2020
ANNUAL REPORT

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 adopts 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

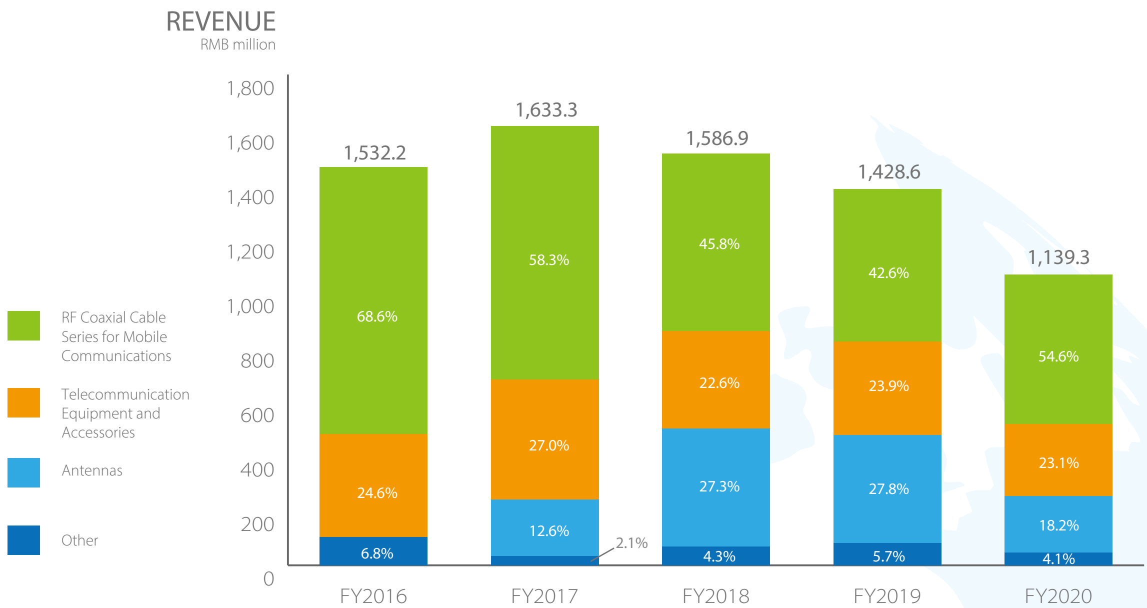
RF coaxial cable series for mobile communications ("**RF Coaxial Cables**")	Telecommunications equipment and accessories ("**Accessories**")	Antennas ("**Antennas**")	Others
– Transmission of high-frequency signals between antenna and base station equipment in outdoor base station wireless signal coverage 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 ("**HTRC**") which are used as part of the raw material components for antennas – Antenna testing services

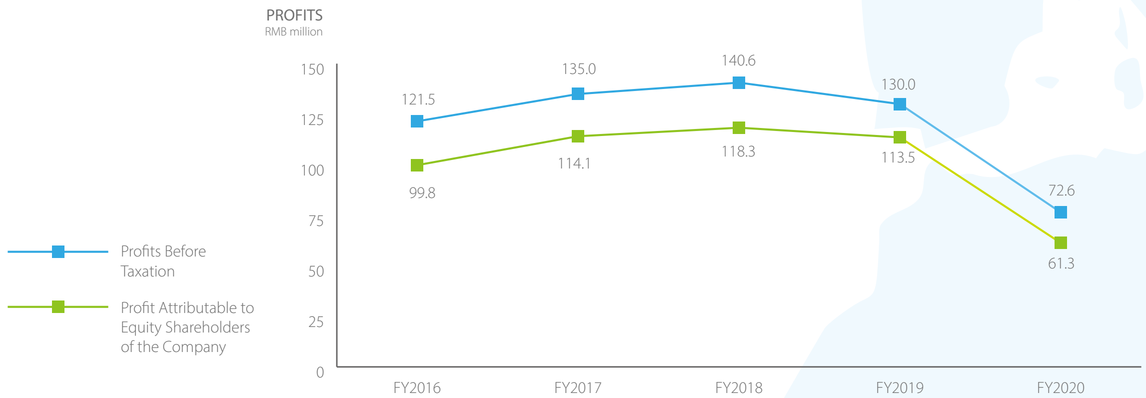
Five-year Financial Summary

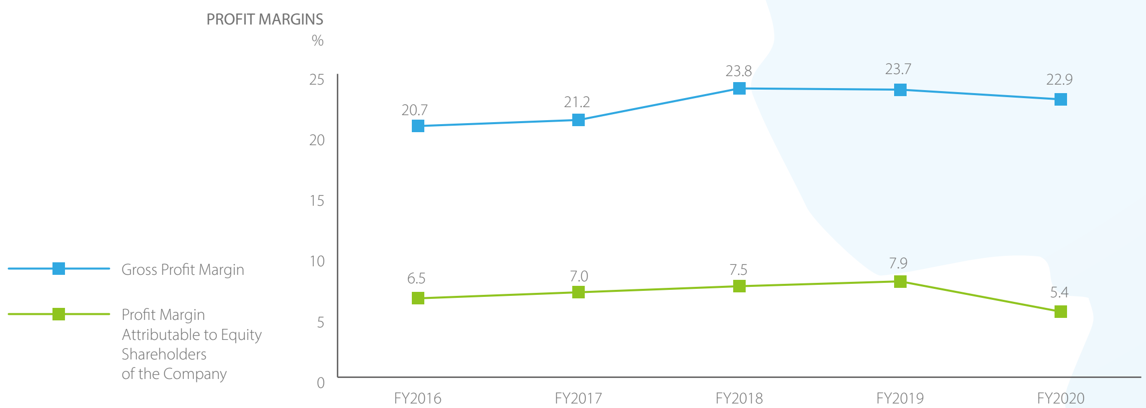
A summary of the consolidated results and assets and liabilities of the Group for the last five financial years, as extracted from the published audited financial statements is set out below.

	Year ended 31 December				
	2016	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
RESULTS					
REVENUE	1,532,161	1,633,327	1,586,950	1,428,564	1,139,341
Cost of sales	(1,215,379)	(1,286,701)	(1,210,021)	(1,090,208)	(878,579)
Gross profit	316,782	346,626	376,929	338,356	260,762
Other operating income	25,798	22,552	30,048	35,476	58,186
Selling and distribution expenses	(108,328)	(101,228)	(102,429)	(114,708)	(93,405)
Administrative expenses	(53,116)	(59,057)	(56,883)	(45,389)	(39,215)
(Impairment loss)/reversal of impairment loss on trade and other receivables	–	1,045	(19,183)	(641)	–
Other operating expenses	(53,262)	(66,698)	(74,407)	(68,041)	(100,760)
Interest expense	(1,479)	(62)	(1,042)	(15,024)	(12,964)
Share of loss of an associate, net of tax	(4,936)	(8,152)	(12,440)	–	–
Profit before taxation	121,459	135,026	140,593	130,029	72,604
Income tax expense	(21,617)	(20,969)	(22,317)	(16,558)	(12,177)
Profit for the year	99,842	114,057	118,276	113,471	60,427
Non-controlling interest	–	–	–	–	(872)
PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY	99,842	114,057	118,276	113,471	61,299
ASSETS AND LIABILITIES					
TOTAL ASSETS	1,627,830	1,731,356	2,136,080	2,192,853	2,227,781
TOTAL LIABILITIES	(231,871)	(250,411)	(548,572)	(510,744)	(495,367)
	1,395,959	1,480,945	1,587,508	1,682,109	1,732,414
NON-CONTROLLING INTEREST	–	–	–	–	(2,128)
NET ASSETS ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY	1,395,959	1,480,945	1,587,508	1,682,109	1,730,286

Financial Highlights







Financial Ratios and Performance

FINANCIAL PERFORMANCE	UNIT	FY2016	FY2017	FY2018	FY2019	FY2020
Revenue	RMB'000	1,532,161	1,633,327	1,586,950	1,428,564	1,139,341
Including: Revenue from regions outside of PRC	*RMB'000*	*176,758*	*233,871*	*325,132*	*199,853*	*205,650*
Proportion of revenue from other regions to total revenue	*%*	*11.5*	*14.3*	*20.5*	*14.0*	*18.0*
Gross margin	%	20.7	21.2	23.8	23.7	22.9
Profit before taxation	RMB'000	121,459	135,026	140,593	130,029	72,604
Income tax expense	RMB'000	(21,617)	(20,969)	(22,317)	(16,558)	(12,177)
Non-controlling interest	–	–	–	–	–	872
Profit attributable to equity shareholders of the Company	RMB'000	99,842	114,057	118,276	113,471	61,299

FINANCIAL POSITION	UNIT	FY2016	FY2017	FY2018	FY2019	FY2020
Net assets attributable to equity shareholders of the Company	RMB'000	1,395,959	1,480,945	1,587,508	1,682,109	1,730,286

FINANCIAL RATIOS	NOTE	UNIT	FY2016	FY2017	FY2018	FY2019	FY2020
Earnings per share		RMB	0.257	0.294	0.305	0.292	0.158
Net asset per share		RMB	3.60	3.82	4.09	4.34	4.46
Return on total equity		%	7.2	7.7	7.5	6.7	3.5
Debt-to-assets ratio	a	%	14	14	26	23	22
Interest cover ratio	b	times	83.1	2,178.8	135.9	9.7	6.6
Current ratio	c	times	6.1	6.2	3.6	4.0	4.2
Trade receivables turnover		days	128	139	169	202	216
Inventory turnover		days	43	54	57	44	42

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

Throughout 2020 we have experienced a historical year that results in significant impacts on the human advancement and global market landscape.

During the year, the novel coronavirus outbreak and the pandemic caused tremendous impacts on the economic development and social lifestyle in countries worldwide, almost paralyzing the economic and social activities as a whole with a drastic dive in the demands, while materially disrupting the supply chain.

In addition, all major economic powers except for China across the world have registered their negative growth results for the year, which have been unseen for years.

Furthermore, Chinese enterprises continued to be adversely affected by the Sino-US trade frictions throughout the year, and even suffer more due to increasingly strengthened sanctions imposed by the US.

Against the unfavorable market conditions during the same year, the PRC government introduced a series of fiscal, financial, and industrial policies to stabilize growth and employment, and safeguard a flexible business environment for corporate development with a V-shape turnaround in the entire GDP, thereby becoming the sole major economic engine to achieve positive growth.

On the industrial front, the Group dealt with material impacts as telecommunication operators at the beginning of the pandemic decelerated their investments at a greater pace in the amidst of a disruption in the supply chain.

Faced with the pandemic spreading across the globe, as well as ongoing sanctions imposed against the telecommunication business as a key sector, the export business of the Group is overshadowed by the Sino-US competition.

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

In the telecommunication sector, the adoption of optical cables over copper cables remains to be the long-term trajectory with further acceleration, while the demand for traditional feeder cables and 4G antennas continues to wane.

Due to the combination of these unfavorable factors, the Group reported quarterly losses that have been unseen for years. Despite such stringent business environment, the Group alongside its members as a whole pressed ahead aggressively to hold our tight grip on development opportunities arising from national policies introduced for new infrastructures, including communications network infrastructures, while remaining resolved to implement our strategic position as the global system leader specialized in wireless connectivity. By focusing on our development driven by innovation and transformation, we strengthened our commitments to developing new products, businesses, markets, and customers, while gradually overcoming and eliminating the effects of external adverse factors, as a result of which we started to catch up with the business backlog caused by the first quarter during our second quarter. Throughout the entire 2020, we managed to achieve remarkable results. Our annual revenue reported approximately RMB1,139.3 million, representing a year-to-year decrease of approximately 20.2%, while the profit attributable to the equity shareholders of the Company decreased by approximately RMB52.2 or 46.0% to approximately RMB61.3 million. Gross profit margin for 2020 decreased by approximately 0.8 percentage points to approximately 22.9%.

In the meantime, as the Group's sales structure continued to improve, the proportion of 5G antenna and leaky cable business in line with the development direction of industrial upgrading has increased, among which 5G antenna saw a breakthrough with sales of more than RMB40.0 million; and the proportion of leaky cable business with the highest gross profit margin increased from 11.83% last year to 14.04% in 2020. After overcoming difficulties, our overseas business achieved positive growth, with sales increasing to approximately 18.0% from 14% in the same period last year, and the gross profit margin was much higher than that of domestic sales and further improved as compared with last year.

I. MARKETING

Under the external market environment and with reference to the Company's own characteristics, the Group completed the reform of the marketing structure in 2020, to establish an iron-triangle model structure with three independently operated and well-coordinated functional modules of technical support, business and marketing, and delivery guarantee, which facilitate to build the two major marketing centers in China and overseas. In terms of product portfolio, we focused our marketing efforts on 5G antennas and leaky cables, while in terms of the customer categories, we made our great efforts in developing enterprise-class customers of non-telecom operators, especially large equipment manufacturers. In 2020, the Group successfully won the bid and basically completed the 5G antenna project of more than RMB50 million for equipment manufacturers, which not only enabled the Group continue to maintain its leading position in the leaky cable market with ranking No.1 in the overall leaky cable market in terms of private network and civil communication, but also laid a foundation for the future in-depth cooperation with large equipment manufacturers.

In 2020, the Group recorded sales of new products developed according to customer needs exceeded RMB400 million, and procured new businesses such as network engineering with a value of over RMB33 million, thus creating new business channels.

II. TECHNOLOGY RESEARCH AND DEVELOPMENT

In order to further improve the efficiency of research and development and inspire innovation, the Group has established a project-based assessment system, which closely links the salary packages of our research and development staff to the market assessment and clarifies the incentive mechanism for project income and appreciation. In 2020, 34 new product development projects were completed, which strongly supported the sales of new products. In addition, we have made for 66 patent applications, with approvals of 29 invention patents and 2 international patents. Our wireless research and development team carried out a total of 18 research and development projects for 5G antenna and related products, among which 4 antennas have been mass produced and delivered smoothly, and 4 have passed customer product certification tests. Several 4G antenna research and development projects for domestic operators and overseas customers have also made good progress. In order to give full play to the Group's advantages in leakage cables, the Group has developed and completed a number of new projects for 5G room split cables, wireless coverage of the Industrial Internet of Things.

In addition, in order to enhance the follow-up development capacity, and create a new profit growth point, the Group have developed and cultivated a number of brand-new products in line with market trends, which are now well progressed.

III. PRODUCTION AND MANUFACTURING

The optimization of production layout and the improvement of man-machine efficiency have resulted in the over-fulfillment of indicators such as the Group's manufacturing expenses as a proportion of output value, energy consumption costs per RMB10,000 turnover;

As the production costs reduced due to the intelligentization of the equipment, the return on investment for cost improvement was 95.75%;

The information management and the continuous promotion of the Amoeba operating model have greatly reduced the amount of fixed costs.

PROSPECT AND OUTLOOK

From the macroeconomic perspective, the effects of the novel coronavirus pandemic is expected to wear off gradually in 2021, with the growing momentum of the Sino-US trade friction coming to halt, and the global economy is back on its track, thereby providing a favorable external environment than FY2020.

From an industry perspective, the new infrastructure development strategy implemented by the PRC government is not only a short-term measure to hedge against the adverse impacts of the international economic situation, but also has a long-term positive effect on the development of infrastructure in the telecommunications industry. In the meantime, it should be noted that despite the huge business opportunities for related companies in China's telecommunications industry, the benefits of 5G development are gradually released. Due to the large scale of investment and the decreasing marginal effect of upward upgrading of the network system, the time span of 5G-related applications and the positive effects of 5G network on the society and economy as a whole will be lengthened, and the diversity

Chairman's Message

of applications will be a severe test for the innovation and resilience of enterprises. Fully aware of the long-term nature and complexity mentioned above, and adhering to its strategic positioning of "the world's leading expert of wireless access systems", with mainly focusing on 5G products and 5G vertical applications, the Group will consolidate its leading position in the 4G product market, and continue to expand its shares in 5G markets at home and abroad.

In terms of marketing, with 5G antennas and a number of new products developed, the Group will deepen cooperation with equipment manufacturers in product supply and research and development of new products while maintaining normal cooperation with operators. By constantly exploring the demand of enterprise-level users, the Group will improve its overall competitiveness and market share, and expand its competitive advantages in leaky cables from product manufacturing to business subcontracts and total solutions, from the subway sector to other related areas.

In terms of research and development, the Group will strengthen its research and development efforts in the field of 5G vertical applications, and continue to improve the technology level and maturity of new development projects so that they will be introduced to the market in a timely manner.

Under the prevailing market environment and with the above-mentioned unremitting efforts, the Company believes that the Group will go further along the path of transformation and upgrading and will be able to benefit more from 5G development.


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 2020 ("**FY2020**" or the "**Reporting Period**") decreased by approximately RMB289.3 million, or approximately 20.2% from approximately RMB1,428.6 million in the previous financial year ended 31 December 2019 ("**FY2019**") to approximately RMB1,139.3 million in FY2020.

Radio Frequency Coaxial Cables

Revenue generated from the segment of Radio Frequency Coaxial Cables increased by approximately RMB14.4 million or approximately 2.4% from approximately RMB608.1 million in FY2019 to approximately RMB622.5 million in FY2020. In particular, the increase in sales for this segment is due to the increase in sales of feeder cables of approximately RMB23.5 million or 5.4% from FY2019's approximately RMB439.1 million to approximately RMB462.6 million in FY2020 amidst COVID-19 pandemic during FY2020 and the general retracting market trend on the demand of feeder cables. In particular, the increase in sales of feeder cables is due to the additional demand from newly constructed buildings and the new signal coverage implementation on 4G as the roll out of 5G has been delayed during FY2020.

Included in the segment revenue of Radio Frequency Coaxial Cables are the revenue from leaky cables of approximately RMB159.90 million for FY2020, representing a slight decrease of approximately RMB9.1 million or 5.4% from approximately RMB169.0 million in FY2019. 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 Radio Frequency Coaxial Cables products. The decrease in demand for leaky cables is mainly due to the weak market demand during FY2020.

In FY2020, the overall gross profit margin of Radio Frequency Coaxial Cables decreased by approximately 0.2 percentage point as compared with that of FY2019 due to the slight decrease of the gross profit margin of leaky cables by approximately 0.7 percentage point as compared with that of FY2019. Contrary to leaky cable, the gross profit margin of Radio Frequency Coaxial Cables (feeder cables) has recorded an increase of approximately 0.4 percentage point amidst the general poor market situation in FY2020. During FY2020, the Group has continued to increase its effort in business transformation, and also allocated more resources to consolidate its position in existing Radio Frequency Coaxial Cables (feeder and leaky cables) markets in preparation for the development in the near future.

Telecommunication Equipment and Accessories

Revenue generated from the segment of Telecommunication Equipment and Accessories decreased by approximately RMB78.5 million or approximately 23.0% from approximately RMB341.4 million in FY2019 to approximately RMB262.9 million in FY2020. The significant decrease in the revenue from Telecommunication Equipment and Accessories is because the COVID-19 pandemic has delayed the demand on the related products and the holding up of purchase orders on 4G related products from various telecommunication operators in China.

Antennas

Revenue generated from Antennas during FY2020 was approximately RMB207.1 million and the revenue of Antennas during FY2019 was approximately RMB396.7 million, representing a decrease of approximately RMB189.6 million or approximately 47.8%. As 4G products entered its life cycle tail stage with 5G products in its initial commercialization phase, the unsatisfactory development of the 5G related overall antenna market has caused the poor performance of the Group's Antennas business. On the 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 decreased by approximately RMB35.4 million or approximately 43.0% from approximately RMB82.3 million during FY2019 to approximately RMB46.9 million during FY2020, of which the significant decrease was mostly attributable to the significant decrease in the sales of HTRC during FY2020. Such decrease was mainly because of the weak demand due to COVID-19 pandemic and slow development of 5G telecommunication and declining 4G market.

Gross profit margin

The Group achieved an overall gross profit margin of approximately 22.9% during FY2020 compared to approximately 23.7% during FY2019, representing a decrease of approximately 0.8 percentage point year-on-year. As mentioned above, although facing intense market competition and declining market demand amid COVID-19 pandemic, overall gross profit margin of Radio Frequency Coaxial Cables (feeder and leaky cables) has only decreased slightly by approximately 0.2 percentage points year-on-year with gross profit contribution increased by approximately RMB1.6 million year-on-year.

The gross profit margin of Telecommunication Equipment and Accessories has increased by approximately 1.0 percentage point from FY2019's 27.9% to approximately 28.9% in FY2020. However, the gross profit margin of Antennas has decreased by approximately 2.6 percentage points from FY2019's 26.4% to approximately 23.8% in FY2020 because the Antennas sold in FY2019 generally have higher profitability. As a result, the overall gross profit margin of the Group has recorded a decrease due to the mixed performance of the various products segments as discussed above.

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. The Group will also review its products mix and business transformation process in order to strive for a further enhancement in product profitability.

Other operating income

Other operating income increased by approximately RMB22.7 million or approximately 64.0% from approximately RMB35.5 million in FY2019 to approximately RMB58.2 million in FY2020. The increase is primarily due to:

(i) increase in government grants and subsidies of approximately RMB6.7 million;

(ii) increase in interest income earned of approximately RMB0.8 million due to the increase in average cash and cash equivalents and time deposits balances during FY2020 as compared with FY2019; and

(iii) net exchange gain of approximately RMB14.5 million for FY2020 as compared with the net exchange loss of approximately RMB0.4 million for FY2019 which was classified as other operating expenses.

Selling and distribution expenses

Selling and distribution expenses decreased by approximately RMB21.3 million or approximately 18.6% from approximately RMB114.7 million in FY2019 to approximately RMB93.4 million in FY2020 due to the decrease in salary expenses under selling and distribution expenses and the decrease in transportation costs and marketing expenses as a result of the decrease in revenue amid COVID-19 pandemic during FY2020.

Administrative expenses

Administrative expenses decreased by approximately RMB6.2 million or approximately 13.7% from approximately RMB45.4 million in FY2019 to approximately RMB39.2 million in FY2020. The decrease is mainly due to the decrease in staff costs attributable to a decrease in the number of staff of the Group in FY2020, as well as a decrease in annual incentives payable to our staff in light of the decrease in profit.

Impairment loss on trade and other receivables

There was no impairment loss on trade and other receivables in FY2020.

Other operating expenses

Other operating expenses increased by approximately RMB32.8 million or approximately 48.2% from approximately RMB68.0 million in FY2019 to approximately RMB100.8 million in FY2020. Such increase is mainly due to (i) an increase in research and development ("**R&D**") expenses incurred from continuing R&D activities undertaken for the modifications and improvements to the Group's products of approximately RMB4.7 million; (ii) the net loss on commodity future contracts of approximately RMB7.2 million in FY2020; and (iii) the loss on fair value change for derivative financial liability of approximately RMB20.0 million in FY2020.

Interest expense

Interest expense decreased by approximately RMB2.0 million or approximately 13.3% from approximately RMB15.0 million in FY2019 to approximately RMB13.0 million in FY2020, mainly because of the decrease in average short-term loans balance during FY2020 and the decrease in average interest rates of such short-term loans during FY2020.

Profit before tax

Profit before tax decreased by approximately RMB57.4 million or approximately 44.2% from approximately RMB130.0 million in FY2019 to approximately RMB72.6 million in FY2020.

Income tax expense

The Group's main subsidiary, Jiangsu Hengxin Technology Co., Ltd. ("**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 RMB4.4 million or approximately 26.5% from approximately RMB16.6 million in FY2019 to approximately RMB12.2 million in FY2020, mainly due to the significant decrease in operating profit as compared with FY2019.

Profit Attributable to Equity Shareholders of the Company

In view of the above, profit attributable to equity shareholders of the Company decreased approximately RMB52.2 million or approximately 46.0% from approximately RMB113.5 million in FY2019 compared to approximately RMB61.3 million in FY2020.

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 decreased by approximately RMB313.0 million or approximately 38.2% from approximately RMB820.3 million as at 31 December 2019 to approximately RMB507.3 million as at 31 December 2020.

Average trade receivables turnover days was 216 days as at 31 December 2020 compared to 202 days as at 31 December 2019. The increase in trade and bills receivables turnover by approximately 14 days was mainly because COVID-19 pandemic during the first quarter of FY2020 has affected the settlement arrangement of the Group's customers. On the gradual resumption of business and uplift of pandemic preventive measures since the second quarter of 2020, customers have resumed their settlement arrangement. Thus, ther Group recorded a slightly longer average turnover days during FY2020 as COVID-19 has affected the general payment arrangement of certain customers of the Group. Although the collection of trade receivables from certain customers of the Group had been stretched longer due to reasons mentioned above, 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 2020, approximately 72.1% of the trade and bills receivables are within the credit period given as compared with that of approximately 74.2% as at 31 December 2019.

For long overdue trade receivables, as at 31 December 2020, approximately 12.8% were overdue by more than six months (as compared with 5.8% as at 31 December 2019). The trade receivables that were overdue by more than six months were mostly non-operator customers. Considering the Group's long-standing dealings with these customers 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 RMB5.1 million or approximately 7.8% from approximately RMB65.1 million as at 31 December 2019 to approximately RMB70.2 million as at 31 December 2020. The increase was mainly due to the increase in prepayment on input tax to be certified and decrease in advance payment to suppliers for the purchase of raw materials.

Inventories

Inventories (comprising raw materials, work-in-progress and finished goods) increased by approximately RMB11.9 million or approximately 12.6% from approximately RMB94.8 million as at 31 December 2019 to approximately RMB106.7 million as at 31 December 2020. The increase was mainly due to the increase in finished goods in anticipation of the increase in demand for the products of the Group and the improvement in business environment after FY2020.

Short-term loans

Short-term loans were raised with an aim to enhance the working capital position of the Group. Short-term loans as at 31 December 2020 with fixed interest rates will become due for repayment during the first half of year 2021.

Trade and other payables

(i) Trade payables increased by approximately RMB7.1 million or approximately 7.4% from approximately RMB96.4 million as at 31 December 2019 to approximately RMB103.5 million as at 31 December 2020. The increase is mainly in line with the increase in inventories in response to the expected recovery and market demand of the Group's products in year 2021.

(ii) Other payables decreased by approximately RMB11.3 million or approximately 13.0% from approximately RMB86.8 million as at 31 December 2019 to approximately RMB75.5 million as at 31 December 2020 mainly due to the decrease in accrual for staff incentives and contract liabilities and the increase in accrual for interest expense.

Cash and cash equivalents and time deposits

Cash and cash equivalents and time deposits increased by approximately RMB340.5 million or approximately 33.5% from approximately RMB1,016.6 million as at 31 December 2019 to approximately RMB1,357.1 million as at 31 December 2020. The significant increase is mainly due to the collections from trade and bills receivables during FY2020.

SUBSIDIARIES

The subsidiaries of the Company are Jiangsu Hengxin, Jiangsu Hengxin Wireless Technology Co., Ltd, Hengxin Technology (India) Pvt Ltd, Hengxin Technology International Co., Limited and Jiangsu Hengxin Zhonglian Communications Technology Co., Ltd..

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 entered into certain forward contracts as at the end of the Reporting Period on hedging the expected fluctuations of the exchange rate of USD and will continue to monitor foreign exchange exposure and consider hedging other significant foreign currency exposure should the need arise.

DONATION AND CAPITAL COMMITMENTS

As at 31 December 2020, the capital commitments of the Group in respect of the purchase of property, plant and equipment were approximately RMB285,000 (2019: approximately RMB1,474,000).

The Group's PRC subsidiary has signed an intention letter 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 2020, the donation commitment was approximately RMB3,000,000 (2019: approximately RMB3,500,000).

CHARGE OR PLEDGE OF ASSETS

As at 31 December 2020, deposits amounting to RMB10,600,000 (2019: RMB12,449,000) 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 1.39% (2019: 1.39%) per annum and for a tenure of approximately 4 to 60 months (2019: 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.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2020, the Group's total assets were approximately RMB2,227,781,000 (2019: RMB2,192,853,000) (of which current assets were approximately RMB2,041,293,000 (2019: RMB1,996,765,000) and non-current assets were approximately RMB186,488,000 (2019: RMB196,088,000)), the total liabilities were approximately RMB495,367,000 (2019: RMB510,744,000) (of which current liabilities were approximately RMB480,982,000 (2019: RMB496,551,000) and non-current liabilities were approximately RMB14,385,000 (2019: RMB14,193,000)), and shareholder's equity attributable to equity shareholders of the Company reached approximately RMB1,730,286,000 (2019: RMB1,682,109,000). As at 31 December 2020, the Group's cash and cash equivalents and time deposits were approximately RMB1,357,073,000 (31 December 2019: approximately RMB1,016,600,000). The Group's time deposits were all due more than three months. As at 31 December 2020, the Group has short-term bank borrowings due within one year of RMB278,371,000 (2019: RMB310,000,000) carrying fixed interest rate. At 31 December 2020, the Group had approximately RMB1,616,036,000 (2019: RMB1,507,434,000) of unutilised bank borrowing facilities.

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

The Group manages its capital to ensure that 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.

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 (total liabilities divided by total assets) at the end of the Reporting Period is as follows:

	As at 31 December 2020 RMB'000	2019 RMB'000
Total liabilities	495,367	510,744
Total assets	2,227,781	2,192,853
Debt-to-assets ratio	22%	23%

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
2020					
Derivative financial liability					
Derivative financial liability	19,954	–	–	19,954	19,954
Non-derivative financial liabilities					
Short-term loans	281,458	–	–	281,458	278,371
Trade and other payables#	166,002	–	–	166,002	166,002
Lease liabilities	1,038	661	84	1,783	1,730
Subtotal	448,498	661	84	449,243	446,103
At 31 December 2020	468,452	661	84	469,197	466,057

	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

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 2020.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2020, there were 772 (31 December 2019: 824) 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 to eligible staff based on their performance and contributions to the Group.

MATERIAL LITIGATION AND ARBITRATION

As at 31 December 2020, the Group was not involved in any material litigation or arbitration.

DISCLOSEABLE TRANSACTIONS DURING THE REPORTING PERIOD

During the year ended 31 December 2020, the Company has not carried out any discloseable transaction.

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 FY2020:

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 FY2020 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 FY2020.	(i) To strengthen the effort on research and development and market exploration for high profit margin products like 5G 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.

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 emerging 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 FY2020.

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 FY2020, 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 10 October 2019, Jiangsu Hengxin Technology Co., Ltd. ("**Jiangsu Hengxin**") entered into a raw materials purchase master agreement (the "**2020 Purchase Agreement**") with Suzhou Hengli Telecommunications Materials Co., Ltd. ("**Suzhou Hengli**") in relation to the purchase of raw materials for a term up commencing from 1 January 2020 to 31 December 2022, 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 2020, 2021 and 2022 are RMB50,000,000. During the year ended 31 December 2020, the aggregate net amount paid by the Group for the purchase of the raw materials under the 2020 Purchase Agreement amounted to approximately RMB21,969,556 (excluding VAT payable to the State Administration of Taxation of the PRC).

PRODUCT SALES MASTER AGREEMENT

On 10 October 2019, Jiangsu Hengxin entered into a products sales master agreement (the "**2020 Sales Agreement**") with Suzhou Hengli pursuant to which the Group will provide its products, such as radio frequency coaxial cable series for mobile communications, telecommunications equipment and accessories, high temperature resistant cables and antennas, to Suzhou Hengli on terms no less favourable than those offered by independent third parties.

The annual caps in respect of the transactions under the 2020 Sales Agreement for each of the years ended 31 December 2020, 2021 and 2022 are RMB10,000,000. During the year ended 31 December 2020, the aggregate net amount received by the Group for the sales of its products under the 2020 Sales Agreement amounted to approximately RMB7,745,686 (excluding VAT payable to the State Administration of Taxation of the PRC).

LISTING RULES' IMPLICATIONS

In compliance with Chapter 14A of the Listing Rules, the respective annual caps under the 2020 Purchase Agreement and the 2020 Sales Agreement (collectively, the "**2020 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 2020 CCT Agreements exceeds 5%, the 2020 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 2020 CCT Agreements at the Company's extraordinary general meeting held on 17 December 2019 respectively.

The price and the terms of the 2020 CCT Agreements have been determined in accordance with the pricing policies and guideline set out in the circular of the Company dated 22 November 2019.

BACKGROUND OF HENGTONG GROUP, SUZHOU HENGLI AND HENGTONG

SE 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 11.23% by Hengtong Group Co., Ltd. (亨通集團有限公司) ("**Hengtong Group**"), which is beneficially owned by Mr. Cui Genliang and Mr. Cui Wei as to 90.0% and 10.0% 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託聯合總公司), 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, and an EMBA degree from Nanjing University in July 2020. 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.

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 of Jiangsu Hengxin Technology Co., Ltd. since its establishment in June 2003.

Prior to that, between 1982 and 1988, she was the manager of the metals branch at Sichuan Agricultural Machinery Supply and Sales Co. Ltd (四川省農機供銷總公司) 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 Chartered 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.

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 SEHK) 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 SEHK).

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 SEHK. 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 SEHK. 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) and Renco Holdings Group Limited (Stock Code: 2323), all the above companies are listed on the main board of SEHK. Mr. Lau is also the independent non-executive director of Sinopharm Tech Holdings Limited (Stock Code: 8156, a company listed on the GEM of SEHK). 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 SEHK) and the independent non-executive director of Winto Group (Holdings) Limited (Stock Code: 8238, a company listed on the GEM of SEHK) 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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Kowloon, Hong Kong

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

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

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

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

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

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

AUTHORISED REPRESENTATIVES
Mr. Du Xiping
Mr. Lai Yang Chau, Eugene

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Jiangsu Province, The PRC

SEHK 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 FY2020, 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.

(A) BOARD MATTERS

The Board's Conduct of Affairs

As at 31 December 2020, the Board comprises of two Executive Directors, two Non-Executive Directors, and three Independent Non-Executive Directors. During FY2020, 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 fulfil 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.

During FY2020, 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		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
Cui Wei	1	1	4	4	4	3	1	1	1	1
Du Xiping	1	1	4	4	NA	NA	NA	NA	1	1
Xu Guoqiang	1	1	4	4	NA	NA	1	1	NA	NA
Zhang Zhong	1	1	4	4	4	4	NA	NA	NA	NA
Tam Chi Kwan Michael	1	1	4	4	4	4	1	1	1	1
Pu Hong	1	1	4	4	4	4	1	1	1	1
Dr. Li Jun	1	1	4	4	4	4	1	1	1	1

(NA: Not applicable)

Matters Reserved for Board Approval

Board approval is required for matters such as corporate restructuring, mergers and acquisitions, major investments, material acquisitions and disposals of assets, major corporate policies on key areas of operations, release of the Group's half-yearly results, full-year results, interim report and annual report, preparation of ESG 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 FY2020, 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 FY2020 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 FY2020, 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 2020	NA
Du Xiping	Executive Director	31 December 2015	28 April 2020	NA
Xu Guoqiang	Executive Director	20 December 2011	26 April 2019	Yes
Zhang Zhong	Non-Executive Director	23 June 2005	28 April 2020	NA
Tam Chi Kwan Michael	Independent Non-Executive Director	10 December 2010	26 April 2019	NA
Pu Hong	Independent Non-Executive Director	6 March 2015	26 April 2019	Yes
Dr. Li Jun	Independent Non-Executive Director	6 March 2015	28 April 2018	Yes

(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 Nomination Committee also reviews the number of years of service of each independent non-executive Directors so as to balance the benefits from the ability of that independent non-executive Director to stay independent and to bring fresh perspectives to the Board and the necessity of board refreshment and succession planning due to the issues arising from the presence of long-serving independent non-executive Directors.

As Mr. Tam Chi Kwan Michael has served as an independent non-executive director of the Company for more than nine year, the Company wishes to confirm that Mr. Tam Chi Kwan Michael has not engaged in any executive management of the Group during his whole term of service. Taking into consideration of his independent scope of work in the past years, the Directors consider Mr. Tam Chi Kwan Michael to be independent under the Listing Rules despite the fact that he has served the Company for more than nine years. Mr. Tam Chi Kwan Michael has confirmed that he will continue to devote sufficient time for the discharge of his functions and responsibilities as an independent non-executive Director. The Board also believes that Mr. Tam Chi Kwan Michael's continued tenure brings considerable stability to the Board and the Board has benefited greatly from the presence of Mr. Tam Chi Kwan Michael who has over time provided valuable independent view on matters relating to the internal control and risk management of the Group.

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 27 to 29 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 FY2020, 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 FY2020 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 FY2020 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. Xu Guoqiang, Mr. Pu Hong and Dr. Li Jun 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 27 to 29 of the Annual Report.

The Nomination Committee has considered the level of commitment of each Director serving on multiple boards. For FY2020, 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 FY2020.

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 FY2020 are based on the Directors' attendance at meetings held during FY2020 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 FY2020 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 FY2020, 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 and was expired during FY2020 on 26 October 2020.

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 its expiry during FY2020 on 26 October 2020.

(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 FY2020, 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 FY2020, 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 four meetings during FY2020 to discuss and review the following where applicable:

- to monitor the work conducted by KPMG and 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 2019, KPMG and Messrs KPMG LLP have 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 auditor of the Company in Hong Kong for FY2020 and the proposed appointment of Messrs KPMG LLP as the auditor of the Company in Singapore for FY2020;

- to discuss with KPMG and Messrs KPMG LLP on the audit planning for FY2020;

- 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 Audit Committee is satisfied with the independence and objectivity of KPMG and Messrs KPMG LLP as the external auditors of the Company during FY2020 and has recommended to the Board the re-appointment of KPMG and Messrs KPMG LLP. KPMG and Messrs KPMG LLP have been re-appointed as the external auditors of the Company for Hong Kong reporting and Singapore statutory reporting respectively at the AGM held on 28 April 2020.

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 FY2020. 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 re-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.

During FY2020, the Audit Committee has convened four meetings and has performed its functions in accordance with its Terms of Reference and the Hong Kong Code.

Directors' and Auditors' Responsibilities for Financial Statements

The Directors 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 FY2020, 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 63 to 68 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 FY2020.

During FY2020, the total remuneration in respect of the review and audit services provided by KPMG and Messrs KPMG LLP for the Group amounted to approximately RMB1,685,000.

During FY2020, 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 FY2020.

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 FY2020, 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 held during FY2020 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 FY2020.

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 continuing connected transactions during FY2020.

Details of the continuing connected transactions for FY2020 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 FY2020.

FINANCIAL CONTENTS

Directors' Report

The directors submit herewith their annual report together with the audited financial statements for the year ended 31 December 2020.

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 2, 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 8 and pages 11 to 22 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	20%	
Five largest customers in aggregate	51%	
The largest supplier		17%
Five largest suppliers in aggregate		55%

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 2020 are set out in the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income on pages 69 and 70 of this Annual Report.

The financial position of the Group as at 31 December 2020 is set out in the consolidated statement of financial position of the Group on pages 71 to 72 of this Annual Report. The financial position of the Company as at 31 December 2020 is set out in Note 33 to the financial statement on page 147 of this Annual Report.

The cash flows of the Group for the year ended 31 December 2020 are set out in the consolidated cash flow statement on pages 74 to 75 of this Annual Report.

RECOMMENDED DIVIDEND

A final dividend of RMB0.0292 per share in respect of the FY2019 was paid during FY2020 (2019: RMB0.0457 per share). The directors now recommend the payment of a final dividend of RMB0.0158 per share (2019: RMB0.0292 per share) in respect of the year ended 31 December 2020.

CHARITABLE DONATIONS

The Group had made donations amounting approximately RMB950,000 during FY2020 (2019: approximately RMB830,000).

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 2020, the aggregate amount of reserves available for distribution to equity shareholders of the Company was RMB129,285,000 (2019: RMB152,592,000).

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. Xu Guoqiang, Mr. Li Jun and Mr. Pu Hong shall retire from the board by rotation at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

No director 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 normal statutory obligations.

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

As at 31 December 2020, the interests and short positions of the Directors and chief executives of the Company in shares and underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "**SFO**")), which are required to be notified to the Company and the SEHK pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are deemed or taken to have under such provisions of the SFO) or which are required to be entered into, as recorded in the register required to be kept by the Company pursuant to Section 352 of Part XV of the SFO, or as otherwise notified to the Company and the SEHK pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules, were as follows:

Long positions in the Company:

Name of Directors	Capacity and nature of interests	Number of ordinary shares held	Approximate percentage of the Company's issued share capital
Mr. Cui Wei[(1)]	Deemed interest and interest in controlled corporation	96,868,662	24.97%
Ms. Zhang Zhong[(2)]	Deemed interest and interest in controlled corporation	28,082,525	7.24%
Mr. Du Xiping	Beneficial owner	11,468,000	2.96%
Mr. Xu Guoqiang[(3)]	Beneficiary of a trust	9,380,000	2.42%

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.

(3) The shareholding of Mr. Xu Guoqiang represented his interest as a beneficiary and also the staff representative of the Employee Equity Incentive Scheme under a capacity of limited partner. For details, please refer to the previous 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.

Short position in the Company:

Name of Director	Capacity and nature of interests	Number of ordinary shares held	Approximate percentage of the Company's issued share capital
Ms. Zhang Zhong[1]	Deemed interest and interest in controller corporation	12,000,000	3.09%

Note:

(1) Ms. Zhang Zhong is deemed to have short position in the Company through her interest in the entire issued share capital of Wellahead.

Saved as disclosed above, as at 31 December 2020, none of the Directors and chief executives of the Company nor their associates had or deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which has been recorded in the register maintained by the Company pursuant to Section 352 of Part XV of the SFO or which has been notified to the Company and the SEHK pursuant to the Model Code.

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

As at 31 December 2020, in so far as is known to the Directors, the following shareholders having interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of Part XV of the SFO:

Long positions in the Company:

Name 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%
Mr. Cui Wei[1]	Deemed interest and interest in controlled corporation	96,868,662	24.97%
Wellahead[2]	Beneficial owner	28,082,525	7.24%
Ms. Zhang Zhong[2]	Deemed interest and interest in controlled corporation	28,082,525	7.24%

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
Wellahead[(2)]	Beneficial owner	12,000,000	3.09%
Ms. 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, 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, the entire issued share capital of which is beneficially owned by Ms. Zhang Zhong.

Saved as disclosed above, as at 31 December 2020, no person, other than the Directors, whose interests are set out in the paragraph headed "Directors' and Chief Executives' Interests and Short Positions in Shares and Underlying Shares and Debentures" above, had an interest or short position in the shares or underlying shares of the Company that was required to be recorded in the register required to be kept by the Company under Section 336 of Part XV of the SFO.

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 the Reporting Period nor at any time during the Reporting Period did there subsist any arrangement which enable the Directors of the Company to acquire benefits by means of acquisition of shares or debentures in the Company or any other body corporate, except for the employee equity incentive scheme (the "**Incentive Scheme**") adopted by the Company at its extraordinary general meeting held on 26 April 2019. For details of the Incentive Scheme, please refer to the previous 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.

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. The Share Option Scheme adopted was expired on 26 October 2020 and no option has been granted under the Share Option Scheme since its adoption and up to its expiry date.

* 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 2020, 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 2020, there were no unissued shares of the Company or any corporation in the Group under options.

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. Du Xiping had been renewed for a term of another three years commencing on 31 December 2019. The service agreement for Mr. Xu Guoqiang had been renewed for a term of another three years commencing on 20 December 2020.

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 as disclosed in the sections headed "Share Options" 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 2020 are set out in Note 24 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 2020 neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares.

EMPLOYEES

As at 31 December 2020, we employed 772 (2019: 824) people on a full-time basis, among whom, 57 were in product research and development, 84 were in sales and marketing, 513 were in manufacturing and distribution, and 118 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 Technology Co., Ltd. ("**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

During the financial year ended 31 December 2020, 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.

AUDITORS

KPMG was first appointed as auditors of the Company 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.

KPMG and Messrs KPMG LLP retire and, being eligible, offer themselves for re-appointment. 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 2021

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 69 to 148, which comprise the consolidated statement of financial position as at 31 December 2020, 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 2020 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.

Revenue recognition

Refer to Note 6 to the consolidated financial statements and the accounting policies on pages 91 to 92.

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 manipulating the timing of revenue recognition 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 revenue recognition 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.

Expected credit loss allowance for trade receivables

Refer to Note 20 to the consolidated financial statements and the accounting policies on pages 82 to 87.

The Key Audit Matter	How the matter was addressed in our audit
As at 31 December 2020, the Group's gross trade receivables amounted to RMB469 million, against which an allowance of RMB10 million for expected credit losses (ECL) was recorded. Management measures the loss allowance at an amount equal to lifetime ECL of the trade receivables based on estimated loss rates for each category of trade receivables grouped according to the shared credit risk characteristics. The estimated loss rates take into account the ageing of trade receivable balances, the repayment history of the Group's customers, current market conditions, customer-specific conditions, and forward-looking information. Such assessment involves significant management judgement. We identified the expected credit 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 expected credit loss allowance for trade receivables included the following: • obtaining an understanding of and assessing the design, implementation and operating effectiveness of management's key internal controls relating to credit control, segmentation of trade receivables, estimation of expected credit losses and recording of related allowances; • evaluating the Group's policy for estimating the credit loss allowance with reference to the requirements of the prevailing accounting standard; • obtaining an understanding of the key data and assumptions of the expected credit loss model adopted by management, including the basis of the segmentation of the trade receivables based on shared credit risk characteristics, the historical default data, and the assumptions involved in management's estimated loss rate; • assessing the appropriateness of management's estimates of loss allowance by examining the information used by management to derive such estimates, including testing the accuracy of the historical default data and evaluating whether the historical loss rates are appropriately adjusted based on current market conditions, customer-specific conditions and forward-looking information; • assessing, on a sample basis, whether items in the trade receivables ageing report were classified within the appropriate ageing category by comparing individual items with underlying sales invoices; and • re-performing the calculation of the loss allowance as at 31 December 2020 based on the Group's credit loss allowance policies.

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.

Independent Auditors' Report (cont'd)

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, actions taken to eliminate threats or safeguards applied.

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.

Certified Public Accountants

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

16 March 2021

Consolidated Statement of Profit or Loss

For the year ended 31 December 2020 *(Expressed in Renminbi ("RMB"))*

	Notes	2020 RMB'000	2019 RMB'000
Revenue	6	**1,139,341**	1,428,564
Cost of sales		**(878,579)**	(1,090,208)
Gross profit		**260,762**	338,356
Other operating income	7	**58,186**	35,476
Selling and distribution expenses		**(93,405)**	(114,708)
Administrative expenses		**(39,215)**	(45,389)
Impairment loss on trade and other receivables		**–**	(641)
Other operating expenses	8	**(100,760)**	(68,041)
Profit from operations		**85,568**	145,053
Interest expense	9(a)	**(12,964)**	(15,024)
Profit before taxation	9	**72,604**	130,029
Income tax	10	**(12,177)**	(16,558)
Profit for the year		**60,427**	113,471
Attributable to:			
Equity shareholders of the Company		**61,299**	113,471
Non-controlling interest		**(872)**	–
Profit for the year		**60,427**	113,471
Earnings per share attributable to equity shareholders of the Company (RMB)	14		
Basic and diluted		**0.158**	0.292
Dividends per share (RMB)		**0.0158**	0.0292

The notes on pages 76 to 148 form part of these financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2020 *(Expressed in Renminbi ("RMB"))*

	Notes	2020 RMB'000	2019 RMB'000
Profit for the year		60,427	113,471
Other comprehensive income for the year (after tax and reclassification adjustments)			
Item 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	(680)	(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	(1,112)	(118)
Other comprehensive income for the year		(1,792)	(1,138)
Total comprehensive income for the year		58,635	112,333
Attributable to:			
Equity shareholders of the Company		59,507	112,333
Non-controlling interest		(872)	–
Total comprehensive income for the year		58,635	112,333

The notes on pages 76 to 148 form part of these financial statements.

Consolidated Statement of Financial Position

At 31 December 2020 *(Expressed in Renminbi ("RMB"))*

	Notes	31 December 2020 RMB'000	31 December 2019 RMB'000
Non-current assets			
Property, plant and equipment	15	167,495	177,748
Interest in an associate	17	–	–
Other investments	18	8,847	9,647
Deferred tax assets	28(b)	10,146	8,693
		186,488	196,088
Current assets			
Inventories	19	106,742	94,847
Trade and other receivables	20	577,478	885,354
Time deposits with original maturity more than 3 months	21	470,000	400,000
Cash and cash equivalents	22	887,073	616,564
		2,041,293	1,996,765
Current liabilities			
Trade and other payables	23	179,019	183,230
Short-term loans	24	278,371	310,000
Derivative financial liability	25	19,954	–
Lease liabilities	27	1,027	828
Income tax payable	28(a)	2,611	2,493
		480,982	496,551
Net current assets		1,560,311	1,500,214
Total assets less current liabilities		1,746,799	1,696,302

The notes on pages 76 to 148 form part of these financial statements.

Consolidated Statement of Financial Position (cont'd)

At 31 December 2020 *(Expressed in Renminbi ("RMB"))*

	Notes	31 December 2020 RMB'000	31 December 2019 RMB'000
Non-current liabilities			
Deferred income	26	6,341	6,255
Lease liabilities	27	703	958
Deferred tax liability	28(b)	7,341	6,980
		14,385	14,193
NET ASSETS		1,732,414	1,682,109
CAPITAL AND RESERVES			
Share capital	29(c)	295,000	295,000
General reserves	29(d)	262,923	252,344
Special reserve	29(d)	(6,017)	(6,017)
Fair value reserve	29(d)	(1,530)	(850)
Translation reserves	29(d)	(2,653)	(1,541)
Accumulated profits		1,182,563	1,143,173
Total equity attributable to equity shareholders of the Company		1,730,286	1,682,109
Non-controlling interest		2,128	–
TOTAL EQUITY		1,732,414	1,682,109

Approved and authorised for issue by the board of directors on 16 March 2021.

Du Xiping
Directors

Xu Guoqiang
Directors

The notes on pages 76 to 148 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2020 *(Expressed in Renminbi ("RMB"))*

	Notes	Share capital RMB'000	General reserves RMB'000	Special reserve RMB'000	Fair value reserve RMB'000	Translation reserves RMB'000	Accumulated profits RMB'000	Total RMB'000	Non-controlling interest RMB'000	Total RMB'000
		Attributable to equity shareholders of the Company								
Balance at 1 January 2019		295,000	233,658	(6,017)	170	(1,423)	1,066,120	1,587,508	–	1,587,508
Changes in equity for 2019:										
Profit for the year		–	–	–	–	–	113,471	113,471	–	113,471
Other comprehensive income for the year		–	–	–	(1,020)	(118)	–	(1,138)	–	(1,138)
Total comprehensive income		–	–	–	(1,020)	(118)	113,471	112,333	–	112,333
Dividends paid	29(b)	–	–	–	–	–	(17,732)	(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	–	1,682,109

	Notes	Share capital RMB'000	General reserves RMB'000	Special reserve RMB'000	Fair value reserve RMB'000	Translation reserves RMB'000	Accumulated profits RMB'000	Total RMB'000	Non-controlling interest RMB'000	Total RMB'000
		Attributable to equity shareholders of the Company								
Changes in equity for 2020:										
Profit for the year		–	–	–	–	–	61,299	61,299	(872)	60,427
Other comprehensive income for the year		–	–	–	(680)	(1,112)	–	(1,792)	–	(1,792)
Total comprehensive income		–	–	–	(680)	(1,112)	61,299	59,507	(872)	58,635
Non-controlling shareholder's contributed capital		–	–	–	–	–	–	–	3,000	3,000
Dividends paid	29(b)	–	–	–	–	–	(11,330)	(11,330)	–	(11,330)
Transfer to general reserves	29(d)	–	10,579	–	–	–	(10,579)	–	–	–
Balance at 31 December 2020		295,000	262,923	(6,017)	(1,530)	(2,653)	1,182,563	1,730,286	2,128	1,732,414

The notes on pages 76 to 148 form part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2020 *(Expressed in Renminbi ("RMB"))*

	Notes	2020 RMB'000	2019 RMB'000
Operating activities			
Profit before tax		72,604	130,029
Adjustments for:			
Impairment loss on trade and other receivables	9(c)	–	641
Amortisation of deferred income		(1,989)	(1,451)
Depreciation of property, plant and equipment	9(c)	28,267	21,404
Interest expense	9(a)	12,964	15,024
Interest income	7	(21,245)	(20,445)
Net foreign exchange gain		(19,954)	–
Net loss on derivative financial liability	8	19,954	–
Gain on disposal of property, plant and equipment	7	(107)	(260)
Write-off of property, plant and equipment	8	120	–
Reversal of stock obsolescence provision	9(c)	–	(135)
		90,614	144,807
Changes in working capital:			
Inventories		(12,931)	74,008
Trade and other receivables		305,924	(97,733)
Trade and other payables		(5,633)	(19,326)
Cash generated from operations		377,974	101,756
Interest received		11,060	9,268
Income taxes paid	28(a)	(13,031)	(28,090)
Net cash generated from operating activities		376,003	82,934

The notes on pages 76 to 148 form part of these financial statements.

Consolidated Statement of Cash Flows (cont'd)

For the year ended 31 December 2020 *(Expressed in Renminbi ("RMB"))*

	Notes	2020 RMB'000	2019 RMB'000
Investing activities			
Acquisition of property, plant and equipment		(17,410)	(18,560)
Proceeds from disposal of property, plant and equipment		344	1,045
Payment for time deposits		(970,000)	(757,498)
Proceeds from time deposits		900,000	357,498
Interest received from time deposits		10,185	11,177
Changes in pledged bank deposits		13,621	17,233
Net cash used in investing activities		(63,260)	(399,105)
Financing activities			
Proceeds from non-controlling shareholder's contributed capital		3,000	–
Dividends paid to shareholders of the Company	29(b)	(11,330)	(17,732)
Capital element of lease rentals paid	22(b)	(1,065)	(883)
Interest element of lease rentals paid	22(b)	(70)	(82)
Other interest expense paid	22(b)	(6,841)	(14,942)
Proceeds from short-term bank loans	22(b)	298,325	310,000
Repayment of short-term bank loans	22(b)	(310,000)	(315,000)
Net cash used in financing activities		(27,981)	(38,639)
Net increase/(decrease) in cash and cash equivalents		284,762	(354,810)
Effects of foreign exchange translation		(632)	3
Cash and cash equivalents at the beginning of the financial year		592,096	946,903
Cash and cash equivalents at the end of the financial year	22	876,226	592,096

The notes on pages 76 to 148 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 registered office is 5 Tampines Central 1, #06-05 Tampines Plaza 2, Singapore 529541. The principal place of business of the Group is located at No. 138 Taodu Road, Dingshu Town, Yixing City, Jiangsu Province, the People's Republic of China (the "**PRC**"). 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 2020 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 16 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 2020 comprise the Group's subsidiaries 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.

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.

2 BASIS OF PREPARATION (cont'd)

(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 and non-controlling interest

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.

Non-controlling interest represents the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the group can elect to measure any Non-controlling interest either at fair value or at the non-controlling interest' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interest is presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interest in the results of the Group is presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between Non-controlling interest and the equity shareholders of the Company. Loans from holders of Non-controlling interest and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with Note 3(m) or (n) depending on the nature of the liability.

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 interest within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(a) Subsidiaries and non-controlling interest (cont'd)

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.

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.

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(b) Associates (cont'd)

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)).

(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 accumulated profits. 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

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.

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.

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(g) Leased assets (cont'd)

As a lessee (cont'd)

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 lease liability is also remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract ("**lease modification**") that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification.

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.

(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.

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

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.

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.

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

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.

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).

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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

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

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.

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.

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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

(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).

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)).

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(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.

(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(r)).

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(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)).

(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.

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(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.

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.

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(p) Income tax (cont'd)

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 and contingent liabilities

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.

(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.

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(r) Revenue and other income (cont'd)

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 progressively over time using the output method.

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.

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.

(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 the following amendments to IFRSs that are first effective for the current accounting period of the Group:

- Amendments to IFRS 3, Definition of a Business
- Amendments to IFRS 9, IAS 39 and IFRS 7, Interest Rate Benchmark Reform
- Amendments to IAS 1 and IAS 8, Definition of Material
- Amendments to IFRS 16, COVID-19-Related Rent Concessions

None of these 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.

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:

	2020 RMB'000	2019 RMB'000
Radio Frequency Coaxial Cables	622,459	608,114
Telecommunication Equipment and Accessories	262,872	341,448
Antennas	207,139	396,654
Others	46,871	82,348
Total	1,139,341	1,428,564

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

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

	2020 RMB'000	2019 RMB'000
Customer A	228,921	–*
Customer B	164,658	306,556

* Transactions with this customer did not exceed 10% of the Group's revenue in the respective year.

6 REVENUE AND SEGMENT REPORTING (cont'd)

(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 most 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.

(i) Information about reportable segments

For the purposes of assessing segment performance and allocating resources between segments, the Group's most 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.

6 REVENUE AND SEGMENT REPORTING (cont'd)

(b) Segment reporting (cont'd)

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

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.

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 2020 and 2019 is set out below.

	Reportable segments					
	Radio Frequency Coaxial Cables	Telecom-munication Equipment and Accessories	Antennas	Total reportable segments	All other segments	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2020						
Disaggregated by timing of revenue recognition						
Point in time	622,459	262,872	207,139	1,092,470	44,936	1,137,406
Over time	–	–	–	–	1,935	1,935
Revenue from external customers	622,459	262,872	207,139	1,092,470	46,871	1,139,341
Segment profit before tax	28,985	39,421	2,922	71,328	2,494	73,822
Interest income	11,607	4,902	3,862	20,371	874	21,245
Interest expense	(7,063)	(2,983)	(2,350)	(12,396)	(532)	(12,928)
Depreciation and amortisation expense	(15,214)	(6,425)	(5,063)	(26,702)	(1,146)	(27,848)

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
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)

(ii) Reconciliations of reportable segment profit

	Group For the year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Profit before tax		
Total profit before tax for reportable segments	**71,328**	123,672
Profit before tax for other segments	**2,494**	2,033
Unallocated amounts:		
– Other income	**32,821**	15,032
– Other expenses	**(22,016)**	(1,368)
– Other unallocated amounts	**(12,023)**	(9,340)
	72,604	130,029

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
For the year ended 31 December 2020			
Depreciation and amortisation expense	**(27,848)**	**(419)**	**(28,267)**
For the year ended 31 December 2019			
Depreciation and amortisation expense	(21,085)	(319)	(21,404)

(iii) Geographic information

The Company is an investment holding company and the Group's major operational subsidiaries are domiciled in the 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 customer		Specified non-current assets As at	
	2020	2019	**31 December 2020**	31 December 2019
	RMB'000	RMB'000	**RMB'000**	RMB'000
PRC	**933,691**	1,228,711	**165,856**	174,970
India	**28,873**	27,974	**910**	1,628
Others	**176,777**	171,879	**729**	1,150
Total	**1,139,341**	1,428,564	**167,495**	177,748

Notes to the Financial Statements (cont'd)

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

7 OTHER OPERATING INCOME

	For the year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Compensation claims received	339	1,048
Government grants	18,037	11,368
Interest income	21,245	20,445
Service fee income	1,377	1,377
Net gain on disposal of property, plant and equipment	107	260
Net foreign exchange gain	14,503	–
Others	2,578	978
Total	58,186	35,476

8 OTHER OPERATING EXPENSES

	Group	
	2020	2019
	RMB'000	RMB'000
Donations	950	830
Research and development expenses	71,419	66,673
Net loss on write-off of property, plant and equipment	120	–
Net foreign exchange losses	–	419
Penalty expenses from customers	1,102	119
Net loss on commodity future contracts	7,215	–
Net loss on derivative financial liability	19,954	–
	100,760	68,041

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.

9 PROFIT BEFORE TAXATION

(a) Interest expense

	For the year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Interest expense on short-term bank loans	11,599	13,874
Interest on lease liabilities	70	82
Other interest expense	1,295	1,068
	12,964	15,024

(b) Staff costs

	2020	2019
	RMB'000	RMB'000
Salaries and bonus	108,810	116,912
Contributions to defined contribution plans	1,005	5,622
Executive directors' remuneration	2,408	2,190
Non-executive directors' fees	1,653	1,638
	113,876	126,362

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 2020, the contributions due in respect of the year that had not been paid over to the schemes were approximately RMB2,000 (2019: RMB441,000). The amounts were paid subsequent to the end of the reporting period.

9 PROFIT BEFORE TAXATION (cont'd)

(c) Other items

	Notes	2020 RMB'000	2019 RMB'000
Depreciation charge	15		
– owned property, plant and equipment		**25,847**	19,148
– right-of-use assets		**2,420**	2,256
		28,267	21,404
Variable lease payments not included in the measurement of lease liabilities	15(b)	**216**	617
Audit and related services fees paid to:			
– Member firms of KPMG International		**1,685**	1,585
– other auditors		**124**	232
		1,809	1,817
Impairment losses recognised/(reversal) of			
– trade and other receivables	20	**–**	641
– inventory	19(b)	**–**	(135)
		–	506
Cost of inventories#	19(b)	**878,579**	1,090,073

\# Cost of inventories includes RMB41,100,000 (2019: RMB58,853,000) 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:

	Notes	2020 RMB'000	2019 RMB'000
Current tax expense			
Current year		11,089	17,382
Under/(over) provision in prior years		2,060	(3,426)
		13,149	13,956
Deferred tax expense			
Reversal and origination of temporary differences	28(b)	(972)	2,602
Income tax expense		12,177	16,558

(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% (2019: 25%).

Jiangsu Hengxin and Jiangsu Hengxin Wireless Technology Co., Ltd. ("**Hengxin Wireless**"), are subject to a preferential income tax rate of 15% in 2020 available to enterprises which qualify as a High and New Technology Enterprise (2019: 15%).

(iii) Hong Kong Profits Tax has been provided for Hengxin Technology International Co., Ltd. ("**Hengxin International**") at the rate of 16.5% (2019: 16.5%) on the estimated assessable profits arising in Hong Kong for the year ended 31 December 2020.

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

	2020 RMB'000	2019 RMB'000
Profit before taxation	72,604	130,029
Tax using the PRC statutory t4ax rate of 25% (2019: 25%)	18,151	32,507
Effect of concessionary tax rate	(7,823)	(9,347)
Effect of tax rates in other jurisdictions	203	236
Recognition of tax effect of previously unrecognised tax losses	–	(1,860)
Tax effect of non-deductible expenses	3,095	5,439
Tax effect of unused tax losses not recognised	3,596	902
Additional deduction for qualified research and development costs	(7,466)	(8,520)
Under/(over) provision in prior years	2,060	(3,426)
Effect of withholding tax on interest from PRC subsidiaries	361	627
Actual income tax expense	12,177	16,558

Notes to the Financial Statements (cont'd)

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

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
2020					
Executive directors					
Du Xiping	–	871	215	–	1,086
Xu Guoqiang	–	579	707	36	1,322
Non-executive directors					
Cui Wei	427	–	–	–	427
Zhang Zhong	336	–	–	–	336
Independent non-executive directors					
Tam Chi Kwan Michael	356	–	–	–	356
Dr. Li Jun	267	–	–	–	267
Pu Hong	267	–	–	–	267
	1,653	1,450	922	36	4,061

	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

During 2020 and 2019, 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 (2019: two) are directors whose emoluments are disclosed in Note 11. The aggregate of the emoluments in respect of the other three (2019: three) individuals are as follows:

	2020 RMB'000	2019 RMB'000
Salaries, allowances and benefits in kind	2,124	2,134
Performance related bonuses	879	625
Retirement scheme contributions	69	76
	3,072	2,835

The emoluments of the three (2019: three) individuals with the highest emoluments are within the following bands:

	2020	2019
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

	2020			2019		
	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	(800)	120	(680)	(1,200)	180	(1,020)
Exchange differences on translation of: financial statements of entities with functional currencies other than RMB	(1,112)	–	(1,112)	(118)	–	(118)
Other comprehensive income	(1,912)	120	(1,792)	(1,318)	180	(1,138)

14 EARNINGS PER SHARE

(a) *Basic earnings per share*

The calculation of basic earnings per share at 31 December 2020 was based on the profit attributable to equity shareholders of the Company amounting to RMB61,299,000 (2019: RMB113,471,000), and the weighted average number of ordinary shares outstanding of 388,000,000 (2019: 388,000,000 shares), calculated as follows:

Weighted average number of ordinary shares:

	2020 RMB'000	2019 RMB'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 2020 and 2019. The calculated diluted earnings per share equals the basic earnings per share at 31 December 2020 and 2019.

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 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 and 1 January 2020	52,009	91,626	193,539	50,624	4,445	2,546	394,789
Additions	1,009	–	3,055	11,475	1,193	1,687	18,419
Transfers from construction in process	–	–	–	812	389	(1,201)	–
Disposals	–	–	(255)	(51)	(2,519)	–	(2,825)
Exchange adjustments	–	–	(102)	(57)	–	–	(159)
Balance at 31 December 2020	53,018	91,626	196,237	62,803	3,508	3,032	410,224
Accumulated amortisation and depreciation:							
Balance 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 and at 1 January 2020	(2,256)	(42,091)	(135,197)	(34,291)	(3,206)	–	(217,041)
Charge for the year	(2,420)	(4,811)	(9,366)	(11,388)	(282)	–	(28,267)
Written back on disposals	–	–	301	2	2,267	–	2,570
Exchange adjustments	–	–	5	4	–	–	9
Balance at 31 December 2020	(4,676)	(46,902)	(144,257)	(45,673)	(1,221)	–	(242,729)
Net book value:							
At 31 December 2020	48,342	44,724	51,980	17,130	2,287	3,032	167,495
At 31 December 2019	49,753	49,535	58,342	16,333	1,239	2,546	177,748

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:

	Note	31 December 2020 RMB'000	31 December 2019 RMB'000
Ownership interests in leasehold land held for own use, carried at depreciated cost	(i)	46,630	47,985
Other properties leased for own use, carried at depreciated cost	(ii)	1,712	1,768
		48,342	49,753

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

	2020 RMB'000	2019 RMB'000
Depreciation charge of right-of-use assets by class of underlying asset:		
Ownership interests in leasehold land	1,355	1,355
Other properties leased for own use	1,065	901
	2,420	2,256
Interest on lease liabilities (Note 9(a))	70	82
Expense relating to short-term leases and other leases with remaining lease term ending on or before 31 December 2019	–	200
Variable lease payments not included in the measurement of lease liabilities	216	617

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 22(c), 27 and 30(b), respectively.

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)	
	2020	2019
	RMB'000	RMB'000
Warehouses – India	236	765
Office – Singapore	732	1,021
Office – PRC	779	–

Notes to the Financial Statements (cont'd)

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

16 INVESTMENTS IN SUBSIDIARIES

The following list contains 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 and date of incorporation and business	Particulars of registered 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, 7 January 2005	USD88,000,000/ USD88,000,000	100%	–
Hengxin Technology (India) Pvt Ltd.	Marketing and trading of the Group's products to telecommunication operators in India	India, 10 June 2009	INR59,500,000.00/ INR59,500,000.00	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, 29 March 2013	RMB5,000,000/ RMB5,000,000	–	100%
Hengxin Technology International Co., Ltd.	Trading and investment holding	Hong Kong, 17 September 2017	HKD1,170,000/ HKD1,170,000	–	100%
Jiangsu Hengxin Zhonglian Communication Technology Co., Ltd.*	Research, design, development and manufacture sale and technical services of telecommunication products for mobile communications systems	PRC, 28 August 2020	RMB10,000,000/ RMB10,000,000	–	70%

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

16 INVESTMENTS IN SUBSIDIARIES (cont'd)

The following table lists out the information relating to Jiangsu Hengxin Zhonglian Communication Technology Co., Ltd., the only subsidiary of the Group which has a non-controlling interest (NCI). The summarised financial information presented below represents the amounts before any inter-company elimination.

	2020 RMB'000
NCI percentage	30%
Current assets	18,190
Non-current assets	1,076
Current liabilities	11,913
Non-current liabilities	259
Net assets	7,094
Carrying amount of NCI	2,128
Revenue	–
Loss for the year	(2,907)
Total comprehensive income	(2,907)
Loss allocated to NCI	(872)
Dividend paid to NCI	–
Cash flows from operating activities	(5,912)
Cash flows from investing activities	(604)
Cash flows from financing activities	9,723

17 INTEREST IN AN ASSOCIATE

	2020 RMB'000	2019 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)
	–	–

Notes to the Financial Statements (cont'd)

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

17 INTEREST IN AN ASSOCIATE (cont'd)

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 activities
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 2020 RMB'000	Mianyang Xin Tong 2019 RMB'000
Gross amounts of the associate's		
Current assets	7,363	9,583
Non-current assets	12,368	20,627
Current liabilities	64,292	64,292
Net deficit	(44,561)	(34,082)
Revenue	699	4,523
Loss from continuing operations	(10,479)	(3,070)
Total comprehensive income	(10,479)	(3,070)
Reconciled to the Group's interests in the associate		
Gross amounts of net liabilities of the associate	(44,561)	(34,082)
Group's effective interest	24%	24%
Group's share of net liabilities of the associate	(10,695)	(8,180)
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.

18 OTHER INVESTMENTS

	2020 RMB'000	2019 RMB'000
Equity securities designated at FVOCI (non-recycling)		
– Unlisted equity securities	8,200	9,000
– Non-trading securities investment funds	647	647
	8,847	9,647

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 2020 RMB'000	Dividend income recognised during 2020 RMB'000
Investment in Anosi Telecom Technologies Co., Ltd.	8,200	–
Investment in Shanghai International Trust Corp., Ltd.	647	–
	8,847	–

	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	–

No strategic investments were disposed of during 2020, 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)*

19 INVENTORIES

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

	2020 RMB'000	2019 RMB'000
Raw materials	24,544	33,165
Work-in-progress	9,010	8,127
Finished goods	73,188	53,555
	106,742	94,847

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

	2020 RMB'000	2019 RMB'000
Carrying amount of inventories sold	878,579	1,090,208
Reversal of stock obsolescence provision	–	(135)
	878,579	1,090,073

20 TRADE AND OTHER RECEIVABLES

	Notes	2020 RMB'000	2019 RMB'000
Trade receivables from:			
– third parties		460,750	696,080
– affiliated corporation*		7,954	4,828
Bills receivables		48,258	129,078
Less: Loss allowance		(9,705)	(9,705)
Net trade and bills receivables		507,257	820,281
Loans to the associate	1	21,191	21,191
Non-trade amount due from the associate	2	1,680	1,680
Less: Loss allowance		(22,871)	(22,871)
		–	–
Advances to suppliers	3	10,586	13,401
Advances to staff	3	4,697	4,064
Refundable deposits	4	10,813	11,839
Tax recoverables	5	42,271	34,590
Prepayments		1,854	1,179
Net prepayments and non-trade receivables		70,221	65,073
		577,478	885,354

20 TRADE AND OTHER RECEIVABLES (cont'd)

* An affiliated corporation is defined as one:

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

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

Notes:

(1) The Group's loans to the 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 amount 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, service and other property, plant and equipment.

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

The bills receivables held by the Group are achieved by both collecting contractual cash flows and selling financial assets, which are measured at fair value through other comprehensive income.

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

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:

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Within 6 months	348,378	614,610
7 to 12 months	88,268	163,802
1 to 2 years	66,794	41,303
Over 2 years	3,817	566
	507,257	820,281

Trade and bills receivables are due within 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(a).

21 TIME DEPOSITS WITH ORIGINAL MATURITY MORE THAN 3 MONTHS

As at 31 December 2020, time deposits of RMB470,000,000 (2019: RMB400,000,000) in the consolidated statement of financial position represent bank deposits that are more than 3 months of maturity at acquisition.

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

22 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents comprise:

	2020 RMB'000	2019 RMB'000
Cash at bank and on hand	874,219	590,056
Short-term deposits	2,007	2,040
Pledged bank deposits	10,847	24,468
Cash and cash equivalents in the statements of financial position	887,073	616,564
Less: pledged bank deposits	(10,847)	(24,468)
Cash and cash equivalents in the statements of cash flows	876,226	592,096

Deposits amounting to RMB10,600,000 (2019: RMB12,449,000) 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% (2019: 1.390%) per annum and for a tenure of approximately 4 to 60 months (2019: 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.

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

(b) Reconciliation of liabilities arising from financing activities:

	Short-term loans RMB'000	Interest payable RMB'000	Lease liabilities RMB'000	Total RMB'000
At 1 January 2019	315,000	–	2,669	317,669
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)
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)	(20,907)
Other change:				
Interest expense	–	14,942	82	15,024
At 31 December 2019	310,000	–	1,786	311,786

Notes to the Financial Statements (cont'd)

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

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

(b) Reconciliation of liabilities arising from financing activities: (cont'd)

	Short-term loans RMB'000	Interest payable RMB'000	Lease liabilities RMB'000	Derivative financial liability RMB'000	Total RMB'000
At 1 January 2020	310,000	–	1,786	–	311,786
Changes from financing cash flows:					
Proceeds from short-term bank loans	298,325	–	–	–	298,325
Repayment of short-term bank loans	(310,000)	–	–	–	(310,000)
Capital element of lease rentals paid	–	–	(1,065)	–	(1,065)
Interest element of lease rentals paid	–	–	(70)	–	(70)
Other interest expense paid	–	(6,841)	–	–	(6,841)
Total changes from financing cash flows	(11,675)	(6,841)	(1,135)	–	(19,651)
Exchange adjustment	(19,954)	–	–	–	(19,954)
Changes in fair value	–	–	–	19,954	19,954
Other changes:					
Increase in lease liabilities from entering new leases during the year	–	–	1,009	–	1,009
Interest expense	–	12,894	70	–	12,964
Total other changes	–	12,894	1,079	–	13,973
At 31 December 2020	278,371	6,053	1,730	19,954	306,108

22 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:

	2020 RMB'000	2019 RMB'000
Within operating cash flows	216	817
Within financing cash flows	1,135	965
	1,351	1,782

These amounts relate to the following:

	2020 RMB'000	2019 RMB'000
Lease rentals paid	1,351	1,782

23 TRADE AND OTHER PAYABLES

	As at 31 December 2020 RMB'000	 2019 RMB'000
Trade payables due to:		
– third parties	103,512	90,925
– affiliated corporation	–	5,499
Trade payables	103,512	96,424
Accrued operating expenses	47,790	58,153
Interest payable	6,053	–
Contract liabilities	9,687	13,265
Advanced receipt	366	2,441
Tender deposits	5,397	6,890
Value added tax, business tax and other taxes payable	2,964	4,044
Other payables	3,250	2,013
Other payables	75,507	86,806
	179,019	183,230

23 TRADE AND OTHER PAYABLES (cont'd)

Movements in contract liabilities during the year are as follows:

	2020 RMB'000	2019 RMB'000
Balance at 1 January	13,265	9,404
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 year	(13,265)	(9,404)
Increase in contract liabilities as a result of billing in advance of manufacturing activities	9,687	13,265
	9,687	13,265

Advanced receipt is an upfront government grant of RMB366,000 (2019: RMB2,441,000). 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:

	2020 RMB'000	2019 RMB'000
0–90 days	94,660	91,604
91–180 days	3,373	1,157
181–360 days	3,356	1,341
Over 360 days	2,123	2,322
	103,512	96,424

24 SHORT-TERM LOANS

	2020 RMB'000	2019 RMB'000
Unsecured bank loans	278,371	310,000

The unsecured bank loans carried interest at annual rates within 3.40%–3.45% (2019: 4.35%) per annum, and were all repayable within one year.

At 31 December 2020, the Group had RMB1,616,036,000 (2019: RMB1,507,434,000) of unutilised bank borrowing facilities.

25 DERIVATIVE FINANCIAL LIABILITY

	2020			2019		
	Nominal	Fair value		Nominal	Fair value	
	amount	Asset	Liability	amount	Asset	Liability
Foreign currency forward contract – not under hedge accounting	248,325	–	(19,954)	–	–	–

Foreign Currency Forward Contract

The fair value of foreign currency forward contract is measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contract.

Major term of the foreign currency forward contract not under hedge accounting is as follows:

Notional amounts in millions	Maturity
Buy USD35 million, Sell RMB	12 May 2020 to 11 May 2021

26 DEFERRED INCOME

	2020 RMB'000	2019 RMB'000
Deferred income	6,341	6,255

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.

Notes to the Financial Statements (cont'd)

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

27 LEASE LIABILITIES

The following table shows the remaining contractual maturities of the Group's lease liabilities

	31 December 2020		31 December 2019	
	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	1,027	1,038	828	884
After 1 year but within 2 years	620	661	486	514
After 2 years but within 5 years	83	84	472	484
	703	745	958	998
	1,730	1,783	1,786	1,882
Less: total future interest expenses		(53)		(96)
Present value of lease liabilities		1,730		1,786

28 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

	2020 RMB'000	2019 RMB'000
At the beginning of the year	2,493	16,627
Provision for PRC Corporate Income Tax for the year	12,078	13,752
Provision for Hong Kong Profits Tax for the year	1,071	204
Income taxes paid	(13,031)	(28,090)
At the end of the year	2,611	2,493

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

(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 2020 RMB'000	Recognised in profit or loss RMB'000	Recognised in OCI RMB'000	At 31 December 2020 RMB'000
Impairment loss for trade and other receivables	4,886	–	–	4,886
Equity investments at FVOCI	150	–	120	270
Deferred income	773	(460)	–	313
Impairment loss on associate	2,365	–	–	2,365
Unrealised exchange loss	14	2	–	16
Unrealised profits	505	107	–	612
Accrued expenses	–	1,684	–	1,684
Dividend from subsidiary	(6,980)	(361)	–	(7,341)
Tax assets before set-off	1,713	972	120	2,805

	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

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

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

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

(ii) Reconciliation to the consolidated statement of financial position

	2020 RMB'000	2019 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	10,146	8,693
Net deferred tax liability recognised in the consolidated statement of financial position	(7,341)	(6,980)
	2,805	1,713

(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 RMB11,975,000 and RMB10,323,000 (2019: RMB0 and RMB7,914,000) incurred by Hengxin Wireless and a subsidiary in India respectively, 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 Hengxin Wireless and the subsidiary in India will expire within 10 years and 8 years from the year when such losses were incurred under current tax legislation respectively.

(d) Deferred tax liability not recognised

The total undistributed profits of the PRC subsidiaries are RMB787,417,000 (2019: RMB754,780,000). No deferred tax liability has been recognised for undistributed profits of RMB640,599,000 (2019: RMB615,182,000) 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 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 and 1 January 2020		295,000	152,592	447,592
Changes in equity for 2020:				
Total comprehensive income for the year		–	(11,977)	(11,977)
Dividends paid	29(b)	–	(11,330)	(11,330)
Balance at 31 December 2020		295,000	129,285	424,285

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.

	2020 RMB'000	2019 RMB'000
RMB0.0292 per qualifying ordinary share (2019: RMB0.0457)	**11,330**	17,732

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.

	2020 RMB'000	2019 RMB'000
RMB0.0158 per qualifying ordinary share (2019: RMB0.0292)	**6,130**	11,330

(c) Share capital

	2020		2019	
	No. of shares ('000)	RMB'000	No. of shares ('000)	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).

(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.

29 CAPITAL, RESERVES AND DIVIDENDS (cont'd)

(e) Capital management (cont'd)

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:

	2020 RMB'000	2019 RMB'000
Total liabilities	495,367	510,744
Total assets	2,227,781	2,192,853
Debt-to-assets ratio	22%	23%

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.

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

(a) Credit risk (cont'd)

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, 12% (2019: 25%) and 40% (2019: 55%) 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.

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

	2020 RMB'000	2019 RMB'000
PRC	400,070	622,057
Other customers	58,929	69,146
	458,999	691,203

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

	2020 RMB'000	2019 RMB'000
State-owned enterprises in PRC	177,374	380,013
Other customers	281,625	311,190
	458,999	691,203

At 31 December 2020, 5 (2019: 5) largest customers accounted for 40% (2019: 55%) of gross trade receivables. There are no other customers who represent more than 5% of the total balance of trade receivables.

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

(a) Credit risk (cont'd)

Trade receivables (cont'd)

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:

	2020		
	Average expected loss rate	Gross carrying amount	Loss allowance
	%	RMB'000	RMB'000
State-owned enterprises in the PRC			
Not past due	0.24%	131,192	314
Past due 1–180 days	1.24%	35,705	441
Past due 181–360 days	3.54%	7,286	258
Past due 361–540 days	8.63%	3,416	295
Past due over 540 days	27.67%	1,497	414
		179,096	1,722

	2020		
	Average expected loss rate	Gross carrying amount	Loss allowance
	%	RMB'000	RMB'000
Other customers			
Not past due	0.60%	193,206	1,150
Past due 1–180 days	2.33%	42,475	990
Past due 181–360 days	5.76%	20,049	1,154
Past due 361–540 days	10.12%	32,477	3,288
Past due over 540 days	100.00%	1,401	1,401
		289,608	7,983

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
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

	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

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

(a) Credit risk (cont'd)

Trade receivables (cont'd)

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

	2020 RMB'000	2019 RMB'000
Balance at 1 January	(9,705)	(9,705)
Impairment loss recognised during the year	–	(641)
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 2020.

(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.

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

(b) Liquidity risk (cont'd)

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 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
2020						
Derivative financial liability						
Derivative financial liability		19,954	–	–	19,954	19,954
Non-derivative financial liabilities						
Short-term loans	24	281,458	–	–	281,458	278,371
Trade and other payables#	23	166,002	–	–	166,002	166,002
Lease liabilities	27	1,038	661	84	1,783	1,730
Subtotal		448,498	661	84	449,243	446,103
At 31 December 2020		468,452	661	84	469,197	466,057

		Contractual cash flows				
	Notes	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	24	322,503	–	–	322,503	310,000
Trade and other payables#	23	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

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

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:

	2020 RMB'000	2019 RMB'000
Fixed-rate instruments		
Time deposits with original maturity more than 3 months	470,000	400,000
Pledged bank deposits	10,847	24,468
Short-term deposits	2,007	2,040
Short-term loans	(278,371)	(310,000)
	204,483	116,508

(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.

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
2020				
Cash and cash equivalents	75,077	1,115	2,820	15,785
Trade and other receivables	44,027	89	221	2,362
Trade and other payables	(5,280)	(639)	(251)	–
Lease liabilities	–	(236)	–	–
Short-term loans	(228,372)	–	–	–
Net exposure	(114,548)	329	2,790	18,147
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

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 (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.

	2020		2019	
	Increase in foreign exchange rates	(Decrease)/ Increase in profit after tax and retained profits	Increase in foreign exchange rates	Increase in profit after tax and retained profits
		RMB'000		RMB'000
USD	10%	(9,685)	10%	6,925
SGD	10%	33	10%	86
HKD	10%	267	10%	112
EUR	10%	1,542	10%	1,128

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 2019.

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 18).

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 2020, it is estimated that an increase of 5% (2019: 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:

	2020		2019	
	Effect on equity	RMB'000	Effect on equity	RMB'000
Changes in the relevant equity price risk variable:				
Increase	5%	376	5%	410
Decrease	(5%)	(376)	(5%)	(410)

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 2019.

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.

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)

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	FVTPL – Foreign currency forward contract	Amortised cost	Other financial liabilities	Total carrying amount	Level 1	Level 2	Level 3	Total
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2020										
Financial assets measured at fair value										
Other investments	18	8,847	–	–	–	8,847	647	–	8,200	8,847
Trade and other receivables#	20	48,258	–	–	–	48,258	–	48,258	–	48,258
		57,105	–	–	–	57,105	647	48,258	8,200	57,105
Financial assets not measured at fair value										
Trade and other receivables#	20	–	–	474,509	–	474,509				
Time deposits with original maturity more than 3 months	21	–	–	470,000	–	470,000				
Cash and cash equivalents	22	–	–	887,073	–	887,073				
		–	–	1,831,582	–	1,831,582				
Financial liability measured at fair value										
Derivative financial liability	25	–	19,954	–	–	19,954	–	19,954	–	19,954
Financial liabilities not measured at fair value										
Trade and other payables##	23	–	–	–	166,002	166,002				
Short-term loans	24	–	–	–	278,371	278,371				
Lease liabilities	27	–	–	–	1,730	1,730				
		–	–	–	446,103	446,103				

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	Amortised cost	Other financial liabilities	Total carrying amount	Level 1	Level 2	Level 3	Total
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2019									
Financial assets measured at fair value									
Other investments	18	9,647	–	–	9,647	647	–	9,000	9,647
Financial assets not measured at fair value									
Trade and other receivables#	20	–	836,184	–	836,184				
Time deposits with original maturity more than 3 months	21	–	400,000	–	400,000				
Cash and cash equivalents	22	–	616,564	–	616,564				
		–	1,852,748	–	1,852,748				
Financial liabilities not measured at fair value									
Trade and other payables##	23	–	–	163,480	163,480				
Short-term loans	24	–	–	310,000	310,000				
Lease liabilities	27	–	–	1,786	1,786				
		–	–	475,266	475,266				

Exclude advances to suppliers, prepayments and tax recoverables.

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

(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)

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 was nil as the Group settled all derivative financial instruments as at 31 December 2020 (31 December 2019: nil).

During the years ended 31 December 2019 and 2020, 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.

The fair values of the bills receivable have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The fair values have been assessed to be approximate to their carrying amounts.

Valuation techniques and inputs used in Level 2 fair value measurements

The fair value of forward exchange contract in Level 2 is determined by discounting the difference between the contractual forward price and the current forward price. The discount rate used is derived from the relevant government yield curve as at the end of the reporting period plus an adequate constant credit spread.

The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to transfer the swap at the end of the reporting period, taking into account current interest rates and the current creditworthiness of the swap counterparties.

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	19% to 24% (2019: 17% to 24%)	19% (2019: 19%)

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 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.

	2020		2019	
	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%)	794	(764)	195	(62)
Discount rate (increase or decrease by 1%)	(526)	605	(321)	494

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

	2020 RMB'000	2019 RMB'000
Unquoted equity securities:		
At 1 January	9,000	10,200
Net unrealised loss recognised in other comprehensive income during the period	(800)	(1,200)
At 31 December	8,200	9,000

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.

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

(f) Fair value measurement (cont'd)

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

Except for equity securities mentioned in Note 18, 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 2020 and 2019.

31 COMMITMENTS

(a) Commitments outstanding at 31 December 2020 not provided for in the financial statements were as follows:

	2020 RMB'000	2019 RMB'000
Contracted for but not provided for property, plant and equipment	285	1,474
Donation commitment	3,000	3,500
	3,285	4,974

The Group's PRC subsidiary has signed an intention letter 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)

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:

	2020 RMB'000	2019 RMB'000
Short term benefits	8,625	8,026
Retirement benefits scheme contributions	159	182
Total	8,784	8,208
Key management personnel compensation comprised amounts paid to:		
– directors of the Company	4,061	3,828
– other key management personnel	4,723	4,380
	8,784	8,208

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

(b) Transactions with related companies

(i) Significant related party transactions

	2020 RMB'000	2019 RMB'000
Transactions with Suzhou Hengli Telecommunications Materials Co., Ltd (Note)		
Sale of finished goods	7,746	8,548
Purchase of raw materials	21,970	33,200

Note: 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 its substantial shareholder. 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.

32 MATERIAL RELATED PARTY TRANSACTIONS (cont'd)

(b) Transactions with related companies (cont'd)

(ii) Significant related party balances

	2020 RMB'000	2019 RMB'000
Balances with Suzhou Hengli Telecommunications Materials Co., Ltd.		
Trade receivables from	7,954	4,828
Prepayment to	2,234	–
Trade payables to	–	5,499

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

The related party transactions in respect of sales of finished goods and purchases of raw materials 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

	Notes	31 December 2020 RMB'000	31 December 2019 RMB'000
Non-current assets			
Property, plant and equipment		729	1,150
Investments in subsidiaries	16	392,840	394,375
		393,569	395,525
Current assets			
Trade and other receivables		25,524	42,988
Cash and cash equivalents		7,223	10,887
		32,747	53,875
Current liabilities			
Trade and other payables		1,299	787
Lease liabilities		289	299
		1,588	1,086
Net current assets		31,159	52,789
Total assets less current liabilities		424,728	448,314
Non-current liability			
Lease liabilities		443	722
		443	722
NET ASSETS		424,285	447,592
CAPITAL AND RESERVE	29(a)		
Share capital		295,000	295,000
Accumulated profits		129,285	152,592
TOTAL EQUITY		424,285	447,592

Approved and authorised for issue by the board of directors on 16 March 2021.

Du Xiping
Director

Xu Guoqiang
Director

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

34 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2020

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 2020 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 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, *Interest Rate Benchmark Reform – Phase 2*	1 January 2021
Amendments to IFRS 3, *Reference to the Conceptual Framework*	1 January 2022
Amendments to IAS 16, *Property, Plant and Equipment: Proceeds before Intended Use*	1 January 2022
Amendments to IAS 37, *Onerous Contracts – Cost of Fulfilling a Contract*	1 January 2022
Annual Improvements to IFRSs 2018–2020 Cycle	1 January 2022
IFRS 17, *Insurance contracts*	1 January 2023
Amendments to IAS 1, *Presentation of financial statements, Classification of liabilities as current or non-current*	1 January 2023
Amendments to IAS 8*, Definition of Accounting Estimates*	1 January 2023
Amendments to IAS 1 and IFRS Practice Statement 2, *Disclosure of Accounting Policies*	1 January 2023
Amendments to IFRS 10 and IAS 28, *Sale or contribution of assets between an investor and its associate or joint venture*	To be determined
Amendments to IFRS 4, *Extension of the temporary exemption from applying IFRS 9*	To be determined

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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