lease rentals paid	23(b)	(883)	–
Interest element of lease rentals paid	23(b)	(82)	–
Other interest expense paid	23(b)	(14,942)	(1,042)
Proceeds from short-term bank loans	23(b)	310,000	315,000
Repayment of short-term bank loans	23(b)	(315,000)	–
Net cash (used in)/generated from financing activities		(38,639)	302,551
Net (decrease)/increase in cash and cash equivalents		(354,810)	501,735
Cash and cash equivalents at 1 January		946,903	445,120
Effect of foreign exchange rate changes		3	48
Cash and cash equivalents at 31 December	23	592,096	946,903

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See Note 4.

The notes on pages 78 to 152 form part of these financial statements.

Notes to the Financial Statements

(Expressed in Renminbi ("RMB") unless otherwise indicated)

1 REPORTING ENTITY

Hengxin Technology Ltd. ("**the Company**") was incorporated in Republic of Singapore. The address of the Company's principal place of business is 5 Tampines Central 1, #06-05 Tampines Plaza, Singapore 529541. The address of the Company's registered office is 138 Robinson Road, #26-03, Oxley Tower, Singapore 068906. The Company is listed on the Main Board of the Stock Exchange of Hong Kong Limited ("**SEHK**").

The financial statements of the Group as at and for the year ended 31 December 2019 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 17 to the financial statements.

2 BASIS OF PREPARATION

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("**IFRSs**"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("**IASs**") and Interpretations issued by the International Accounting Standards Board ("**IASB**"). These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out in Note 3.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 4 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2019 comprise the Group and the Group's interest in an associate.

The measurement basis used in the preparation of the financial statements is the historical cost basis except as set out in the accounting policies hereunder.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

2 BASIS OF PREPARATION (cont'd)

(b) Basis of preparation of the financial statements (cont'd)

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 5.

(c) 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.

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by the Group entities, except as explained in Note 4, which addresses changes in accounting policies.

(a) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, 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. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 3(c)) or, when appropriate, the cost on initial recognition of an investment in an associate (see Note 3(b)), or joint venture.

Notes to the Financial Statements (cont'd)

(Expressed in Renminbi ("RMB") unless otherwise indicated)

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(a) Subsidiaries (cont'd)

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 3(h)), unless the investment is classified as held for sale (or included in a disposal Group that is classified as held for sale.

(b) Associates

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal Group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the associate that forms part of the Group's equity investment. Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see Note 3(h)(ii)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method, together with any other long-term interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 3(c)).

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(c) Other investments in debt and equity securities

The Group's policies for investments in debt and equity securities, other than investments in subsidiaries, associates and joint ventures, are set out below.

Investments in debt and equity securities are recognised/derecognised on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss (FVPL) for which transaction costs are recognised directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see Note 30(f). These investments are subsequently accounted for as follows, depending on their classification.

(i) Investments other than equity investments

Non-equity investments held by the Group are measured at amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method (see Note 3(r)(ii)).

(ii) Equity investments

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an irrevocable election to designate the investment at fair value through other comprehensive income (FVOCI) (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI, are recognised in profit or loss as other income.

(d) Derivative financial instruments

Derivative financial instruments are recognised at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(e) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses (see Note 3(h)(ii)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see Note 3(t)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write-off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

–	Building and leasehold improvement	20 years
–	Plant and machinery	10 years
–	Office equipment	5 years
–	Motor vehicles	5 years

Right-of-use assets is depreciated over the unexpired term of lease.

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Construction in progress represents plant and buildings under construction and equipment pending installation, and is stated at cost less impairment losses (see Note 3(h)(ii)). Cost comprises direct costs of construction as well as interest charges during the year of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use, notwithstanding any delays in the issue of the relevant commissioning certificates by the relevant authorities in the PRC.

No depreciation is provided in respect of construction in progress until it is substantially complete and ready for its intended use.

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(f) 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 Group'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.

(g) Leased assets

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

As a lessee

(A) Policy applicable from 1 January 2019

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets which, for the Group are primarily laptops and office furniture. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Notes to the Financial Statements (cont'd)

(Expressed in Renminbi ("RMB") unless otherwise indicated)

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(g) Leased assets (cont'd)

As a lessee (cont'd)

(A) Policy applicable from 1 January 2019 (cont'd)

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see Note 3(h)(ii)).

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and presents lease liabilities separately in the statement of financial position.

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(g) Leased assets (cont'd)

As a lessee (cont'd)

(B) Policy applicable prior to 1 January 2019

In the comparative period, as a lessee the Group classified leases as finance leases if the leases transferred substantially all the risks and rewards of ownership to the Group. Leases which did not transfer substantially all the risks and rewards of ownership to the Group were classified as operating leases.

Where the Group acquired the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets were recognised as property, plant and equipment and the corresponding liabilities, net of finance charges, were recorded as obligations under finance leases. Depreciation was provided at rates which wrote off the cost or valuation of the assets over the term of the relevant lease or, where it was likely the Group would obtain ownership of the asset, the life of the asset, as set out in Note 3(e). Impairment losses were accounted for in accordance with the accounting policy as set out in Note 3(h). Finance charges implicit in the lease payments were charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals were charged to profit or loss in the accounting period in which they were incurred.

Where the Group had the use of assets held under operating leases, payments made under the leases were charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis was more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received were recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals were charged to profit or loss in the accounting period in which they were incurred.

Lease prepayments in the consolidated statement of financial position represent the cost of land use rights paid to the PRC land bureau. Land use rights are carried at cost less accumulated amortisation and accumulated impairment losses (see Note 3(h)(ii)). Amortisation is charged to the consolidated statement of profit or loss on a straight-line basis over the respective periods of the rights.

Notes to the Financial Statements (cont'd)

(Expressed in Renminbi ("RMB") unless otherwise indicated)

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(h) Credit losses and impairment of assets

(i) Credit losses from financial instruments

The Group recognises a loss allowance for expected credit losses (ECLs) on the following items:

– financial assets measured at amortised cost (including cash and cash equivalents, trade receivables and other receivables, including loans to an associate, which are held for the collection of contractual cash flows which represent solely payments of principal and interest);

– contract assets as defined in IFRS 15 (see Note 3(j));

Other financial assets measured at fair value, including equity securities designated at FVOCI (non-recycling), are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

– fixed-rate financial assets, trade and other receivables and contract assets: effective interest rate determined at initial recognition or an approximation thereof;

– variable-rate financial assets: current effective interest rate.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(h) Credit losses and impairment of assets (cont'd)

(i) Credit losses from financial instruments (cont'd)

Measurement of ECLs (cont'd)

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 180 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- failure to make payments of principal or interest on their contractually due dates;
- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(h) Credit losses and impairment of assets (cont'd)

(i) Credit losses from financial instruments (cont'd)

Significant increases in credit risk (cont'd)

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVOCI (recycling), for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

Basis of calculation of interest income

Interest income recognised in accordance with Note 3(r)(ii) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or past due event;

– it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or

– the disappearance of an active market for a security because of financial difficulties of the issuer.

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(h) Credit losses and impairment of assets (cont'd)

(i) Credit losses from financial instruments (cont'd)

Write-off policy

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(ii) Impairment of other non-current assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment, including right-of-use assets; and

– investments in subsidiaries in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated.

– *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– *Recognition of impairment losses*

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(h) Credit losses and impairment of assets (cont'd)

(ii) Impairment of other non-current assets (cont'd)

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with IAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see Notes 3(h)(i) and 3(h)(ii)).

(i) Inventories

Inventories are assets which are held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised.

The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(j) Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue (see Note 3(r)) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for expected credit losses (ECL) in accordance with the policy set out in Note 3(h)(i) and are reclassified to receivables when the right to the consideration has become unconditional (see Note 3(k)).

A contract liability is recognised when the customer pays non-refundable consideration before the Group recognises the related revenue (see Note 3(r)). A contract liability would also be recognised if the Group has an unconditional right to receive non-refundable consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see Note 3(k)).

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method (see Note 3(t)).

(k) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset (see Note 3(j)).

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see Note 3(h)(i)).

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Cash and cash equivalents are assessed for expected credit losses (ECL) in accordance with the policy set out in Note 3(h)(i).

(m) Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(n) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for borrowing costs (see Note 3(t)).

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(o) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

(p) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

The Group has determined that interest and penalties related to income taxes, including uncertain tax treatments, do not meet the definition of income taxes, and therefore accounted for them under IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

Notes to the Financial Statements (cont'd)

(Expressed in Renminbi ("RMB") unless otherwise indicated)

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(p) Income tax (cont'd)

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
    - the same taxable entity; or
    - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(q) Provisions, contingent liabilities and onerous contracts

Provisions are recognised when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Notes to the Financial Statements (cont'd)

(Expressed in Renminbi ("RMB") unless otherwise indicated)

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(r) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods, the provision of services or the use by others of the Group's assets under leases in the ordinary course of the Group's business.

Revenue is recognised when control over a product or service is transferred to the customer, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Further details of the Group's revenue and other income recognition policies are as follows:

(i) Sales of goods

The Group principally generates revenue from manufacturing radio frequency coaxial cables, telecommunication equipment and accessories. The contracts with its customers are received on ad hoc basis.

Goods may be sold separately or in bundled packages. For the bundled contracts, the Group accounts for individual goods separately if they are distinct i.e. if a good is separately identifiable from other items in the bundled package and if a customer can benefit from it.

The consideration for bundled sales is allocated to the separate goods based on their relative stand-alone selling prices. The stand-alone selling prices are determined based on individual prices that the Group would have charged if the services were contracted for separately.

Revenue is recognised at point in time when customer obtains control, based on the relative stand-alone selling prices of each of the goods.

(ii) Interest income

Interest income is recognised as it accrues under the effective interest method using the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of the financial asset. For financial assets measured at amortised cost or FVOCI (recycling) that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see Note 3(h)(i)).

(iii) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. A government grant related to an asset is recognised initially as deferred income and amortised to profit or loss on a straight-line basis over the useful life of the asset.

(iv) Service income

Service income is recognised when services are rendered to customers. Consulting service income is recognised on a straight-line basis over the service period.

Notes to the Financial Statements (cont'd)

(Expressed in Renminbi ("RMB") unless otherwise indicated)

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(s) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss, except those arising from foreign currency borrowings used to hedge a net investment in a foreign operation which are recognised in other comprehensive income.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the Group initially recognises such non-monetary assets or liabilities. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of foreign operations are translated into Renminbi ("**RMB**") at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items, are translated into RMB at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(t) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

Notes to the Financial Statements (cont'd)

(Expressed in Renminbi ("RMB") unless otherwise indicated)

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(u) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same Group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a Group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a Group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(v) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

4 CHANGES IN ACCOUNTING POLICIES

The IASB has issued a new IFRS, IFRS 16, Leases, and a number of amendments to IFRSs that are first effective for the current accounting period of the Group.

Except for IFRS 16, Leases, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

IFRS 16, Leases

IFRS 16 replaces IAS 17, *Leases*, and the related interpretations, 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*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("**short-term leases**") and leases of low-value assets. The lessor accounting requirements are brought forward from IAS 17 substantially unchanged.

IFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Group has initially applied IFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under IAS 17.

4 CHANGES IN ACCOUNTING POLICIES (cont'd)

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

a. New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. IFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in IFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under IAS 17 continue to be accounted for as leases under IFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

b. Lessee accounting and transitional impact

IFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by IAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under IAS 17, other than those short-term leases and leases of low-value assets which are exempt. As far as the Group is concerned, these newly capitalised leases are primarily in relation to property, plant and equipment as disclosed in Note 15. For an explanation of how the Group applies lessee accounting, see Note 3(g).

At the date of transition to IFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 4.29%–4.35%.

To ease the transition to IFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of IFRS 16:

(i) the Group elected not to apply the requirements of IFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of IFRS 16, i.e. where the lease term ends on or before 31 December 2019;

Notes to the Financial Statements (cont'd)

(Expressed in Renminbi ("RMB") unless otherwise indicated)

4 CHANGES IN ACCOUNTING POLICIES (cont'd)

b. *Lessee accounting and transitional impact (cont'd)*

(ii) when measuring the lease liabilities at the date of initial application of IFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment); and

(iii) when measuring the right-of-use assets at the date of initial application of IFRS 16, the Group relied on the previous assessment for onerous contract provisions as at 31 December 2018 as an alternative to performing an impairment review.

The following table reconciles the operating lease commitments as disclosed in Note 31(b) as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

	1 January 2019 RMB'000
Operating lease commitments at 31 December 2018	1,849
Less: commitments relating to leases exempt from capitalisation:	
– short-term leases and other leases with remaining lease term ending on or before 31 December 2019	(200)
Add: lease payments for the additional periods where the Group considers it reasonably certain that it will exercise the extension options	1,198
	2,847
Less: total future interest expenses	(178)
Present value of remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019	2,669
Total lease liabilities recognised at 1 January 2019	2,669

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position at 31 December 2018.

So far as the impact of the adoption of IFRS 16 on leases previously classified as lease prepayments is concerned, the Group is not required to make any adjustments at the date of initial application of IFRS 16, other than changing the captions for the balances. Accordingly, instead of "lease prepayments", these amounts are included within the depreciated carrying amount of the corresponding leased assets is identified as right-of-use assets. There is no impact on the opening balance of equity.

Notes to the Financial Statements (cont'd)

(Expressed in Renminbi ("RMB") unless otherwise indicated)

4 CHANGES IN ACCOUNTING POLICIES (cont'd)

b. *Lessee accounting and transitional impact (cont'd)*

The following table summarises the impacts of the adoption of IFRS 16 on the Group's consolidated statement of financial position:

	Carrying amount at 31 December 2018 RMB'000	Capitalisation of operating lease contracts RMB'000	Re-classification RMB'000	Carrying amount at 1 January 2019 RMB'000
Line items in the consolidated statement of financial position impacted by the adoption of IFRS 16:				
Property, plant and equipment	129,391	2,669	49,340	181,400
Lease prepayments (non-current)	47,985	–	(47,985)	–
Total non-current assets	198,711	2,669	1,355	202,735
Lease prepayments (current)	1,355	–	(1,355)	–
Current assets	1,937,369	–	(1,355)	1,936,014
Lease liabilities (current)	–	883	–	883
Current liabilities	539,073	883	–	539,956
Net current assets	1,398,296	(883)	(1,355)	1,396,058
Total assets less current liabilities	1,597,007	1,786	–	1,598,793
Lease liabilities (non-current)	–	1,786	–	1,786
Total non-current liabilities	9,499	1,786	–	11,285
Net assets	1,587,508	–	–	1,587,508

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a positive impact on the reported profit from operations in the Group's consolidated statement of profit or loss, as compared to the results if IAS 17 had been applied during the year.

Notes to the Financial Statements (cont'd)

*(Expressed in Renminbi ("**RMB**") unless otherwise indicated)*

4 CHANGES IN ACCOUNTING POLICIES (cont'd)

c. *Impact on the financial result, segment results and cash flows of the Group*

In the cash flow statement, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element (see Note 23(b)). These elements are classified as financing cash outflows, rather than as operating cash outflows, as was the case for operating leases under IAS 17. Although total cash flows are unaffected, the adoption of IFRS 16 therefore results in a significant change in presentation of cash flows within the cash flow statement (see Note 23(c)).

The following tables give an indication of the estimated impact of the adoption of IFRS 16 on the Group's financial result, segment results and cash flows for the year ended 31 December 2019, by adjusting the amounts reported under IFRS 16 in these consolidated financial statements to compute estimates of the hypothetical amounts that would have been recognised under IAS 17 if this superseded standard had continued to apply in 2019 instead of IFRS 16, and by comparing these hypothetical amounts for 2019 with the actual 2018 corresponding amounts which were prepared under IAS 17.

	2019				2018
	Amounts reported under IFRS 16 (A) RMB'000	Add back: IFRS 16 depreciation and interest expense (B) RMB'000	Deduct: Estimated amounts related to operating leases as if under IAS 17 (Note 1) (C) RMB'000	Hypothetical amounts for 2019 as if under IAS 17 (D=A+B-C) RMB'000	Compared to amounts reported for 2018 under IAS 17 RMB'000
Financial result for year ended 31 December 2019 impacted by the adoption of IFRS 16:					
Profit from operations	145,053	2,256	(2,319)	144,990	154,075
Interest expense	(15,024)	82	–	(14,942)	(1,042)
Profit before taxation	130,029	2,338	(2,319)	130,048	140,593
Profit for the year	113,471	2,338	(2,319)	113,490	118,276

Notes to the Financial Statements (cont'd)

(Expressed in Renminbi ("RMB") unless otherwise indicated)

4 CHANGES IN ACCOUNTING POLICIES (cont'd)

c. *Impact on the financial result, segment results and cash flows of the Group (cont'd)*

	2019			2018
	Amounts reported under IFRS 16 (A) RMB'000	Estimated amounts related to operating leases as if under IAS 17 (Notes 1 & 2) (B) RMB'000	Hypothetical amounts for 2019 as if under IAS 17 (C=A+B) RMB'000	Compared to amounts reported for 2018 under IAS 17 RMB'000
Line items in the consolidated cash flow statement for year ended 31 December 2019 impacted by the adoption of IFRS 16:				
Cash generated from operations	101,756	(966)	100,790	183,973
Net cash generated from operating activities	82,934	(966)	81,968	167,701
Capital element of lease rentals paid	(883)	883	–	–
Interest element of lease rentals paid	(82)	82	–	–
Net cash (used in)/generated from financing activities	(38,639)	965	(37,674)	302,551

Note 1: The "estimated amounts related to operating leases" is an estimate of the amounts of the cash flows in 2019 that relate to leases which would have been classified as operating leases, if IAS 17 had still applied in 2019. This estimate assumes that there were no differences between rentals and cash flows and that all of the new leases entered into in 2019 would have been classified as operating leases under IAS 17, if IAS 17 had still applied in 2019. Any potential net tax effect is ignored.

Note 2: In this impact table these cash outflows are reclassified from financing to operating in order to compute hypothetical amounts of net cash generated from operating activities and net cash used in financing activities as if IAS 17 had still applied.

Notes to the Financial Statements (cont'd)

(Expressed in Renminbi ("RMB") unless otherwise indicated)

5 ACCOUNTING JUDGEMENT AND ESTIMATES

Sources of estimation uncertainty

Note 30 contains information about the assumptions and their risk factors relating to financial instruments. Other significant sources of estimation uncertainty are as follows:

Income taxes

Determining income tax provisions involves judgement regarding the future tax treatment of certain transactions. The Group carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognised for temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

6 REVENUE AND SEGMENT REPORTING

(a) Revenue

The principal activities of the Group are the manufacturing and sale of radio frequency coaxial cables, telecommunication equipment and accessories. Further details regarding the Group's principal activities are disclosed in Note 6(b).

Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products or service lines is as follows:

	2019 RMB'000	2018 RMB'000
Radio frequency coaxial cables	608,114	727,243
Telecommunication	341,448	359,018
Antennas	396,654	433,103
Others	82,348	67,586
	1,428,564	1,586,950

Disaggregation of revenue from contracts with customers by geographic markets is disclosed in Note 6(b)(iii).

Notes to the Financial Statements (cont'd)

(Expressed in Renminbi ("RMB") unless otherwise indicated)

6 REVENUE AND SEGMENT REPORTING (cont'd)

(a) Revenue (cont'd)

Disaggregation of revenue (cont'd)

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

	2019 RMB'000	2018 RMB'000
Customer A	306,556	474,417
Customer B	118,792	166,454
	425,348	640,871

(b) Segment reporting

The Group manages its businesses by divisions, which are organised by a mixture of both business lines (products and services) and geography. In a manner consistent with the way in which information is reported internally to the Group's senior management for the purposes of resource allocation and performance assessment, the Group has presented the following reportable segments. No operating segments have been aggregated to form the following reportable segments.

- Radio frequency coaxial cables: the 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.

- Telecommunication equipment and accessories: the transmission of signals within microwave communications systems, radio broadcast wireless systems and air/sea radar systems, the accessories are such as connectors and jumper cables used for wireless signal coverage systems equipment within base stations.

- Antennas: are adopted by telecom operators for use in signal transmission for wireless communications.

6 REVENUE AND SEGMENT REPORTING (cont'd)

(b) Segment reporting (cont'd)

(i) Information about reportable segments

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitor the results attributable to each reportable segment on the following bases:

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

The measure used for reporting segment profit is profit or loss before tax, adjusted for items not specifically attributed to individual segments, such as other income, central interest expense, central administration costs, independent directors' fees at corporate level and foreign exchange gains or losses. Segment profit or loss is used to measure performance as management believes that such information is the most relevant in evaluating the results of the respective segments relative to other entities that operate in the same industries.

In addition to receiving segment information concerning segment results, management is provided with segment information concerning interest income, interest expense, depreciation and amortisation, asset impairment losses and related reversals.

Segment assets and liabilities are not regularly reported to the Group's executive directors and therefore information of reportable segment assets and liabilities are not presented in the consolidated financial statements.

Notes to the Financial Statements (cont'd)

(Expressed in Renminbi ("RMB") unless otherwise indicated)

6 REVENUE AND SEGMENT REPORTING (cont'd)

(b) Segment reporting (cont'd)

(i) Information about reportable segments (cont'd)

Disaggregation of revenue from contracts with customers by the timing of revenue recognition, as well as information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2019 and 2018 is set out below.

	Reportable segments					
	Radio frequency coaxial cables RMB'000	Telecom-munication equipment and accessories RMB'000	Antennas RMB'000	Total reportable segments RMB'000	All other segments RMB'000	Total RMB'000
2019						
Disaggregated by timing of revenue recognition						
Point in time	608,114	341,448	396,654	1,346,216	80,436	1,426,652
Over time	–	–	–	–	1,912	1,912
Revenue from external customers	608,114	341,448	396,654	1,346,216	82,348	1,428,564
Segment profit before tax	47,848	47,191	28,633	123,672	2,033	125,705
Interest income	8,703	4,887	5,676	19,266	1,179	20,445
Interest expense	(6,380)	(3,582)	(4,162)	(14,124)	(864)	(14,988)
Reversal of stock obsolescence provision	–	–	135	135	–	135
Depreciation and amortisation expense	(8,976)	(5,040)	(5,854)	(19,870)	(1,215)	(21,085)

Notes to the Financial Statements (cont'd)

(Expressed in Renminbi ("RMB") unless otherwise indicated)

6 REVENUE AND SEGMENT REPORTING (cont'd)

(b) Segment reporting (cont'd)

(i) Information about reportable segments (cont'd)

	Reportable segments					
	Radio frequency coaxial cables RMB'000	Telecom-munication equipment and accessories RMB'000	Antennas RMB'000	Total reportable segments RMB'000	All other segments RMB'000	Total RMB'000
2018						
Disaggregated by timing of revenue recognition						
Point in time	727,243	359,018	433,103	1,519,364	67,149	1,586,513
Over time	–	–	–	–	437	437
Revenue from external customers	727,243	359,018	433,103	1,519,364	67,586	1,586,950
Segment profit before tax	55,578	59,208	27,715	142,501	(1,135)	141,366
Interest income	3,796	1,874	2,261	7,931	380	8,311
Interest expense	(478)	(236)	(284)	(998)	(44)	(1,042)
Amortisation of lease prepayment	(621)	(306)	(370)	(1,297)	(58)	(1,355)
Stock obsolescence provision	–	–	(38)	(38)	–	(38)
Depreciation expense	(11,561)	(5,707)	(6,884)	(24,152)	(1,074)	(25,226)

(ii) Reconciliations of reportable segment profit

	2019 RMB'000	2018 RMB'000
Profit before tax		
Total profit before tax for reportable segments	123,672	142,501
Profit/(Loss) before tax for other segments	2,033	(1,135)
Unallocated amounts:		
– Other income	15,032	21,737
– Other expenses	(1,368)	(1,905)
– Share of loss of an associate	–	(12,440)
– Other unallocated amounts	(9,340)	(8,165)
Consolidated profit before tax	130,029	140,593

Notes to the Financial Statements (cont'd)

*(Expressed in Renminbi ("**RMB**") unless otherwise indicated)*

6 REVENUE AND SEGMENT REPORTING (cont'd)

(b) Segment reporting (cont'd)

(ii) Reconciliations of reportable segment profit (cont'd)

Other material items

	Reportable and all other segment totals RMB'000	Adjustments RMB'000	Consolidated totals RMB'000
2019			
Depreciation and amortisation expense	**(21,085)**	**(319)**	**(21,404)**
2018			
Depreciation expense	(25,226)	(7)	(25,233)

(iii) Geographic information

The Company is an investment holding company and the Group's major operational subsidiaries are domiciled in the People's Republic of China ("**PRC**"). The geographical regions of the customers of the Group are principally located in the PRC and India.

The following table sets out the geographic information analyses the Group's revenue and specified non-current assets including property, plant and equipment and lease prepayments. In presenting the geographic information, segment revenue has been based on the geographic location of customers and segment assets have been based on the geographic location of the assets.

	Revenue from external customers		Specified non-current assets	
	2019	2018	**2019**	2018
	RMB'000	RMB'000	**RMB'000**	RMB'000
PRC	**1,228,711**	1,261,818	**174,970**	176,362
India	**27,974**	101,742	**1,628**	1,003
Other countries	**171,879**	223,390	**1,150**	11
	1,428,564	1,586,950	**177,748**	177,376

Notes to the Financial Statements (cont'd)

*(Expressed in Renminbi ("**RMB**") unless otherwise indicated)*

7 OTHER OPERATING INCOME

	2019 RMB'000	2018 RMB'000
Compensation claims received	1,048	1,620
Government grants	11,368	11,527
Interest income	20,445	8,311
Service fee income	1,377	–
Net foreign exchange gain	–	5,648
Rental income	–	2,803
Net gain on disposal of property, plant and equipment	260	18
Others	978	121
	35,476	30,048

8 OTHER OPERATING EXPENSES

	Group	
	2019 RMB'000	2018 RMB'000
Donations	830	650
Research and development expenses	66,673	72,501
Net foreign exchange losses	419	–
Penalty expenses from customers	119	1,256
	68,041	74,407

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.

Penalty expenses from customers mainly represents compensation to customer relating to product quality issue.

Notes to the Financial Statements (cont'd)

(Expressed in Renminbi ("RMB") unless otherwise indicated)

9 PROFIT BEFORE TAXATION

(a) Interest expense

	2019	2018 (Note)
	RMB'000	RMB'000
Interest expense on short term bank loans	13,874	1,042
Interest on lease liabilities	82	–
Other interest expense	1,068	–
	15,024	1,042

Note: The Group has initially applied IFRS 16 using the modified retrospective approach. Under this approach, the comparative information is not restated. See Note 4.

(b) Staff costs

	2019	2018
	RMB'000	RMB'000
Salaries and bonus	116,912	124,344
Contributions to defined contribution plans	5,622	6,540
Executive directors' remuneration	2,190	2,129
Non-executive directors' fees	1,638	1,568
	126,362	134,581

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 subsidiaries are 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 2019, the contributions due in respect of the year that had not been paid over to the schemes were approximately RMB441,000 (2018: RMB487,000). The amounts were paid subsequent to the end of the reporting period.

9 PROFIT BEFORE TAXATION (cont'd)

(c) Other items

	Note	2019 RMB'000	2018 RMB'000
Depreciation charge	15		
– owned property, plant and equipment*		19,148	25,233
– right-of-use assets*		2,256	–
		21,404	25,233
Amortisation of lease prepayments under IAS 17*	16	–	1,355
Total minimum lease payments for leases previously classified as operation leases under IAS 17*	15(b)	–	1,353
Variable lease payments not included in the measurement of lease liabilities	15(b)	617	376
Audit and related services fees paid to:			
– auditors of the Company		279	544
– other member firms of KPMG International		1,445	858
– other auditors		93	189
		1,817	1,591
Impairment losses recognised/(reversal) of			
– trade and other receivables	30(a)	641	19,183
– inventory	20(b)	(135)	38
– associate		–	10,666
		506	29,887
Cost of inventories#	20(b)	1,090,073	1,210,059

* The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases and ease prepayments under IAS 17. After initial recognition of right-of-use assets at 1 January 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated. See Note 4.

Cost of inventories includes RMB58,853,000 (2018: RMB65,085,000) relating to staff costs and depreciation, which amount is also included in the respective total amounts disclosed separately above or in Note 9(b) for each of these types of expenses.

10 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(a) Taxation in the consolidated statement of profit or loss represents:

	Note	2019 RMB'000	2018 RMB'000
Current tax expense			
Current year		17,382	30,284
Over provision in prior years		(3,426)	(2,471)
		13,956	27,813
Deferred tax expense			
Origination and reversal of temporary differences	28(b)	2,602	(5,496)
Income tax expense		16,558	22,317

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

(ii) The provision for PRC Income Tax is based on the respective corporate income tax rates applicable to the subsidiaries located in the PRC as determined in accordance with the relevant income tax rules and regulations of the PRC.

The statutory corporate income tax rate of the Group's operating subsidiaries in the PRC is 25% (2018: 25%).

Jiangsu Hengxin Technology Co., Ltd ("**Jiangsu Hengxin**") and Jiangsu Hengxin Wireless Technology Co., Ltd., are subject to a preferential income tax rate of 15% in 2019 available to enterprises which qualify as a High and New Technology Enterprise (2018: 15%).

(iii) Hong Kong Profits Tax has been provided for Hengxin Technology International Co., Ltd. at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits arising in Hong Kong for the year ended 31 December 2019.

Notes to the Financial Statements (cont'd)

(Expressed in Renminbi ("RMB") unless otherwise indicated)

10 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS (cont'd)

(b) Reconciliation between actual income tax expense and accounting profit at applicable tax rates:

	2019 RMB'000	2018 RMB'000
Profit before taxation	130,029	140,593
Tax using the PRC statutory tax rate of 25% (2018: 25%)	32,507	35,148
Effect of concessionary tax rate	(9,347)	(15,915)
Effect of tax rates in other jurisdictions	236	418
Recognition of tax effect of previously unrecognised tax losses	(1,860)	(2,004)
Tax effect of non-deductible expenses	5,439	5,081
Tax effect of unused tax losses not recognised	902	1,408
Additional deduction for qualified research and development costs	(8,520)	–
Over provision in prior years	(3,426)	(2,471)
Effect of withholding tax on interest from PRC subsidiaries	627	652
Actual income tax expense	16,558	22,317

11 DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
2019					
Executive directors					
Du Xiping	–	881	219	–	1,100
Xu Guoqiang	–	546	509	36	1,091
Non-executive directors					
Cui Wei	423	–	–	–	423
Zhang Zhong	333	–	–	–	333
Independent non-executive directors					
Tam Chi Kwan Michael	353	–	–	–	353
Dr. Li Jun	264	–	–	–	264
Pu Hong	264	–	–	–	264
	1,637	1,427	728	36	3,828

Notes to the Financial Statements (cont'd)

(Expressed in Renminbi ("RMB") unless otherwise indicated)

11 DIRECTORS' EMOLUMENTS (cont'd)

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
2018					
Executive directors					
Du Xiping	–	852	212	–	1,064
Xu Guoqiang	–	611	454	–	1,065
Non-executive directors					
Cui Wei	405	–	–	–	405
Zhang Zhong	319	–	–	–	319
Independent non-executive directors					
Tam Chi Kwan Michael	338	–	–	–	338
Dr. Li Jun	253	–	–	–	253
Pu Hong	253	–	–	–	253
	1,568	1,463	666	–	3,697

During 2019 and 2018, 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 as an inducement to join or upon joining the Group or as compensation for loss of office.

12 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2018: two) are directors whose emoluments are disclosed in Note 11. The aggregate of the emoluments in respect of the other three (2018: three) individuals are as follows:

	2019 RMB'000	2018 RMB'000
Salaries, allowances and benefits in kind	2,134	2,110
Performance related bonuses	625	780
Retirement scheme contributions	76	46
	2,835	2,936

Notes to the Financial Statements (cont'd)

(Expressed in Renminbi ("RMB") unless otherwise indicated)

12 INDIVIDUALS WITH HIGHEST EMOLUMENTS (cont'd)

The emoluments of the three (2018: three) individuals with the highest emoluments are within the following bands:

	2019	2018
HKD Nil to HKD1,000,000	2	2
HKD1,000,001 to HKD1,500,000	1	1
	3	3

13 OTHER COMPREHENSIVE INCOME

Tax effects relating to each component of other comprehensive income

	2019			2018		
	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
Equity investments at FVOCI – net change in fair value	(1,200)	180	(1,020)	–	–	–
Exchange differences on translation of: financial statements of entities with functional currencies other than RMB	(118)	–	(118)	(306)	–	(306)
Other comprehensive income	(1,318)	180	(1,138)	(306)	–	(306)

14 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share at 31 December 2019 was based on the profit attributable to ordinary equity shareholders of RMB113,471,000 (2018: RMB118,276,000), and the weighted average number of ordinary shares outstanding of 388,000,000 (2018: 388,000,000 shares), calculated as follows:

Weighted average number of ordinary shares:

	2019 '000	2018 '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 2019 and 2018. The calculated diluted earnings per share equals the basic earnings per share at 31 December 2019 and 2018.

Notes to the Financial Statements (cont'd)

(Expressed in Renminbi ("RMB") unless otherwise indicated)

15 PROPERTY, PLANT AND EQUIPMENT

(a) Reconciliation of carrying amount

	Right-of-use assets RMB'000	Building and leasehold improvement RMB'000	Plant and machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:							
Balance at 1 January 2018	–	89,309	186,166	35,027	5,216	1,731	317,449
Additions	–	261	6,480	2,789	25	5,478	15,033
Transfers from construction in process	–	1,847	2,167	1,296	–	(5,310)	–
Disposals	–	–	(21)	(1,094)	–	–	(1,115)
Exchange adjustments	–	–	(38)	(17)	–	–	(55)
Balance at 31 December 2018	–	91,417	194,754	38,001	5,241	1,899	331,312
Impact on initial application of IFRS 16 (Note)	52,009	–	–	–	–	–	52,009
Balance at 1 January 2019	52,009	91,417	194,754	38,001	5,241	1,899	383,321
Additions	–	209	2,846	10,330	947	4,228	18,560
Transfers from construction in process	–	–	1,232	2,349	–	(3,581)	–
Disposals	–	–	(5,265)	(51)	(1,743)	–	(7,059)
Exchange adjustments	–	–	(28)	(5)	–	–	(33)
Balance at 31 December 2019	52,009	91,626	193,539	50,624	4,445	2,546	394,789
Accumulated amortisation and depreciation:							
Balance at 1 January 2018	–	(32,598)	(116,985)	(24,016)	(4,140)	–	(177,739)
Charge for the year	–	(4,671)	(12,888)	(7,353)	(321)	–	(25,233)
Written back on disposals	–	–	19	998	–	–	1,017
Exchange adjustments	–	–	22	12	–	–	34
Balance at 31 December 2018 and at 1 January 2019	–	(37,269)	(129,832)	(30,359)	(4,461)	–	(201,921)
Charge for the year	(2,256)	(4,822)	(10,033)	(3,980)	(313)	–	(21,404)
Written back on disposals	–	–	4,661	45	1,568	–	6,274
Exchange adjustments	–	–	7	3	–	–	10
Balance at 31 December 2019	(2,256)	(42,091)	(135,197)	(34,291)	(3,206)	–	(217,041)
Net book value:							
At 31 December 2019	49,753	49,535	58,342	16,333	1,239	2,546	177,748
At 31 December 2018	–	54,148	64,922	7,642	780	1,899	129,391

Note: The Group has initially applied IFRS 16 using the modified retrospective method and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as lease prepayments under IAS 17. See Note 4.

Notes to the Financial Statements (cont'd)

(Expressed in Renminbi ("RMB") unless otherwise indicated)

15 PROPERTY, PLANT AND EQUIPMENT (cont'd)

(b) Right-of-use assets

The analysis of the net book value of right-of-use assets by class of underlying asset is as follows:

	Notes	31 December 2019 RMB'000	1 January 2019 RMB'000
Ownership interests in leasehold land held for own use, carried at depreciated cost	(i)	47,985	49,340
Other properties leased for own use, carried at depreciated cost	(ii)	1,768	2,669
		49,753	52,009

The analysis of expense items in relation to leases recognised in profit or loss is as follows:

	2019 RMB'000	2018 (Note) RMB'000
Depreciation charge of right-of-use assets by class of underlying asset:		
Ownership interests in leasehold land	1,355	–
Other properties leased for own use	901	–
	2,256	–
Interest on lease liabilities (Note 9(a))	82	–
Expense relating to short-term leases and other leases with remaining lease term ending on or before 31 December 2019	200	–
Total minimum lease payments for leases previously classified as operating leases under IAS 17	–	1,353
Variable lease payments not included in the measurement of lease liabilities	617	376

Note: The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases and lease prepayments under IAS 17. After initial recognition of right-of-use assets at 1 January 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated. See Note 4.

Details of total cash outflow for leases, the maturity analysis of lease liabilities and the future cash outflows arising from leases that are not yet commenced are set out in Notes 23(c), 27 and 31(b), respectively.

Notes to the Financial Statements (cont'd)

*(Expressed in Renminbi ("**RMB**") unless otherwise indicated)*

15 PROPERTY, PLANT AND EQUIPMENT (cont'd)

(b) Right-of-use assets (cont'd)

(i) Ownership interests in leasehold land held for own use

The Group holds several leasehold land for its business, including the whole or part of undivided share in the land in the PRC, where its manufacturing facilities are primarily located. The leases run for periods ranging from 42 to 48 years. The Group is the registered owner of these property interests. Lump sum payments were made upfront to acquire these property interests from the PRC government authorities, and there are no ongoing payments to be made under the terms of the land lease, other than payments based on rateable values set by the relevant government authorities. These payments vary from time to time and are payable to the relevant government authorities.

(ii) Other properties leased for own use

The Group has obtained the right to use other properties as its warehouses and office through tenancy agreements. The leases typically run for an initial period of 2 to 4 years.

Some leases include an option to renew the lease for an additional period after the end of the contract term. Where practicable, the Group seeks to include such extension options exercisable by the Group to provide operational flexibility. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options. If the Group is not reasonably certain to exercise the extension options, the future lease payments during the extension periods are not included in the measurement of lease liabilities. The potential exposure to these future lease payments as at the reporting date is summarised below:

	Lease liabilities recognised (discounted) RMB'000
Warehouses – India	765
Office – Singapore	1,021

Notes to the Financial Statements (cont'd)

(Expressed in Renminbi ("RMB") unless otherwise indicated)

16 LEASE PREPAYMENTS

	2019 RMB'000	2018 RMB'000
Balance at beginning of the year	49,340	50,695
Impact on initial application of IFRS 16 (Note 4)	(49,340)	–
Amortisation for the year	–	(1,355)
Carrying amount at end of the year	–	49,340
Non-current asset	–	47,985
Current asset	–	1,355
	–	49,340

17 INVESTMENTS IN SUBSIDIARIES

The following list contains only the particulars of subsidiaries of the Company which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

Name of company	Principal activities	Place of incorporation and business	Particulars of issued and paid up capital	Proportion of ownership interest	
				Direct	Indirect
Jiangsu Hengxin Technology Co., Ltd*	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	USD 88,000,000/ USD 88,000,000	100%	–
Hengxin Technology (India) Pvt Ltd	Marketing and trading of the Group's products to telecommunication operators in India	India	INR 59,500,000.00/ INR 59,500,000.00	100%	–
Jiangsu Hengxin Wireless Technology Co., Ltd*	Research, design, development and manufacture sale and technical services of antennas and related telecommunications products for mobile communications systems	PRC	RMB 5,000,000/ RMB 5,000,000	–	100%
Hengxin Technology International Co., Ltd	Trading and investment holding	Hong Kong	HKD1,170,000/ HKD1,170,000	–	100%

* All the subsidiaries in the PRC are established as limited liability companies.

Notes to the Financial Statements (cont'd)

(Expressed in Renminbi ("RMB") unless otherwise indicated)

18 INTEREST IN AN ASSOCIATE

	2019 RMB'000	2018 RMB'000
Cost of investment in an associate	25,528	25,528
Share of post-acquisition losses	(9,762)	(9,762)
Less: provision for interest in an associate	(15,766)	(15,766)
	–	–

Details of the associate are as follows:

Name of associate	Form of business structure	Place of incorporation and business	Particulars of issued and paid up capital	Proportion of ownership interest: Held by the company	Proportion of ownership interest: Held by a subsidiary	Principal activity
Mianyang Xin Tong Industrial Co., Ltd. ("**Mianyang Xin Tong**")	Limited liability company	PRC	RMB106 million	–	24%	Manufacture and sale of communications equipment and related components, optical integrated circuits, precision zirconia ceramic instruments and equipment and electronic products

The above associate is accounted for using the equity method in the consolidated financial statements.

Summarised financial information of the associate, adjusted for any differences in accounting policies, and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below:

	Mianyang Xin Tong 2019 RMB'000	2018 RMB'000
Gross amounts of the associate's		
Current assets	9,583	5,004
Non-current assets	20,627	27,135
Current liabilities	64,292	62,861
Non-current liabilities	–	290
Net deficit	(34,082)	(31,012)
Revenue	4,523	4,239
Loss from continuing operations	(3,070)	(7,393)
Total comprehensive income	(3,070)	(7,393)
Reconciled to the Group's interests in the associate		
Gross amounts of net liabilities of the associate	(34,082)	(31,012)
Group's effective interest	24%	24%
Group's share of net liabilities of the associate	(8,180)	(7,443)
Carrying amount in the consolidated financial statements (Note)	–	–

Note: As the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil in the consolidated financial statements.

There were no contingent liability provided by the Group on behalf of the associate.

Notes to the Financial Statements (cont'd)

(Expressed in Renminbi ("RMB") unless otherwise indicated)

19 OTHER INVESTMENTS

	2019 RMB'000	2018 RMB'000
Equity securities designated at FVOCI (non-recycling)		
– Unlisted equity securities	9,000	10,200
– Non-trading securities investment funds	647	647
	9,647	10,847

The Group designated the investments shown below as equity securities at FVOCI because these equity securities represent investments that the Group intends to hold for the long term strategic purposes.

	Fair value at 31 December 2019 RMB'000	Dividend income recognised during 2019 RMB'000
Investment in Anosi Telecom Technologies Co., Ltd.	9,000	–
Investment in Shanghai International Trust Corp., Ltd.	647	–
	9,647	–

	Fair value at 31 December 2018 RMB'000	Dividend income recognised during 2018 RMB'000
Investment in Anosi Telecom Technologies Co., Ltd.	10,200	–
Investment in Shanghai International Trust Corp., Ltd.	647	–
	10,847	–

No strategic investments were disposed of during 2019, and there were no transfers of any cumulative gain or loss within equity relating to these investments.

Notes to the Financial Statements (cont'd)

(Expressed in Renminbi ("RMB") unless otherwise indicated)

20 INVENTORIES

(a) Inventories in the consolidated statement of financial position comprise:

	2019 RMB'000	2018 RMB'000
Raw materials	33,165	57,388
Work-in-progress	8,127	11,771
Finished goods	53,555	99,694
	94,847	168,853

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	2019 RMB'000	2018 RMB'000
Carrying amount of inventories sold	1,090,208	1,210,021
(Reversal of)/allowance for stock obsolescence provision	(135)	38
	1,090,073	1,210,059

Notes to the Financial Statements (cont'd)

(Expressed in Renminbi ("RMB") unless otherwise indicated)

21 TRADE AND OTHER RECEIVABLES

	Notes	2019 RMB'000	2018 RMB'000
Trade receivables from:			
– third parties		696,080	673,819
– affiliated corporation*		4,828	1,449
Bills receivables		129,078	72,134
Less: Loss allowance		(9,705)	(9,705)
Net trade and bills receivables		820,281	737,697
Loans to associate	1	21,191	21,191
Non-trade amounts due from associate	2	1,680	1,680
Less: Loss allowance		(22,871)	(22,871)
		–	–
Advances to suppliers	3	13,401	6,143
Advances to staff	3	4,064	2,218
Refundable deposits	4	11,839	7,349
Tax recoverables	5	34,590	34,212
Prepayments		1,179	921
Others		–	17
Net prepayments and non-trade receivables		65,073	50,860
		885,354	788,557

* 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.

Notes:

1 The Group's loans to associate are unsecured, interest-free and repayable in 7 semi-annual instalments from 30 December 2017 to 30 December 2020. In 2018, the Group has fully impaired the loans to associate due to the financial difficulties encountered by the associate.

2 The non-trade amounts due from the associate are unsecured, interest-free and repayable on demand. In 2018, the Group has fully impaired the non-trade amounts due from the associate due to the financial difficulties encountered by the associate.

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

4 Included in the refundable deposits are tender deposits for bidding of customer contracts. If the tender is not successful, these deposits paid will be refunded to the Group.

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

Notes to the Financial Statements (cont'd)

(Expressed in Renminbi ("RMB") unless otherwise indicated)

21 TRADE AND OTHER RECEIVABLES (cont'd)

All of the other trade and other receivables, apart from loans to the associate are expected to be recovered or recognised as expense within one year.

The Group's exposure to credit risks and foreign currency risks related to trade and other receivables are disclosed in Note 30.

Ageing analysis

As of the end of the reporting period, the ageing analysis of trade debtors and bills receivable (which are included in trade and other receivables), based on the invoice date and net of loss allowance, is as follows:

	2019 RMB'000	2018 RMB'000
Within 6 month	614,610	614,491
7 to 12 months	163,802	106,622
1 to 2 years	41,303	15,812
Over 2 years	566	772
	820,281	737,697

Trade and bills receivables are due from 90–270 days from the date of billing. Further details on the Group's credit policy and credit risk arising for trade and bills receivable are set out in Note 30.

Notes to the Financial Statements (cont'd)

(Expressed in Renminbi ("RMB") unless otherwise indicated)

22 TIME DEPOSITS WITH ORIGINAL MATURITY MORE THAN 3 MONTHS

As at 31 December 2019, time deposits of RMB400,000,000 (2018: nil) in the consolidated statement of financial position represent bank deposits that are over 3 months of maturity at acquisition.

The Group's exposure to credit risks and interest rate risks are disclosed in Note 30.

23 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents comprise:

	2019 RMB'000	2018 RMB'000
Cash at bank and on hand	590,056	941,694
Short-term deposits	2,040	5,209
Pledged bank deposits	24,468	31,701
Cash and cash equivalents in the statements of financial position	616,564	978,604
Less: pledged bank deposits	(24,468)	(31,701)
Cash and cash equivalents in the statements of cash flows	592,096	946,903

Deposits amounting to RMB12,449,000 (2018: RMB16,179,000) were pledged to banks as guarantees for bidding of customer contracts and issuing letter of guarantee. Pledged bank deposits bear interest at an average effective interest rates at 1.390% (2018: 0.971%) per annum and for a tenure of approximately 4 to 60 months (2018: 4 to 60 months). Remaining pledged deposits is pertaining to the security deposit for the commodity future contracts entered to hedge the purchase of raw materials during the year.

Notes to the Financial Statements (cont'd)

(Expressed in Renminbi ("RMB") unless otherwise indicated)

23 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (cont'd)

(b) Reconciliation of liabilities arising from financing activities:

	Liabilities			Equity	
	Short-term loans RMB'000	Interest payable RMB'000	Lease liabilities RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2018	–	–	–	975,518	975,518
Changes from financing cash flows:					
Proceeds from short-term bank loans	315,000	–	–	–	315,000
Dividend paid to shareholders of the Company	–	–	–	(11,407)	(11,407)
Other interest expense paid	–	(1,042)	–	–	(1,042)
Total changes from financing cash flows	315,000	(1,042)	–	(11,407)	302,551
Other changes:					
Interest expense	–	1,042	–	–	1,042
Total liability-related other changes	–	1,042	–	–	1,042
Total equity-related other changes	–	–	–	102,009	102,009
At 31 December 2018	315,000	–	–	1,066,120	1,381,120
At 31 December 2018	315,000	–	–	1,066,120	1,381,120
Impact on initial application of IFRS 16 (Note 4)	–	–	2,669	–	2,669
At 1 January 2019	**315,000**	**–**	**2,669**	**1,066,120**	**1,383,789**
Changes from financing cash flows:					
Proceeds from short-term bank loans	310,000	–	–	–	310,000
Repayment of short-term bank loans	(315,000)	–	–	–	(315,000)
Dividend paid to shareholders of the Company	–	–	–	(17,732)	(17,732)
Capital element of lease rentals paid	–	–	(883)	–	(883)
Interest element of lease rentals paid	–	–	(82)	–	(82)
Other interest expense paid	–	(14,942)	–	–	(14,942)
Total changes from financing cash flows	(5,000)	(14,942)	(965)	(17,732)	(38,639)
Other changes:					
Interest expense	–	14,942	82	–	15,024
Total liability-related other changes	–	14,942	82	–	15,024
Total equity-related other changes	–	–	–	94,785	94,785
At 31 December 2019	310,000	–	1,786	1,143,173	1,454,959

Notes to the Financial Statements (cont'd)

*(Expressed in Renminbi ("**RMB**") unless otherwise indicated)*

23 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (cont'd)

(c) Total cash outflow for leases

Amounts included in the cash flow statement for leases comprise the following:

	2019	2018 (Note 4)
	RMB'000	RMB'000
Within operating cash flows	817	1,729
Within financing cash flows	965	–
	1,782	1,729

These amounts relate to the following:

	2019	2018 (Note 4)
	RMB'000	RMB'000
Lease rentals paid	1,782	1,729

24 TRADE AND OTHER PAYABLES

	2019	2018
	RMB'000	RMB'000
Trade payables due to:		
– third parties	90,925	116,490
– affiliated corporation	5,499	1,277
	96,424	117,767
Accrued operating expenses	58,153	59,681
Contract liabilities	13,265	9,404
Advanced receipt	2,441	7,000
Tender deposit	6,890	6,405
Value added tax, business tax and other taxes payable	4,044	6,047
Other payables	2,013	1,142
	183,230	207,446

Notes to the Financial Statements (cont'd)

(Expressed in Renminbi ("RMB") unless otherwise indicated)

24 TRADE AND OTHER PAYABLES (cont'd)

Movements in contract liabilities during the year are as follows:

	2019 RMB'000	2018 RMB'000
Balance at 1 January	9,404	9,543
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the period	(9,404)	(9,543)
Increase in contract liabilities as a result of billing in advance of manufacturing activities	13,265	9,404
	13,265	9,404

Advanced receipt is an upfront government grant of RMB2,441,000 (2018: RMB7,000,000). The grant is deferred and recognised as income when the grant's conditions have been fulfilled.

All of the other trade and other payables (including amounts due to related parties), are expected to be settled or recognised as income within one year or are repayable on demand.

As of the end of the reporting period, the ageing analysis of trade payable (which are included in trade and other payables), based on the invoice date, is as follows:

	2019 RMB'000	2018 RMB'000
0 – 90 days	91,604	113,417
91 – 180 days	1,157	1,442
181 – 360 days	1,341	1,508
Over 360 days	2,322	1,400
	96,424	117,767

25 SHORT-TERM LOANS

	2019 RMB'000	2018 RMB'000
Unsecured bank loans	310,000	315,000

The unsecured bank loans carried interest at annual rates 4.35% (2018: 4.35%) per annum, and were all repayable within one year.

At 31 December 2019, the Group had RMB1,507,434,000 (2018: RMB1,271,013,000) of unutilised bank borrowing facilities.

Notes to the Financial Statements (cont'd)

(Expressed in Renminbi ("RMB") unless otherwise indicated)

26 DEFERRED INCOME

	2019 RMB'000	2018 RMB'000
Deferred income	6,255	3,146

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 over a period of 5 to 10 years.

27 LEASE LIABILITIES

The following table shows the remaining contractual maturities of the Group's lease liabilities at the end of the current and previous reporting periods and at the date of transition to IFRS 16:

	31 December 2019		1 January 2019 (Note 4)		31 December 2018 (Note 4)	
	Present value of the minimum lease payments RMB'000	Total minimum lease payments RMB'000	Present value of the minimum lease payments RMB'000	Total minimum lease payments RMB'000	Present value of the minimum lease payments RMB'000	Total minimum lease payments RMB'000
Within 1 year	828	884	883	965	–	–
After 1 year but within 2 years	486	514	828	884	–	–
After 2 years but within 5 years	472	484	958	998	–	–
	958	998	1,786	1,882	–	–
	1,786	1,882	2,669	2,847	–	–
Less: total future interest expenses		(96)		(178)		–
Present value of lease liabilities		1,786		2,669		–

Notes to the Financial Statements (cont'd)

(Expressed in Renminbi ("RMB") unless otherwise indicated)

28 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) *Current taxation in the consolidated statement of financial position represents:*

	2019 RMB'000	2018 RMB'000
At the beginning of the year	16,627	12,049
Provision for PRC Corporate Income Tax for the year	13,752	27,656
Provision for Hong Kong Profits Tax for the year	204	157
PRC taxes paid	(28,090)	(23,235)
At the end of the year	2,493	16,627

(b) *Deferred tax assets and liabilities recognised*

(i) Movement of each component of deferred tax assets and liabilities

The components of deferred tax (assets)/liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

	At 1 January 2019 RMB'000	Recognised in profit or loss RMB'000	Recognised in OCI RMB'000	At 31 December 2019 RMB'000
Impairment loss for trade and other receivables	4,886	–	–	4,886
Inventory obsolescence provision	20	(20)	–	–
Equity investments at FVOCI	(30)	–	180	150
Deferred income	1,522	(749)	–	773
Impairment loss on associate	2,365	–	–	2,365
Unrealised exchange loss/(gain)	15	(1)	–	14
Unrealised profits	1,710	(1,205)	–	505
Dividend from subsidiary	(6,353)	(627)	–	(6,980)
Tax assets before set-off	4,135	(2,602)	180	1,713

Notes to the Financial Statements (cont'd)

(Expressed in Renminbi ("RMB") unless otherwise indicated)

28 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (cont'd)

(b) Deferred tax assets and liabilities recognised (cont'd)

(i) Movement of each component of deferred tax assets and liabilities (cont'd)

	At 1 January 2018 RMB'000	Recognised in profit or loss RMB'000	Recognised in OCI RMB'000	At 31 December 2018 RMB'000
Impairment loss for trade and other receivables	2,008	2,878	–	4,886
Inventory obsolescence provision	15	5	–	20
Equity investments at FVOCI	(30)	–	–	(30)
Deferred income	626	896	–	1,522
Impairment loss on associate	765	1,600	–	2,365
Unrealised exchange loss/(gain)	16	(1)	–	15
Unrealised profits	940	770	–	1,710
Dividend from subsidiary	(5,701)	(652)	–	(6,353)
Tax (liabilities)/assets before set-off	(1,361)	5,496	–	4,135

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

(ii) Reconciliation to the consolidated statement of financial position

	2019 RMB'000	2018 RMB'000
Net deferred tax asset recognised in the consolidated statement of financial position	8,693	10,488
Net deferred tax liability recognised in the consolidated statement of financial position	(6,980)	(6,353)
	1,713	4,135

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in Note 3(p), the Group has not recognised deferred tax assets in respect of cumulative tax losses of RMB7,914,000 (2018: RMB7,012,000) incurred by a subsidiary in India as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses incurred by the subsidiary in India will expire within 8 years from the year when such losses were incurred under current tax legislation.

Notes to the Financial Statements (cont'd)

(Expressed in Renminbi ("RMB") unless otherwise indicated)

28 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (cont'd)

(d) Deferred tax liabilities not recognised

The total undistributed profits of the PRC subsidiaries are RMB754,780,000 (2018: RMB697,339,000). No deferred tax liability has been recognised for undistributed profits of RMB615,182,000 (2018: RMB570,225,000) 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.

29 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements 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 2018		295,000	150,230	445,230
Changes in equity for 2018:				
Total comprehensive income for the year		–	(7,267)	(7,267)
Dividends paid	29(b)	–	(11,407)	(11,407)
Balance at 31 December 2018 and 1 January 2019		295,000	131,556	426,556
Changes in equity for 2019:				
Total comprehensive income for the year		–	38,768	38,768
Dividends paid	29(b)	–	(17,732)	(17,732)
Balance at 31 December 2019		295,000	152,592	447,592

Note: The Group, including the Company, has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated and there is no net effect on the opening balance of the Company's equity as at 1 January 2019. See Notes 4 and 33.

Notes to the Financial Statements (cont'd)

(Expressed in Renminbi ("RMB") unless otherwise indicated)

29 CAPITAL, RESERVES AND DIVIDENDS (cont'd)

(b) Dividends

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

	2019 RMB'000	2018 RMB'000
RMB0.0457 per qualifying ordinary share (2018: RMB0.0294)	**17,732**	11,407

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.

	2019 RMB'000	2018 RMB'000
RMB0.0292 per qualifying ordinary share (2018: RMB0.0457)	**11,330**	17,732

(c) Share capital

	2019 No. of shares ('000)	2019 RMB'000	2018 No. of shares ('000)	2018 RMB'000
Ordinary shares, issued and fully paid:				
At beginning and end of year	**388,000**	**295,000**	388,000	295,000

The ordinary shares of the Company do not have a par value.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at general meetings of the Company.

29 CAPITAL, RESERVES AND DIVIDENDS (cont'd)

(d) Nature and purpose of reserves

(i) General reserves

General reserves represent the statutory and discretionary 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 (non-recycling)

The fair value reserve (non-recycling) represents the cumulative change in the fair value arising from equity investments designated at FVOCI under IFRS 9 that are held at the end of the reporting period (see Note 3(c)).

(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. The reserve is dealt with in accordance with the accounting policies set out in Note 3(s).

Notes to the Financial Statements (cont'd)

(Expressed in Renminbi ("RMB") unless otherwise indicated)

29 CAPITAL, RESERVES AND DIVIDENDS (cont'd)

(e) 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 and equity, which includes equity attributable to equity shareholders of the Company, comprising share capital, reserves and accumulated profits.

The Group's management reviews the capital structure on an on-going basis. As 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 debt-to-assets ratio. This ratio is calculated as total liabilities divided by total assets.

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

The debt-to-assets ratio at the end of the reporting period is as follows:

	2019 RMB'000	2018 RMB'000
Total liabilities	510,744	548,572
Total assets	2,192,853	2,136,080
Debt-to-assets ratio	23%	26%

Notes to the Financial Statements (cont'd)

(Expressed in Renminbi ("RMB") unless otherwise indicated)

30 FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its equity investments in other entities and movements in its own equity share price.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade receivables. The Group's exposure to credit risk arising from cash and cash equivalents, time deposits and bills receivables is limited because the counterparties are mainly reputable financial institutions with high credit standing, for which the Group considers to have low credit risk.

The Group does not provide any guarantees which would expose the Group to credit risk.

Trade receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 25% (2018: 34%) and 55% (2018: 63%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 90–270 days from the date of billing. Normally, the Group does not obtain collateral from customers.

The Group measures loss allowance for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix.

As at reporting date, the maximum exposure to credit risk for trade receivables (exclude bill receivables) by geographical region was as follows.

	2019 RMB'000	2018 RMB'000
PRC	622,057	591,509
Other customers	69,146	74,054
	691,203	665,563

Notes to the Financial Statements (cont'd)

(Expressed in Renminbi ("RMB") unless otherwise indicated)

30 FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT (cont'd)

(a) Credit risk (cont'd)

Trade receivables (cont'd)

The exposure of credit risk for trade receivables (exclude bill receivables) at the reporting date by type of counterparty was:

	2019 RMB'000	2018 RMB'000
State-owned enterprises in the People's Republic of China ("PRC")	380,013	380,000
Other customers	311,190	285,563
	691,203	665,563

At 31 December 2019, 5 (2018: 5) major customers accounted for 55% (2018: 63%) of gross trade receivables. There are no other customers who represent more than 5% of the total balance of trade receivables.

The Group measures loss allowance for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. ECLs are based on actual loss experience over the past years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

The following table provides information about the Group's exposure to credit risk and ECLs by type of counterparty for trade receivables as at the end of reporting periods:

		2019	
	Average expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
State-owned enterprises in the PRC			
Not past due	0.08%	245,539	202
Past due 1 – 180 days	0.45%	118,606	530
Past due 181 – 360 days	0.51%	9,601	49
Past due 361 – 540 days	3.16%	6,694	212
Past due over 540 days	45.03%	1,030	464
		381,470	1,457

Notes to the Financial Statements (cont'd)

(Expressed in Renminbi ("RMB") unless otherwise indicated)

30 FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT (cont'd)

(a) Credit risk (cont'd)

Trade receivables (cont'd)

	2019		
	Average expected loss rate	Gross carrying amount	Loss allowance
	%	RMB'000	RMB'000
Other customers			
Not past due	0.33%	240,992	797
Past due 1 – 180 days	3.93%	47,595	1,869
Past due 181 – 360 days	6.43%	20,204	1,299
Past due 361 – 540 days	29.73%	9,057	2,693
Past due over 540 days	100.00%	1,590	1,590
		319,438	8,248

	2018		
	Average expected loss rate	Gross carrying amount	Loss allowance
	%	RMB'000	RMB'000
State-owned enterprises in the PRC			
Not past due	–	299,786	–
Past due 1 – 180 days	–	67,626	–
Past due 181 – 360 days	19.96%	15,353	3,064
Past due 361 – 540 days	–	299	–
Past due over 540 days	–	–	–
		383,064	3,064

Notes to the Financial Statements (cont'd)

(Expressed in Renminbi ("RMB") unless otherwise indicated)

30 FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT (cont'd)

(a) Credit risk (cont'd)

Trade receivables (cont'd)

	2018		
	Average expected loss rate	Gross carrying amount	Loss allowance
	%	RMB'000	RMB'000
Other customers			
Not past due	–	242,766	–
Past due 1 – 180 days	11.49%	43,840	5,039
Past due 181 – 360 days	7.46%	3,431	256
Past due 361 – 540 days	87.81%	402	353
Past due over 540 days	56.26%	1,765	993
		292,204	6,641

Movement in the loss allowance account in respect of trade receivables during the year is as follows:

	2019	2018
	RMB'000	RMB'000
Balance at 1 January	(9,705)	(13,393)
Reversal of impairment loss on trade receivables	–	13,393
Impairment loss recognised during the year	(641)	(9,705)
Amounts written off during the year	641	–
	(9,705)	(9,705)

Loans to associate and non-trade amount due from the associate

The Group adopted the ECL approach to estimate credit losses over the expected life of these receivables. As the amounts are assessed to be not probable of recovery, the Group has fully impaired the loans to associate and non-trade receivables due from the associate in 2018.

Notes to the Financial Statements (cont'd)

(Expressed in Renminbi ("RMB") unless otherwise indicated)

30 FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT (cont'd)

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the parent company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the end of the reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay:

		Contractual cash flows				
	Notes	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total	Carrying amount at 31 December
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2019						
Non-derivative financial liabilities						
Short-term loans	25	322,503	–	–	322,503	310,000
Trade and other payables[#]	24	163,480	–	–	163,480	163,480
Lease liabilities	27	884	514	484	1,882	1,786
At 31 December 2019		486,867	514	484	487,865	475,266

		Contractual cash flows				
	Notes	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total	Carrying amount at 31 December
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2018						
Non-derivative financial liabilities						
Short-term loans	25	315,000	–	–	315,000	315,000
Trade and other payables[#]	24	184,995	–	–	184,995	184,995
At 31 December 2018		499,995	–	–	499,995	499,995

[#] Exclude contract liabilities, advanced receipt, value added tax, business tax and other taxes payable.

Notes to the Financial Statements (cont'd)

(Expressed in Renminbi ("RMB") unless otherwise indicated)

30 FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT (cont'd)

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to interest rate risks arises primarily from the Group's bank deposits and debt obligations.

(i) 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:

	2019 RMB'000	2018 RMB'000
Fixed-rate instruments		
Time deposits with original maturity more than 3 months	400,000	–
Pledged bank deposits	24,468	31,701
Short-term deposits	2,040	5,209
Short-term loans	(310,000)	(315,000)
	116,508	(278,090)

(ii) Sensitivity analysis

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

The Group does not have significant financial assets or liabilities that are exposed to interest rate risk as at the end of reporting periods.

Notes to the Financial Statements (cont'd)

(Expressed in Renminbi ("RMB") unless otherwise indicated)

30 FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT (cont'd)

(d) Currency risk

The Group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily United States dollars ("**USD**"), Singapore dollars ("**SGD**"), Hong Kong dollars ("**HKD**") and Euro ("**EUR**").

RMB is not freely convertible into foreign currencies. All foreign exchange transactions involving RMB must take place through the People's Bank of China or other institutions authorised to buy and sell foreign exchange. The exchange rate adopted for the foreign exchange transactions are the rates of exchange quoted by the People's Bank of China.

(i) Exposure to currency risk

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in RMB, translated using the spot rate at the year end date. Differences resulting from the translation of the financial statements of foreign operations into the Group's presentation currency are excluded.

	USD RMB'000	SGD RMB'000	HKD RMB'000	EUR RMB'000
2019				
Cash and cash equivalents	42,558	2,301	1,304	12,701
Trade and other receivables	37,944	79	105	568
Trade and other payables	(234)	(504)	(267)	–
Lease liabilities	–	(1,020)	–	–
Net exposure	80,268	856	1,142	13,269
2018				
Cash and cash equivalents	93,297	3,105	3,332	478
Trade and other receivables	40,048	234	22	732
Trade and other payables	(103)	(830)	(243)	(5)
Net exposure	133,242	2,509	3,111	1,205

30 FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT (cont'd)

(d) Currency risk (cont'd)

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after tax (and retained profits) that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had increased at that date, assuming all other risk variables remained constant.

	2019		2018	
	Increase in foreign exchange rates	Increase in profit after tax and retained profits RMB'000	Increase in foreign exchange rates	Increase in profit after tax and retained profits RMB'000
USD	10%	6,925	10%	11,394
SGD	10%	86	10%	251
HKD	10%	112	10%	311
EUR	10%	1,128	10%	102

Decrease in foreign exchange rates would have had the equal but opposite effect to the amounts shown above, on the basis that all other variables remained constant.

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit after tax and equity measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2018.

Notes to the Financial Statements (cont'd)

(Expressed in Renminbi ("RMB") unless otherwise indicated)

30 FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT (cont'd)

(e) Equity price risk

The Group is exposed to equity price changes arising from equity investments held for non-trading purposes (see Note 19).

The Group's equity investments are held for long term strategic purposes. The performance is assessed at least bi-annually against performance of similar listed entities, based on the limited information available to the Group, together with an assessment of their relevance to the Group's long term strategic plans.

At 31 December 2019, it is estimated that an increase of 5% (2018: 5%) in the relevant equity price as applicable, as applicable, with all other variables held constant, would have increased/(decreased) fair value reserve (non-recycling) of consolidated equity as follows:

	2019		2018	
	Effect on equity	RMB'000	Effect on equity	RMB'000
Changes in the relevant equity price risk variable:				
Increase	5%	410	5%	461
Decrease	(5%)	(410)	(5%)	(461)

The sensitivity analysis indicates the instantaneous change in the Group's fair value reserve (non-recycling) of consolidated equity that would arise assuming that the changes in the stock market index or other relevant risk variables had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to equity price risk at the end of the reporting period. It is also assumed that the Group's equity investments would change in accordance with the historical correlation with the relevant stock market index or the relevant risk variables, and that all other variables remain constant. The analysis is performed on the same basis for 2018.

Notes to the Financial Statements (cont'd)

(Expressed in Renminbi ("RMB") unless otherwise indicated)

30 FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT (cont'd)

(f) *Fair value measurement*

(i) Financial assets measured at fair value

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

- Level 3 valuations: Fair value measured using significant unobservable inputs.

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			
	Notes	FVOCI – equity instruments RMB'000	Amortised cost 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
31 December 2019									
Financial assets measured at fair value									
Other investments	19	9,647	–	–	9,647	647	–	9,000	9,647
Financial assets not measured at fair value									
Trade and other receivables#	21	–	836,184	–	836,184				
Time deposits with original maturity more than 3 months	22	–	400,000	–	400,000				
Cash and cash equivalents	23	–	616,564	–	616,564				
		–	1,852,748	–	1,852,748				
Financial liabilities not measured at fair value									
Trade and other payables##	24	–	–	163,480	163,480				
Short-term loans	25	–	–	310,000	310,000				
Lease liabilities	27	–	–	1,786	1,786				
		–	–	475,266	475,266				

Notes to the Financial Statements (cont'd)

(Expressed in Renminbi ("RMB") unless otherwise indicated)

30 FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT (cont'd)

(f) Fair value measurement (cont'd)

(i) Financial assets measured at fair value (cont'd)

Fair value hierarchy (cont'd)

		Carrying amount				Fair value			
	Notes	FVOCI – equity instruments RMB'000	Amortised cost 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
31 December 2018									
Financial assets measured at fair value									
Other investments	19	10,847	–	–	10,847	647	–	10,200	10,847
Financial assets not measured at fair value									
Trade and other receivables#	21	–	747,281	–	747,281				
Cash and cash equivalents	23	–	978,604	–	978,604				
		–	1,725,885	–	1,725,885				
Financial liabilities not measured at fair value									
Trade and other payables##	24	–	–	184,995	184,995				
Short-term loans	25	–	–	315,000	315,000				
		–	–	499,995	499,995				

\# Exclude advances to suppliers, prepayments and tax recoverables.

\## Exclude contract liabilities, advanced receipts, value added tax, business tax and other taxes payable.

The Group enters into commodity derivative contracts with a financial institution with good credit ratings, The fair value of the commodity derivative contracts represents the difference between the quoted market price of commodity derivative contracts at year end and the quoted price at inception of the contracts. The carrying amount of the derivative financial instruments are nil as the Group settled all derivative financial instruments as at 31 December 2019 (as at 31 December 2018: nil).

During the years ended 31 December 2018 and 2019, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

Notes to the Financial Statements (cont'd)

(Expressed in Renminbi ("RMB") unless otherwise indicated)

30 FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT (cont'd)

(f) Fair value measurement (cont'd)

(i) Financial assets measured at fair value (cont'd)

Information about Level 3 fair value measurements

	Valuation techniques	Significant unobservable inputs	Range	Weighted average
Unlisted equity securities	Discounted cash flow method: The valuation model considers the present value of net cash flows to be generated from the investment. The expected net cash flows are discounted using risk adjusted discount rates.	Growth rate Discount rate	17% to 24% (2018: 30% to 33%)	19% (2018: 19%)

The fair value of unlisted equity securities is determined using the discounted cash flow model. The fair value measurement is positively correlated to the growth rate. The following table summarises how the impact on the Group's other comprehensive income at the end of the reporting period would have increased or decreased as a result of a change in one of the assumptions, holding other assumptions consistent.

	2019		2018	
	Effect on equity RMB'000	Effect on equity RMB'000	Effect on equity RMB'000	Effect on equity RMB'000
Revenue growth rate (increase or decrease by 1%)	195	(62)	422	(372)
Discount rate (increase or decrease by 1%)	(321)	494	(778)	898

Notes to the Financial Statements (cont'd)

(Expressed in Renminbi ("RMB") unless otherwise indicated)

30 FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT (cont'd)

(f) Fair value measurement (cont'd)

(i) Financial assets measured at fair value (cont'd)

Information about Level 3 fair value measurements (cont'd)

The movements during the period in the balance of these Level 3 fair value measurements are as follows:

	2019 RMB'000	2018 RMB'000
Unquoted equity securities:		
At 1 January	10,200	10,200
Net unrealised gains or losses recognised in other comprehensive income during the period	(1,200)	–
At 31 December	9,000	10,200

Any gain or loss arising from the remeasurement of the Group's unlisted equity securities held for strategic purposes are recognised in the fair value reserve (non-recycling) in other comprehensive income. Upon disposal of the equity securities, the amount accumulated in other comprehensive income is transferred directly to retained earnings.

(ii) Financial assets and liabilities carried at other than fair value

Except for equity securities mentioned in Note 19, all financial instruments measured at other than fair value are carried at cost or amortised cost that were not materially different from their fair values as at 31 December 2019 and 2018.

31 COMMITMENTS

(a) Commitments outstanding at 31 December 2019 not provided for in the financial statements were as follows:

	2019 RMB'000	2018 RMB'000
Contracted for but not provided for property, plant and equipment	1,474	1,250
Donation commitment	3,500	4,000
	4,974	5,250

The Group's PRC subsidiary has signed an intention letter and committed to donate RMB500,000 per annum from 2007 for a period of 20 years to a charitable organization in the PRC when making profit in the year.

Notes to the Financial Statements (cont'd)

(Expressed in Renminbi ("RMB") unless otherwise indicated)

31 COMMITMENTS (cont'd)

(b) At 31 December 2018, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

	Properties RMB'000
Within 1 year	1,186
After 1 year but within 5 years	663
	1,849

The Group is the lessee in respect of a number of properties held under leases which were previously classified as operating leases under IAS 17. The Group has initially applied IFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to these leases (see Note 4). From 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the statement of financial position in accordance with the policies set out in Note 3(g), and the details regarding the Group's future lease payments are disclosed in Note 27.

32 MATERIAL RELATED PARTY TRANSACTIONS

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in Note 11 and certain of the highest paid employees as disclosed in Note 12, is as follows:

	2019 RMB'000	2018 RMB'000
Short-term employee benefits	8,026	8,478
Retirement benefits scheme contributions	182	61
	8,208	8,539
Key management personnel compensation comprised amounts paid to:		
– directors of the Company	3,828	3,697
– other key management personnel	4,380	4,842
	8,208	8,539

Total remuneration is included in "staff costs" (see Note 9(b)).

Notes to the Financial Statements (cont'd)

*(Expressed in Renminbi ("**RMB**") unless otherwise indicated)*

32 MATERIAL RELATED PARTY TRANSACTIONS (cont'd)

(b) Transactions with related companies

(i) Significant related party transactions

	2019 RMB'000	2018 RMB'000
Transactions with Suzhou Hengli Telecommunications Materials Co., Ltd (Note 1)		
Sale of finished goods	8,548	5,998
Purchases of raw materials	33,200	23,420
Transactions with Jiangsu Hengtong Sell Electricity Co., Ltd (Note 2)		
Purchase of electricity power	–	5,209

Notes:

1 Suzhou Hengli Telecommunication Materials Co., Ltd is a subsidiary of Hengtong Group Co., Ltd. ("**Hengtong Group**"), a company 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 24.97% of the total issued shares in the Company and has significant influence over the Company.

2 Jiangsu Hengtong Sell Electricity Co., Ltd ("**Hengtong SE**") was a wholly-owned subsidiary of Hengtong Group . It is principally engaged in the business of sales of electricity, design and construction of electrical works, operation and maintenance of electrical equipment. Since Hengtong SE was no longer held by Hengtong Group, commencing on 17 Aug 2018, Hengtong SE was no longer the Group's related party thereafter.

(ii) Significant related party balances

	2019 RMB'000	2018 RMB'000
Balances with Suzhou Hengli Telecommunications Materials Co., Ltd		
Trade receivables from	4,828	1,449
Trade payables to	5,499	1,277

(c) Applicability of the Listing Rules relating to connected transactions

The related party transactions in respect of sales of finished goods, purchases of raw materials and purchase of electricity power above constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Notes to the Financial Statements (cont'd)

*(Expressed in Renminbi ("**RMB**") unless otherwise indicated)*

33 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	31 December 2019 RMB'000	1 January 2019 (Note) RMB'000	31 December 2018 (Note) RMB'000
Non-current assets				
Property, plant and equipment		1,150	1,248	11
Investments in subsidiaries	17	394,375	396,385	396,385
Trade and other receivables		–	4,421	4,421
		395,525	402,054	400,817
Current assets				
Trade and other receivables		42,988	15,256	15,256
Cash and cash equivalents		10,887	11,668	11,668
		53,875	26,924	26,924
Current liabilities				
Trade and other payables		787	1,185	1,185
Lease liabilities		299	216	–
		1,086	1,401	1,185
Net current assets		52,789	25,523	25,739
Total assets less current liabilities		448,314	427,577	426,556
Non-current liabilities				
Lease liabilities		722	1,021	–
		722	1,021	–
NET ASSETS		447,592	426,556	426,556
CAPITAL AND RESERVES	29(a)			
Share capital		295,000	295,000	295,000
Accumulated profits		152,592	131,556	131,556
TOTAL EQUITY		447,592	426,556	426,556

Approved and authorised for issue by the board of directors on 16 March 2020.

Du Xiping
Director

Xu Guoqiang
Director

Note: The Company has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See Note 4.

(Expressed in Renminbi ("RMB") unless otherwise indicated)

34 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

The unexpected advent of novel coronavirus ("**COVID-19**") in early 2020 halts social and economic development throughout PRC, which also almost causes the stagnation of economic activities. Since then, the epidemic has gradually spread globally. The raging epidemic caused a significant decline in the overall economy, with almost no demand and greatly damaged supply chain. The grave impacts will inevitably prejudice the development of the telecommunication industry and the operation of the Group. Currently, the epidemic is gradually brought under control in PRC, evidenced by resumed production activities in companies, as well as recovering market demand and supply chain. In this view, the Group is mainly exposed to negative impacts during the first quarter of 2020. At the date of this financial statements, the Group has gradually resumed the production activities on the condition that our employee safety is safeguarded. The Group will keep a close track of the epidemic development, and give all-out efforts to recover the losses as soon as normal market activities are restored.

35 COMPARATIVE FIGURES

The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. Further details of the changes in accounting policies are disclosed in Note 4.

36 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2019

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and a new standard, IFRS 17, Insurance contracts, which are not yet effective for the year ended 31 December 2019 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to IFRS 3, *Definition of a business*	1 January 2020
Amendments to IAS 1 and IAS 8, *Definition of material*	1 January 2020
Amendments to IFRS 9, IAS 39 and IFRS 7, *Interest Rate Benchmark Reform*	1 January 2020
Revised Conceptual framework for financial reporting	1 January 2020
IFRS 17, *Insurance contracts*	1 January 2021
Amendments to IAS 1, *Classification of Liabilities as Current or Non-current*	1 January 2022

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

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