OVERVIEW

We are one of the leading manufacturers of radio frequency (RF) coaxial cables series for mobile communications in the PRC. Based on statistical data in the notice issued by Optical and Electronic Cable Association of China, a sub-association of China Electronics Components Association (中國電子元件行業協會光電綫纜分會) to Hengxin (Jiangsu) in June 2010, Hengxin (Jiangsu) ranked second in terms of sales volume for RF coaxial cables series for mobile communications among the majority of such manufacturers in the PRC in 2009.

Our products, marketed under the award-winning "HongSun" brand name, are used in signal transmission systems by telecommunications operators and equipment manufacturers in the PRC and overseas market. With a strong focus on research, design and product development, our products are recognised for quality and are well received by major industry players.

Our production base is located at No. 138 Taodu Road, Dingshu Town, Yixing City, Jiangsu Province, the PRC, where we have comprehensive and advanced production facilities. As at 30 September 2010, we owned 55 production lines, of which 43 production lines are located in our existing production plants with an aggregate annual production capacity of approximately 115,710 km and 12 production lines are located in our new production plant with an aggregate annual production capacity of approximately 33,060 km. The construction of our new production plant has been completed and the commercial operation has been commenced in October 2010.

We have adopted a strategic regional sales system in the PRC. More specifically, we have designated seven sales regions in the PRC, based on the geographical concentration of our customers, to facilitate management of our sales and marketing activities. The seven regions are Beijing, Northeast China, Northwest China, Central China, East China, South China and Southwest China. Through such extensive sale and distribution network spanning the PRC, we serve a blue-chip and established customer base comprising major telecommunications operators such as China Unicom, China Mobile, China Telecom; and major telecommunications equipment manufacturers in the PRC. Outside of the PRC, our products are also exported to the international markets mainly within the Asian continent. In July 2009, we successfully established our wholly-owned subsidiary in India, Hengxin (India), through which we hope to grow our exports to the local market by selling our products directly to the Indian telecommunications operators. Hengxin (India) has recognised sales to local telecommunications operators since August 2010.

We are committed to enhancing production innovation and production efficiency through research and development. During the [●], we have established technology exchange and cooperation programmes with a Shanghai research institute, Zhejiang University (浙江大學) and Beijing University of Posts and Telecommunications (北京郵電大學). Under the cooperation program with such Shanghai research institute, we have developed and commercialized 1 new variety of coaxial cables and obtained 1 registered patent for such new product. Under the cooperation program with Zhejiang University (浙江大學), we have

developed and commercialised 4 new varieties of coaxial cables and telecommunications accessories, which are granted various awards and registered patents. We are currently working on another 2 new varieties of coaxial cables and telecommunications accessories development projects including antennas with Zhejiang University (浙江大學). In August 2010, we entered into a cooperation agreement with Beijing University of Posts and Telecommunications (北京郵電大學) in respect of internet of things (IOT) and intelligent information processing. Through such collaborations with research and education facilities, we are able to keep track of the latest product technology and industry trends, improve our existing product line and meet market requirements by developing new products promptly. We have also set up an academician workstation (院士工作站) in September 2010. The academician workstation will engage in the research work of internet of things (IOT), an advanced technology in the world today. Our Directors believe that the establishment of an academician workstation will drive our technical innovation and strengthen our market competitiveness. Moreover, it will bring opportunities to our Group to jointly carry out research work with the talented academic team, which in turn may improve our research and development capability. Since our establishment of Hengxin (Jiangsu) in 2003, we have developed and commercialised 59 new varieties of coaxial cables and telecommunications accessories with 7 new varieties of coaxial cables and telecommunications accessories under current development. As at the [●], we have obtained 15 patents in respect of our coaxial cables with another 6 patent applications have been accepted by the State Intellectual Property Bureau and are in the process of application.

We have achieved growth during the three years ended 31 December 2009. The reduction in capital expenditure by the three telecommunications operators in the PRC since 2010 has resulted in the fall in demand for our products and thus our revenue for the nine months ended 30 September 2010. Our revenue was approximately RMB962.8 million, RMB1,214.2 million and RMB1,615.3 million respectively for each of the three years ended 31 December 2009, representing a CAGR of approximately 29.6%. Our net profit for the same periods was approximately RMB106.7 million, RMB106.7 million and RMB149.9 million respectively, representing a CAGR of approximately 20.2%. For the nine months ended 30 September 2010, we recorded revenue of approximately RMB865.4 million and net profit of approximately RMB79.3 million.

COMPETITIVE STRENGTHS

Our Directors believe that our competitive strengths are as follows:

We have a comprehensive sales and distribution network

Over the years, we have built a strong sales and marketing team, consisting of 55 professional sales personnel. To effectively serve our customers in the various markets and ensure efficient allocation of resources, our sales and marketing team comprises two main business units – market development department and overseas business department. For further details, please refer to the paragraph headed "Sales and Marketing" in this section below.

Our sales personnel, strategically located throughout the PRC, are able to effectively market our products to our customers. In addition, they are trained to provide good pre-sales, during sales and after sales services to all our customers to ensure that we foster a close and strong working relationship with our customers. As at the [●], our products are principally sold to 31 of 32 branches of China Unicom, 25 of 31 subsidiaries of China Mobile, 29 of 31 subsidiaries of China Telecom and 2 major equipment manufacturers. We believe that our strong sales and marketing network will enable us to maintain our existing customers, attract new customers and remain a market leader in the industry.

We enjoy a good reputation and brand name in the coaxial cable industry

We believe that our "HongSun" brand is a well-recognised brand of coaxial cables in the PRC and one that is associated with good quality products. This is evidenced by the various awards which we have received in recognition of our products. For details of our awards, please refer to the paragraph headed "Awards and Honors" in this section below. We have built a strong relationship with our customers and our market share has grown substantially over the years. As a testimony of the popularity of our products, based on statistical data in notices issued by Optical and Electronic Cable Association of China, a sub-association of China Electronics Components Association (中國電子元件行業協會光電綫纜分會) to Hengxin (Jiangsu) in June 2010, Hengxin (Jiangsu) ranked second in terms of sales volume for RF coaxial cables series for mobile communications among the majority of such manufacturers in the PRC in 2009.

We have advanced manufacturing technology and large-scale production capacity

We leverage on the latest technological developments in the coaxial cable industry by investing in new advanced manufacturing equipment to enhance our product quality and expand our manufacturing capacity. We interact frequently with reputable international cable equipment manufacturers to keep up to date with the latest technology and to enable us to upgrade our equipment or acquire new manufacturing technologies in the shortest possible time.

We are constantly expanding our production capacity to meet market demand. Our large-scale production capacity enables us to reduce production and operational cost and achieve economies of scale. We are thus able to increase the market competitiveness of our products.

We offer a comprehensive range of RF coaxial cables series for mobile communications

Our main products are set out under the paragraph headed "Products" in this section below. Our comprehensive range of RF coaxial cables series for mobile communications is able to provide our customers with solutions for signal transmission in mobile communications, for example, in base stations for mobile communications, high buildings, highways, subways, tunnels, underground parking spaces and elevators. In addition, our other telecommunications equipment which include coaxial cables for cable television network systems, coaxial cables for network access and 50Ω high-frequency coaxial cables are widely used for signal transmission in cable television networks, broadband access networks and within communications equipment. We believe that our comprehensive range of products will enable us to meet the requirements of our customers and remain competitive in the PRC coaxial cable industry.

We have strong research and development capabilities

We are committed to continuously innovate and develop new products to meet diverse market needs. To this end, as at the [●], we have a research and development department comprising 31 experienced professionals who are responsible for new product development as well as improving existing production processes. We have established research and development collaborative relationships with a Shanghai research institute, Zhejiang University (浙江大學) and Beijing University of Posts and Telecommunications (北京郵電大學). In August 2010, we entered into a cooperation agreement with Beijing University of Posts and Telecommunications (北京郵電大學) in respect of internet of things (IOT) and intelligent information processing. Through such collaborations, we are able to keep track of the latest product technology and industry trends, improve our existing product line and meet market requirements by developing new products promptly. We have also set up an academician workstation (院士工作站) in September 2010. The academician workstation will engage in the research work of internet of things (IOT), an advanced technology in the world today. Our Directors believe that the establishment of an academician workstation will drive our technical innovation and strengthen our market competitiveness. Moreover, it will bring opportunities to our Group to jointly carry out research work with the talented academic team, which in turn may improve our research and development capability. As at the [●], we have developed and commercialised 59 new varieties of coaxial cables and telecommunications accessories to meet the requirements of our customers and have obtained 15 patents in respect of our coaxial cables and telecommunications accessories. Another 6 patent applications have been accepted by the State Intellectual Property Bureau and are in the process of application. We believe that our strength in research and development will enable us to remain competitive in the industry.

Please refer to the paragraphs headed "Research and Development" and "Intellectual Property Rights" in this section below for more details on our research and development work and patents.

We have an experienced and professional management team

We have an experienced management team with solid industry knowledge and extensive operational experience. Our management team, led by Mr. Cui, our Executive Chairman and one of the founders and directors of Hengxin (Jiangsu) since its establishment in June 2003, has gained invaluable experience in operations and business management. Dr. Song Haiyan, our Executive Director, has been in the PRC telecommunications industry for over 14 years and has established a wide network of contacts and experience in sales and marketing. Our senior managers, Mr. Li Qinghe and Mr. Ding Weilin, have on average more than 25 years of experience in the industry and are equipped with in-depth knowledge relating to the research and development. Our senior manager, Mr. Sun Yuliang, has more than 11 years of experience in the communications cable industry and has in-depth knowledge in production management.

Our experienced and highly committed management team can empower and motivate our staff to maximise their full potential to achieve results for our Company. We believe that our management team is key to our continued growth and expansion.

BUSINESS STRATEGIES

Our future plans for growth and expansion of our business are described below:

Further expand our sales network into overseas market

In order to widen our revenue stream, to diversify our business risks and to position us for strategic growth beyond the PRC in the long term, we intend to further expand our sales network to cover the overseas market. We plan to strengthen our existing sales network in Southeast Asia and South Asia. Especially India, where the mobile communications market was adversely affected by the global financial crisis since late 2008 and, in view of many mobile operators had aggressively placed bids for 3G license in India and the India government had just approved the results of 3G license auction in May 2010, we expect it to recover in the coming years. We have established our subsidiary in India in July 2009 and recruited local employees to facilitate our direct sales to India, enable us to provide instant response to customers' needs and strengthen our post-sale services. Various regulatory approvals, permits and licenses that are materially necessary to carry on business in India have been properly obtained. We intend to recruit additional local experienced sales personnel to enhance our sales team. Currently, we have established business relationship with 2 telecommunications operators in India. In addition to strengthen the existing sales to telecommunications operators in India, we also target sales to equipment manufacturers by leveraging our sales experiences to equipment manufacturers in the PRC. We do not expect any capital expenditures to be incurred as Hengxin (India) is mainly a marketing company. We will also finance our expansion plan in India through our internal funds.

We also plan to identify and seek growth opportunities in other geographical markets, such as Russia, South America and Africa. We see potential for growth of the mobile communications market in these countries where the communication technology lags behind and the mobile phone penetration rate is lower than developed countries and the size of the populations is relatively large which will drive significant investment in communication infrastructure. Our expansion plans include conducting market research to understand the preference of the potential markets, actively participating in trade fairs and exhibitions so as to establish our presence, and paying visits to potential clients to promote our products. Our marketing strategies also include seeking cooperation opportunities with major equipment manufacturers given their established comprehensive sales network worldwide. We will actively communicate with equipment manufacturers to understand the demand and preference in the target markets. The package sold by equipment manufacturers, of which our products form a part, could give publicity to our products, which could in turn facilitate the promotion of our products to the customers. Moreover, we will consult competent agents in exploring the target markets if necessary. Our overseas business department pays close attention to the development of the overseas markets. If any target market demonstrates strong sales record and sound potential growth, we may set up sales office to cater to this market. As at the [●], we have not identified any target market to set up sales office.

Diversify our product portfolio to antennas

We intend to develop antennas so as to boost our current range of communications and technological products. By expanding our range of products to include antennas, we shall be able to provide our customers with "one-stop value-added manufacturing services" along the value chain of the telecommunications industry.

Similar to our RF coaxial cables series for mobile communications, antennas are also a necessary part of a wireless communication network infrastructure which are responsible for transmitting and receiving electromagnetic waves for communication purposes. In view of the increasing number of mobile users in the PRC and emerging markets in Asia, such as India, as a result of the booming economy in this region which may lead to the continuing increasing volume of communication and thereby the demand for more communication network infrastructure in which antennas are important parts, our Directors anticipate that there would be a strong demand for antennas in the future. Our antennas project basically target the same customers with our existing products, i.e., telecommunications operators and equipment manufacturers. By leveraging our sales network, we will market the antennas products to our existing customers. Antenna is a mature product and we believe that we are able to master the relevant technical skills for antennas. All of our existing production equipment is unable to produce antennas. We need to purchase new production equipments to cope with the production requirement and new testing equipment to exam the performance of the antennas products. Also, we plan to acquire new parcel of land and establish new production plant. As at the [●], we are in the process of conducting initial research work on the antennas project.

Our Directors believe that, with antennas, we shall be able to provide complete solutions, including antennas, RF coaxial cables and other accessories to our customers. In this way, we enhance our market competitiveness and strengthen our leading position in the market.

Diversify our product portfolio to high temperature resistant cables

We intend to develop high temperature resistant cables so as to boost our current range of communications and technological products. By expanding our range of products to include high temperature resistant cables, we shall be able to expand our target customer and provide a wider range of products.

High temperature resistant cable is used in the transmission of electronic power or signals. Compared to our existing products, high temperature resistant cables meet the demand for higher degree of safety under high temperature and extreme conditions of use. Accordingly, high temperature resistant cable enjoys wider application areas, such as telecommunications industry, computer industry, military industry, aerospace industry, automotive industry, ship-building industry, medical treatment industry and chemical engineering industry. Along with the enhancement of safety requirements for the above industries all the time, our Directors anticipate that the demand for high temperature resistant cables is growing. In addition, the technology for the manufacture of high temperature resistant cables in the PRC is in general not up to the worldwide standard. Therefore the PRC has a [strong] reliance on imported

high-end high temperature resistant cables. In view of the above, our Directors consider that the prospects of high temperature resistant cables are brightening. Given the wide application areas of high temperature resistant cable, we intend to approach new customers, such as manufacturers of laptop computer, mobile phone, automotive or precision meter, operators for fixed installation in school, hospital, high-building or central business centre, and manufacturers in military industry. With our sophisticated technical skills and design experience in developing RF coaxial cables, our Directors believe that we will be a competent manufacturer of high temperature resistant cables. To implement our plan to develop and manufacture high temperature resistant cables, purchase of machinery is needed. Moreover, we plan to reconstruct our warehouse and use part of it as production plant for processing high temperature resistant cables. As at the [●], we are in the process of conducting research work on high temperature resistant cables project.

Enhance our research and development team

Our Directors consider our success is, to a significant extent, attributable to our strong research and development capability. In order to maintain and elevate our position as a leading RF coaxial cables manufacturer, we intend to devote additional resources to our research and development team by recruiting additional expertise so as to strengthen our research and development capabilities. We have plans to systematically recruit more graduates majoring in microwave communications as well as quality research and development personnel to facilitate our expansion. At the same time, we will continuously provide training programs to our research and development team so as to keep abreast of the latest technological developments in the communication industry. If necessary, we will also explore opportunities to collaborate with universities and research institutes in order to leverage on their expertise. Moreover, we have set up an academician workstation (院士工作站) in September 2010. The academician workstation will engage in the research work of internet of things (IOT), an advanced technology in the world today. The academician workstation is led by Dr. Song Haiyan, our executive Director and general manager of Hengxin (Jiangsu), and Mr. Liu Yunjie. Mr. Liu is an academician of Chinese Academy of Engineering (中國工程院) and an expert in communication and information system. He is currently the chief of the science and technology committee of China Unicom. The academic team introduced by Mr. Liu includes six scholars in Beijing University of Posts and Telecommunications (北京郵電大學) and major in communication engineering or electromagnetic field. Amongst the six scholars, one is professor, four are associate professors and one is lecturer. Our Directors believe that the establishment of an academician workstation will improve our research and development capability through the opportunities to jointly carry out research work with such talented academic team. For details of the academician workstation, please refer to the paragraph headed "Research and development" in this section.

PRODUCTS

Our products are generally classified into two categories according to their area of application, which comprise (i) RF coaxial cables series for mobile communications; and (ii) coaxial cables for telecommunications equipment and accessories.

The following table sets forth our revenue by product categories during the [●].

	Year ended 31 December						Nine months ended 30 September			
	2007		2008		2009		2009		2010	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* (unaudited)	*%*	*RMB'000*	*%*
RF coaxial cables series for mobile communications	818,644	85.0	1,073,959	88.5	1,344,014	83.2	1,026,877	84.0	722,764	83.5
Coaxial cables for telecommunications equipment and accessories	144,180	15.0	140,220	11.5	271,251	16.8	196,061	16.0	142,652	16.5
Total[(1)]	962,824	100	1,214,179	100	1,615,265	100	1,222,938	100	865,416	100

Note:

(1) The sales mix between these two types of products is determined by the market demand and purchase orders from our customers.

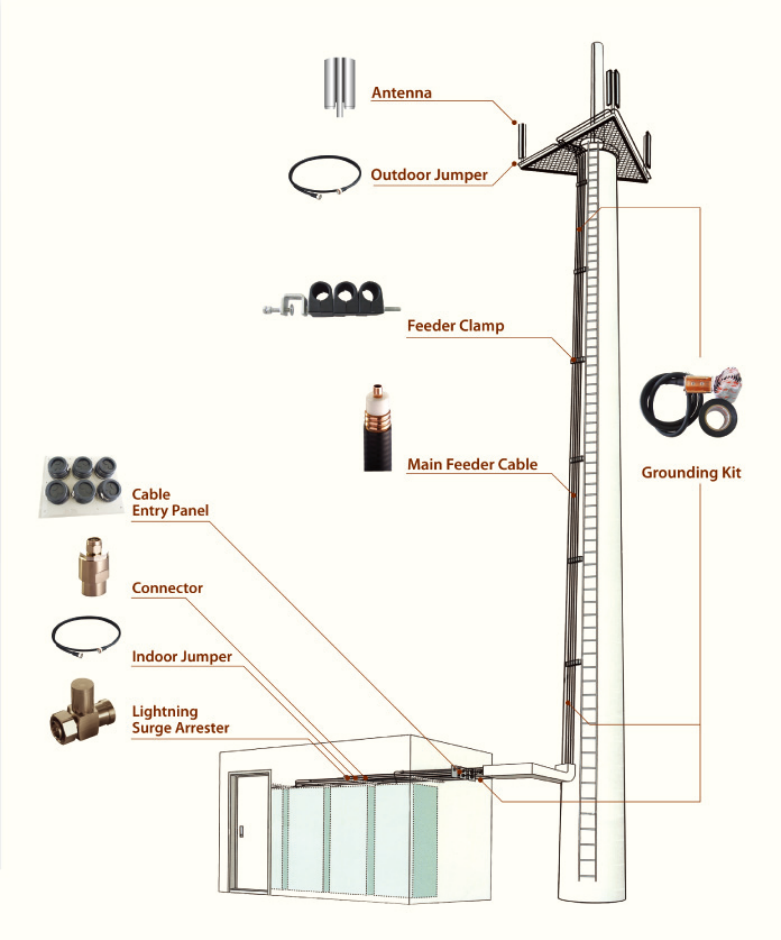
During the [●], we derive revenue mainly from (i) RF coaxial cables under the category of RF coaxial cables series for mobile communications; and (ii) connectors and jumper cables under the category of coaxial cables for telecommunications equipment and accessories. We have also started to recognise revenue from the sales of leaky coaxial cables under the category of RF coaxial cables series for mobile communications in 2010.

The table below sets out details about our products.

Product category	**Product name**	**Major applications**	**Target customers**	**Structure characteristic**
RF coaxial cables series for mobile communications	• RF coaxial cables	Transmit high-frequency signals between antenna and base station equipment. For use in outdoor base station wireless signal coverage system and indoor wireless signal coverage system in buildings.	– telecommunications operators – equipment manufacturers	– outer conductor is corrugated

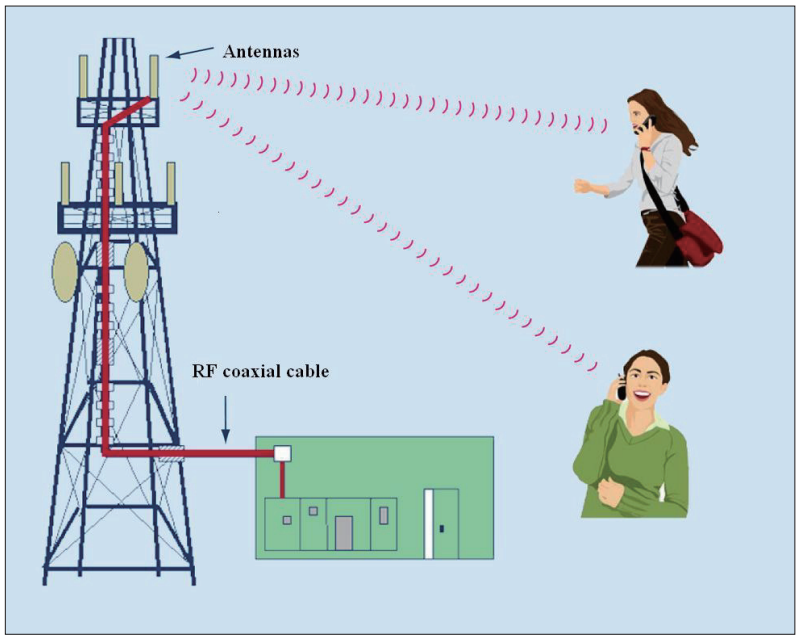
Product category	Product name	Major applications	Target customers	Structure characteristic
	• Leaky coaxial cables	Transmit high-frequency signals and is designed to radiate signals to its surrounding environment through continuous small antenna elements along the entire length of the cable. For use in wireless signal coverage system for railways, highways, tunnels, underground car parks, elevators and high buildings.	– telecommunications operators – equipment manufacturers	– outer conductor is corrugated – slots are cut on the outer conductor
Coaxial cables for telecommunications equipment and accessories	• Coaxial cables for cable television networks and broadband network access	Transmit signals in the cable television networks and user broadband network.	– cable television network operators in the PRC – telecommunications operators in overseas market	– outer conductor is braided
	• 50Ω high-frequency coaxial cables	Transmit signals within microwave communications systems, radio broadcast wireless systems and air/sea radar systems. For use in [communications equipment in control room] of base station.	– equipment manufacturers	– outer conductor is braided
	• Accessories (Comprise connectors, jumper cables, adapters, lightning surge arresters, power splitters, feeder clamps, couplers, grounding kits, waterproof kits, nylon cable tie and other installation tools.)	Function as accessories to wireless signal coverage system for base station.	– telecommunications operators – equipment manufacturers	– varied

Our products are used in signal transmission systems for deployment into the network which telecommunications operators are constructing and operating in the PRC and overseas market. The following diagram illustrates how our products used in the base station wireless communication infrastructure.

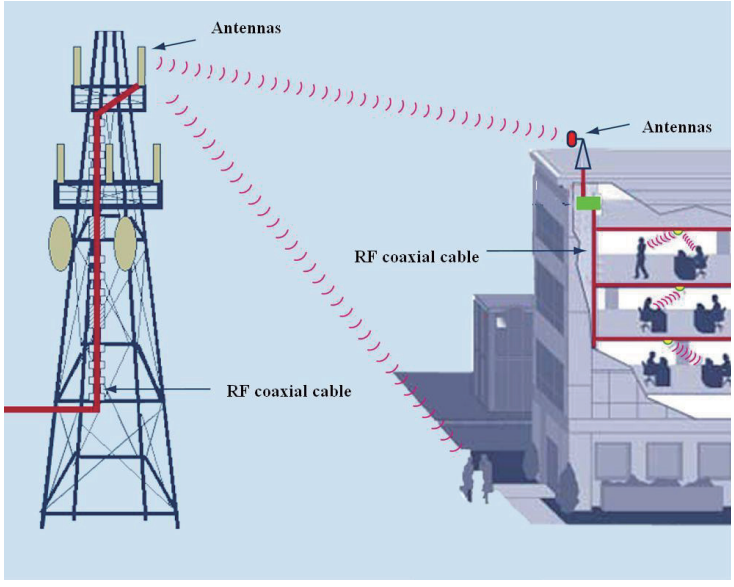


The following diagrams illustrate the application of RF coaxial cables:

Outdoor Base Station Wireless Signal Coverage System

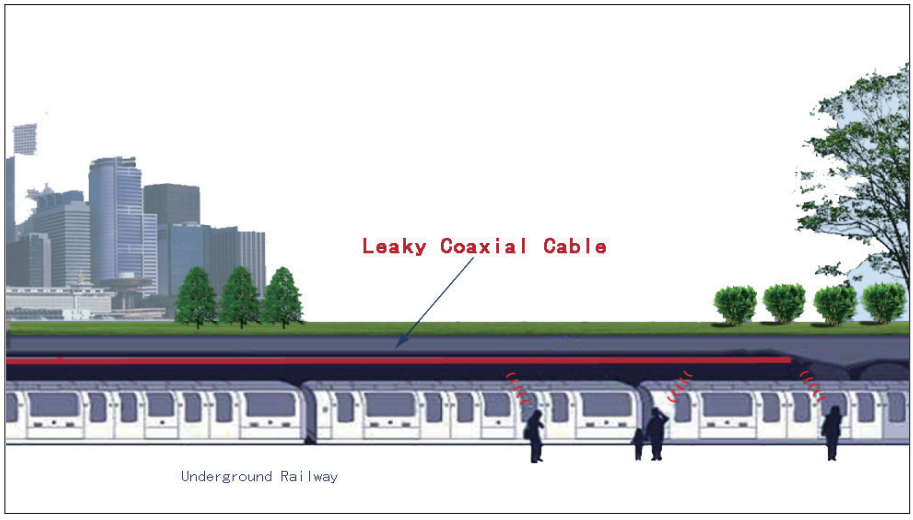


Indoor Wireless Signal Coverage System in Buildings



The following diagram illustrates the application of leaky coaxial cables:

Wireless Signal Coverage System for Underground Railway and Tunnel



PRODUCTION

Production facilities and capacity

Our production activities are currently carried out at our production base located at No. 138 Taodu Road, Dingshu Town, Yixing City, Jiangsu Province, PRC with a site area of approximately 103,627 sq.m.. Several buildings and various ancillary structures with total gross floor area of approximately 41,948 sq.m. were erected on the land. Our production base complies with all applicable local and national environmental protection laws and regulations in the PRC. There are no regulatory requirements or environmental issues that may materially affect our utilisation of tangible fixed assets.

We have recently completed the construction of a new production plant, with a total gross floor area of approximately 12,515 sq.m., on a parcel of land with a total site area of approximately 19,947 sq.m. which is adjacent to our current production base. The new production plant has been commenced operation in October 2010. The new production plant is equipped with 12 production lines for the manufacture of RF coaxial cables series for mobile communications with an aggregate annual production capacity of 33,060 km. Our Directors believe that the expansion of production capacity will enable us to meet the growing demand for our products in the future. As at the [●], we have not yet obtained the relevant land use rights certificate for the new production plant and returned the building ownership certificate of the new production plant to the PRC authority. If we are unable to obtain the land use right of the Land, we will not be able to obtain the building ownership certificate of the new production plant, and consequently we need to demolish the new production plant and relocate the production facilities. For details of the defects in the legal title of such properties, please refer to the paragraph headed "There are defects in the legal title of part of the land occupied by our production base and a new production plant erected thereon" in the section headed "Risk Factors" in this document.

We currently have a total of 55 production lines, of which 43 production lines are located in our existing production plants with an aggregate annual production capacity of approximately 115,710 km and 12 production lines are located in our new production plant with an aggregate annual production capacity of approximately 33,060 km. These production lines for different stages of production comprise physical foaming production lines, argon arc welding production lines and sheath production lines. Some of these production lines, for example, physical foaming production lines and sheath production lines, can be used for both of the production of RF coaxial cables series for mobile communications and some of coaxial cables for telecommunications equipment and accessories including coaxial cables for cable television networks and broadband network access and 50Ω high-frequency coaxial cables. Argon arc welding production lines, which are exclusively used for the production of RF coaxial cables series for mobile communications, cannot be used for the production of coaxial cables for telecommunications equipment and accessories. We acquired all physical foaming production lines from Austria for the production of RF coaxial cables to enhance our product quality. Our Directors believe that these advanced manufacturing equipment together with the production know-how development by our research and development team have enabled us to produce high quality products consistently. The production lines generally operate 24 hours a day and six days a week. Our production staff generally work eight hours a day and there are three shifts per day at our manufacturing equipment. Our production staff keeps checking on the operation of the manufacturing equipment on a daily basis. In each January, our equipment department issues an annual maintenance schedule for each production line, followed by regular maintenance works which are carried out in order to ensure the proper functioning of the manufacturing equipment.

The annual production capacity and the utilisation rate for the production of our RF coaxial cable series for mobile communications during the [●] are as set out below. Due to the variety of our telecommunications equipment and accessories, no one single product can be considered a meaningful representative for the purpose of measuring production capacity and utilisation rate.

	Year ended 31 December			Nine months ended 30 September
	2007[2]	**2008**[3]	**2009**[4]	**2010**[5]
Production capacity (km)[1]	38,280	52,170	103,170	82,593
Production volume (km)	39,333	60,640	110,609	48,464
Utilisation rate (%)	102.8	116.2	107.2	58.7

Notes:

(1) Our production capacity is estimated based on (i) [290] operating days per year and [207] operating days for the first nine months in 2010; and (ii) the estimated working shifts by our Company according to the expected demand during the respective year. According to our Company, there were two working shifts per operating day for our production facilities in 2007 and 2008 and three working shifts per operating day in 2009 and 2010. The additional working shift since 2009 reflected the expected strong demand from the construction of 3G network in the PRC.

(2) For the year ended 31 December 2007, utilisation rate was in excess of 100% due to our production facilities operated up to 30 days per month in order to fulfil our customers' orders in certain months.

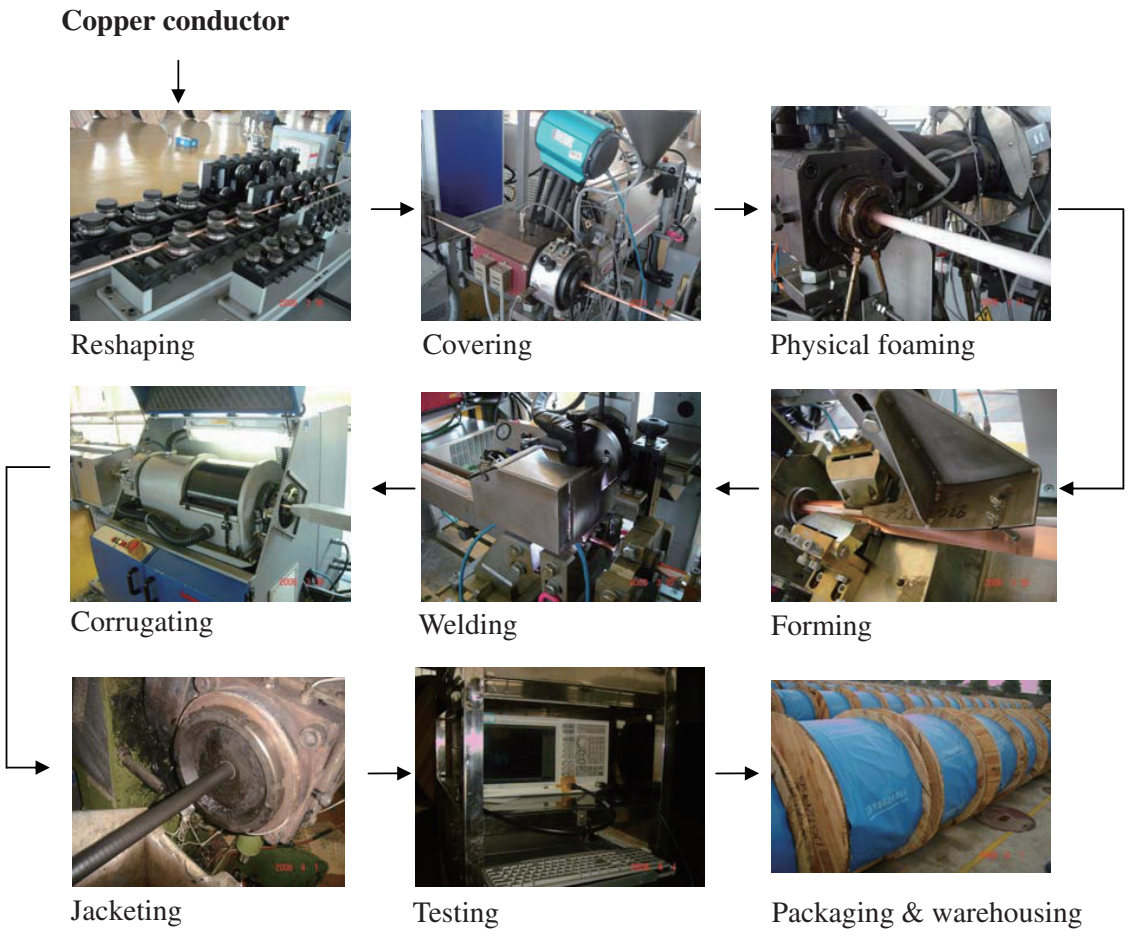
(3) For the year ended 31 December 2008, we increased our production capacity by adding one production line in March 2008 and fine-tuning our technical know how. Our utilisation rate was in excess of 100% due to our production facilities operated up to 30 days per month in order to fulfill our customers' orders in certain months.

(4) For the year ended 31 December 2009, we increased our production capacity by adding two production lines in June 2009 and fine-tuning our technical know how. Our utilisation rate was in excess of 100% due to our production facilities operated up to 30 days per month in order to fulfill our customers' orders in certain months.

(5) For the nine months ended 30 September 2010, the substantial decrease in utilisation rate was primarily due to the decrease in demand for our products from the three telecommunications operators in the PRC as a result of their reduction in capital expenditure in 2010. Our Group expects the fall in demand for our products will continue for the rest of 2010 and thereby induces the decrease in our revenue and net profits for the financial year of 2010.

Production process

The core process for manufacturing our main products – RF coaxial cable series for mobile communications is as follows:



It generally takes about 200 minutes to produce one kilometre RF coaxial cables from reshaping to packaging.

Reshaping. The copper conductor is straightened in two vertical directions with multi-group roller straighteners to eradicate minor curvatures in the inner conductor. High-quality wiredrawing moulds are used to pull and reshape the copper conductor to clean and smooth its surface.

Covering. An inner layer of low-density PE and EVA glue is squeezed onto the preheated inner conductor to serve as an adhesive and watertight layer.

Physical foaming. High-pressure gas is injected into the melted composite polythene (using our internally developed formula) to form a foaming insulation layer consisting of independent and evenly distributed air holes. This process employs precisely controlled air-injection system and unique die design and other advanced and automated technologies.

Forming. Copper tape is evenly and smoothly wrapped around the insulated core.

Welding. Under the protection of inert gas, an electric arc is ignited between the electrode and joining seam with high voltage and high-frequency or high-voltage pulse to generate high temperature and evenly fuse the joining seam to form the welded pipe.

Corrugating. The welded pipe is corrugated continuously using a specially designed mould under high-speed rotation to become a corrugated pipe.

Slotting. Used only for the manufacturing of leaky coaxial cables. Slots are cut on the outer conductor with a slotting equipment specially designed to produce a symmetrical ring or spiral design.

Jacketing. Melted PE or fire-retarding PE jacket material is squeezed out under high temperature and then wrapped evenly and continuously on the outer conductor.

Testing. The final product is checked to ensure that it is free from any defects and to ensure adherence with our quality standards and the requirements of our customers.

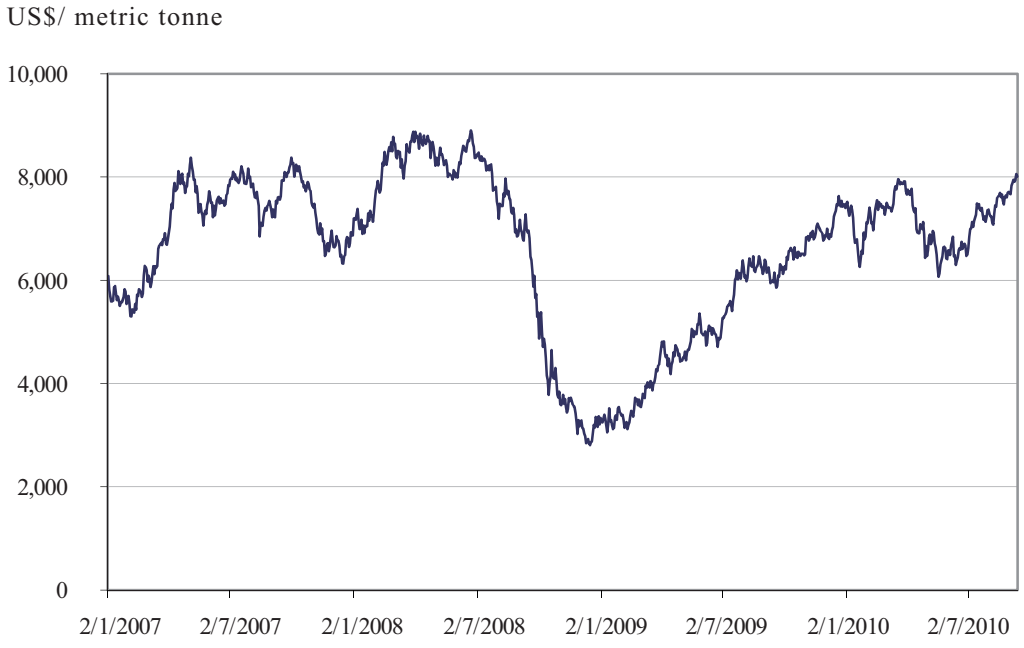
RAW MATERIALS AND PURCHASES

Our key raw materials comprise copper-based materials, such as copper tape and copper conductor, and PE. Copper-based materials form approximately 78.7%, 73.8%, 64.7% and 75.3% of our total purchases for each of the [●], respectively. PE for the same periods form about approximately 10.1%, 12.3%, 11.8% and 10.9% of our total purchases, respectively. To better control our inventory risk, we generally procure our key raw materials based on purchase orders.

In order to ensure the quality of raw material supply, our logistics department carries out stringent assessment on each potential supplier before putting on our qualified suppliers list. The assessment works cover operation scale, reputation, product portfolio and pricing level. We select suppliers by a tendering process organized quarterly or semiannually. We only invite our qualified suppliers to the tender. The bidders are required to submit tenders to our tendering committee comprising our general manager of Hengxin (Jiangsu) and other members from technical department, quality control department and logistics department. Our tendering committee carries out an evaluation process to assess the bidders taking into consideration the price, quality of service, quality of components, reliability, delivery time and credit terms provided. We usually select 2 to 3 winners and allocate our orders amongst them.

We have not entered into any hedging transactions in relation to copper. However, we still have protective measure against the fluctuations in copper prices. On the purchases side, we only purchase copper when purchase orders are confirmed with our customers. Further, the copper-based materials are purchased on a "cost-plus" basis, pursuant to which the price of copper-based materials is determined on the prevailing price of copper plus a processing fee charged by the suppliers. On the sales side, in the framework agreements that we have entered into with the three telecommunications operators, the selling prices of our products are directly linked to the copper prices, which can hedge against our risk associated with the fluctuation of copper prices. Some of the framework agreements prescribe the selling prices for each category of products under different copper price ranges while some prescribe a basic selling price for each category of products and in addition a formula that allows the adjustment of the selling prices for each category of products in the event that the fluctuation of the copper price exceeds the prescribed limit. As such, we could pass on most of the risk of copper prices fluctuations to our customers.

Copper spot prices on London Metal Exchange (LME)



Source: Bloomberg

As per the chart above, during the [●], copper prices remained high during 2007 and the first half of 2008 at around US$5,000 – US$9,000 per metric tonne. As a result of the 2008 financial crisis, the copper price fell abruptly. Since beginning of 2009, copper prices were gradually on an upward trend.

We purchase all our raw materials from local suppliers and foreign suppliers with distribution network in the PRC. We normally settle such purchases by way of banker's acceptance and bank transfers denominated in Renminbi. For copper-based materials, our suppliers normally grant us credit term of [15 days from the date of issuance of invoices], while for other raw materials we normally obtain credit terms in the range of [30 to 180 days from the date of issuance of invoices]. Sometimes, when we have urgent need for raw materials, we make payment upon delivery to ensure timely delivery of raw materials. Due to the close relationships with and proximity to our suppliers, we have not have experienced any significant problem with the supply of raw materials for our production needs during the [●].

For each of the [●], our five largest suppliers in aggregate accounted for approximately 67.4%, 63.8%, 57.4% and 61.6%, respectively, of our total purchases of raw materials. Purchases from our largest supplier for the same periods accounted for approximately 20.4%, 25.8%, 29.4% and 31.9%, respectively, of our total purchases. To the best knowledge of our Directors, none of our Directors, their associates or any shareholders of our Company holding more than 5% of the issued share capital of our Company, had any interest in any of the above five largest suppliers during the [●].

During the [●], we have purchased PE for the manufacture of our products from Suzhou Hengli Telecommunications Materials Co. Ltd. (蘇州亨利通信材料有限公司), a [●] of our Group under Chapter 14A of the [●], in the ordinary and usual course of business. Please refer to the section headed "Connected Transactions" in this document for the details of the transactions.

QUALITY CONTROL

We have established a quality management system with internal quality control guidelines based on the ISO9001:2000 standards and were awarded the ISO9001:2000 certification by the TL Certification Center (泰爾認證中心) (then known as the China Information and Industry Department, Telecommunications Certification Centre) (中國信息產業部郵電通信質量管理體系認證中心) in 2003. Our manufacture and service of RF coaxial cable, jumper cable and connector were accredited the ISO 14001:2004 certificate and the OHSAS 18001:2007 certificate by Det Norske Veritas in June 2010.

Besides our internal quality controls, we are required to comply with various industry technical standards set by the various PRC authorities. The details of such standards are set out as follows:

Standards	Governing Authority	Products
YD/T1092-2004	Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部)	RF coaxial cable series for mobile communications (移動通信用RF電纜)
YD/T1120-2007	Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部)	Leaky coaxial cable (漏泄同軸電纜)
YD/T1119-2001	Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部)	Super-flexible RF coaxial cable series for mobile communications (移動通信用超柔RF電纜)
YD/T 1174-2008	Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部)	Central office coaxial cables (局用同軸電纜)
YD/T 1967-2009	Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部)	50Ω radio frequency coaxial connectors for mobile communications (移動通信用 50Ω射頻同軸連接器)
YD/T 1966-2009	Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部)	50Ω radio frequency coaxial jumpers for mobile communications (移動通信用 50Ω射頻同軸跳線)
YD/T 1542-2006	Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部)	Technical requirements and testing methods for surge protective devices of signaling networks (信號網絡浪湧保護器 (SPD)技術要求和測試方法)

We have obtained a number of product certificates indicating our products are complied with the above industry technical standards. The validity of such product certificates are subject to annual inspection by the issuing authority. The details of our product certificates are as set out as follows:

Certificate	Applicable Standards	Issuing Authority	Validity
Product Certification (1/4"S super-flexible RF coaxial cable) (1/4"S超柔射頻同軸電纜)	YD/T 1119-2001	TL Certification Centre (泰爾認證中心)	3 June 2009 to 2 June 2012
Product Certification (1/4" RF coaxial cable) (1/4"射頻同軸電纜)	YD/T 1092-2004	TL Certification Centre (泰爾認證中心)	13 June 2008 to 12 June 2011
Product Certification (3/8"S RF coaxial cable) (3/8"S超柔射頻同軸電纜)	YD/T 1119-2001	TL Certification Centre (泰爾認證中心)	25 May 2010 to 24 May 2013
Product Certification (3/8" RF coaxial cable) (3/8"射頻同軸電纜)	YD/T 1092-2004	TL Certification Centre (泰爾認證中心)	25 May 2010 to 24 May 2013
Product Certification (1/2"S super-flexible RF coaxial cable) (1/2"S 超柔射頻同軸電纜)	YD/T 1119-2001	TL Certification Centre (泰爾認證中心)	25 May 2010 to 24 May 2013
Product Certification (1/2" RF coaxial cable) (1/2" 射頻同軸電纜)	YD/T 1092-2004	TL Certification Centre (泰爾認證中心)	25 May 2010 to 24 May 2013
Product Certification (7/8"S super-flexible RF coaxial cable) (7/8"S超柔射頻同軸電纜)	YD/T 1119-2001	TL Certification Centre (泰爾認證中心)	25 May 2010 to 24 May 2013
Product Certification (7/8" RF coaxial cable) (7/8"射頻同軸電纜)	YD/T 1092-2004	TL Certification Centre (泰爾認證中心)	25 May 2010 to 24 May 2013

Certificate	Applicable Standards	Issuing Authority	Validity
Product Certification (7/8" leaky coaxial cable) (7/8"漏泄同軸電纜)	YD/T 1120-2007	TL Certification Centre (泰爾認證中心)	24 June 2009 to 23 June 2012
Product Certification (1-1/4" RF coaxial cable) (1-1/4"射頻同軸電纜)	YD/T 1092-2004	TL Certification Centre (泰爾認證中心)	25 May 2010 to 24 May 2013
Product Certification (1-5/8" RF coaxial cable) (1-5/8"射頻同軸電纜)	YD/T 1092-2004	TL Certification Centre (泰爾認證中心)	25 May 2010 to 24 May 2013
Product Certification (1-5/8" leaky coaxial cable) (1-5/8"漏泄同軸電纜)	YD/T 1120-2007	TL Certification Centre (泰爾認證中心)	24 June 2009 to 23 June 2012

For details of the financial impact on our Group if we fail to obtain or renew these product certificates, please refer to the paragraph headed "Failure to meet the prescribed industry technical standards in the industries and markets we serve may attract product liability claims and may adversely affect our business and financial performance" in the section headed "Risk Factors" in this document.

We have instituted the following quality control procedures into our manufacturing processes in order to ensure ongoing compliance with the product certificates and industry technical standards, as they are integral to the quality of our products:

Raw material quality control. We assess and select our suppliers after conducting market research and in accordance with our Company's internal formulated guidelines set out under "Standards for Procurement of Raw Materials" (原材料採購規範). We will also compile a list of selected suppliers to build up a database of good suppliers. Examination of each batch of incoming raw materials is carried out based on the "Standards for Inspection of Raw Materials" (原材料檢驗規範) and raw materials that do not fulfil the necessary quality requirements are rejected.

Production process quality control. We import advanced production equipment from countries such as Austria, the USA and Italy. Such production equipments are equipped with advanced automated control technology and automated monitoring control systems to carry out comprehensive checks on the quality of our cables.

Quality control of semi-finished products. At each physical foaming stage and welding stage, there is an examination station whereby inspection personnel are equipped with advanced testing equipment and an examination of the semi-finished product is carried out

based on the internal guidelines set out in "Inspection Standards for Semi-finished Products" (半成品檢驗標準). These inspection personnel are responsible for examining semi-finished products and identifying any defects to ensure that the semi-finished products are free from defects before it goes on to the next stage of the production process.

Quality control of finished products. Our products are subject to a final quality inspection before they are delivered to our warehouse. In accordance with our internal guidelines "Inspection Standards for Finished Products" (產品出廠檢驗標準), our inspection personnel make use of advanced equipment to carry out inspections on the various performance parameters of our products to ensure that our products are free from defects and meet the requirements of our customers. Only products which pass the final quality control inspection are issued qualified product certificates and allowed to be sold on the market.

We have a team of [54] professional quality management personnel, who are responsible for the implementation of our quality management policy.

INVENTORY CONTROL

We closely monitor and control our inventory levels of raw materials and finished products to optimize our operations.

Our inventory of raw materials is primarily comprised of copper-based materials, and PE. We normally purchase key raw materials, i.e. copper-based materials, and PE, upon receipt of purchase orders from our customers. For our production purposes, we maintain a stock level of our requirement for copper-based materials for a period of 4 to 5 days and for PE of 3 days. In addition, our inventories are managed on a "first-in first-out" basis whereby supplies received first will be the first to be used for our manufacturing processes.

Our inventory of finished products is comprised mainly of products awaiting delivery to customers. We own warehouse in our production base and lease warehouse in India, which are directly monitored by Hengxin (Jiangsu) and Hengxin (India) respectively. We conduct stock take on a monthly basis on these warehouses. In addition, we have entered into logistics service agreements with four independent logistics service providers in Shenzhen, Guangzhou, Beijing and Shanghai in the PRC, which are near to our major customers and logistically convenient. Normally, we keep a reasonable level of common used finished products in the logistics service providers' warehouses so as to serve our customers more efficiently. We track these finished products by placing delivery notice to the logistics service providers, conducting stock take on a semi-annual basis and preparing aging analysis report on a quarterly basis.

As at [●], our inventory, comprising raw materials, work-in-progress and finished goods, amounted to approximately RMB96.4 million, RMB123.3 million, RMB184.2 million and RMB102.6 million, respectively. Our inventory turnover days (being the average of the beginning and ending balance of inventory divided by cost of sales and multiplied by the number of days during the year/period) during the same period were approximately 45 days, 41 days, 43 days and 56 days, respectively.

SALES AND MARKETING

Our products are generally classified into two categories which comprise (i) RF coaxial cables series for mobile communications; and (ii) coaxial cables for telecommunications equipment and accessories. Such products are principally sold to telecommunications operators and equipment manufacturers in the PRC and overseas market.

Sales network

Our sales are currently concentrated in the PRC. The following table sets forth our revenue by geographical areas during the [●].

	Year ended 31 December						Nine months ended 30 September			
	2007		2008		2009		2009		2010	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* (unaudited)	*%*	*RMB'000*	*%*
PRC (including Hong Kong)	837,233	86.9	954,804	78.6	1,526,800	94.5	1,156,710	94.6	838,285	96.9
South Asia[(1)]	124,971	13.0	259,375	21.4	85,165	5.3	64,968	5.3	21,426	2.5
Others[(2)]	620	0.1	–	–	3,300	0.2	1,260	0.1	5,705	0.6
Total	962,824	100	1,214,179	100	1,615,265	100	1,222,938	100	865,416	100

Notes:

1. The countries of the external customers included in this category included India, Indonesia, Singapore and Australia etc. No further analysis by countries of this category is presented because the revenue from each individual country is insignificant to the total revenue.

2. The countries of the external customers included in this category included Kuwait, Iran, Mexico and Costa Rica etc. No further analysis by countries of this category is presented because the revenue from each individual country is insignificant to the total revenue.

Our sales coverage spans throughout the PRC. We have established market development department adopting a strategic regional sales system in charge of the sales and marketing activities relating to the PRC market. More specifically, we have designated seven sales regions in the PRC, based on the geographical concentration of our customers, to facilitate management of our sales and marketing activities. The seven regions are Beijing, Northeast China, Northwest China, Central China, East China, South China and Southwest China. Our sales representatives of each sales region maintain regular contact with customers to promote products, negotiate contract terms, monitor product performance and customer satisfaction, provide technical supporting and follow up trade receivables.

In addition, we have established the overseas business department in charge of the sales and marketing activities relating to the overseas markets. We currently export our products directly to India, Singapore, Indonesia and Australia, of which India contribute the majority. Our sales to South Asia experienced substantial increase in 2008 and significant decline in 2009 and 2010. The reasons for the significant drop was mainly due to the global financial crisis since late 2008 which led to the decrease in the infrastructure investment in base stations, and a de-inventory process in India telecommunications equipments market in 2009 as a result of the higher level of inventory of telecommunications equipments in India in 2008. However, in view of many mobile operators had aggressively placed bids for 3G license in India and the India government had just approved the results of 3G license auction in May 2010, our Directors expect that the Indian market will be recovering in the coming years and our sales and marketing strategies in the overseas market remain unchanged. In July 2009, we successfully established our wholly-owned subsidiary in India, Hengxin (India), through which we hope to increase our exports to the local market by selling our products directly to the Indian telecommunications operators. Hengxin (India) has recognised sales to local telecommunications operators since August 2010.

Sales model

We normally have to bid for the sale of our products through tenders organised by our customers. Our sales representatives of each sales region, among their other duties, are responsible for liaising with customers and gathering information in respect of potential sales. After receipt of invitation by the customers, our commerce department prepare tender documents setting out our proposals based on the information required under the invitation. We would then submit the tender documents to our customers. If we are successful in the tenders, we will enter into formal agreement with the customer. Such formal agreement generally has a term of one year with major terms in product volume, product pricing, delivery time, payment terms, compliance with applicable national and industry standards and termination and liabilities in the event of breach. Based on the formal agreement, the customers will place purchase orders depending on their demand. The purchase orders specify product prices. We offer a warranty period of three years and delivery period of no more than three weeks to our customers in general. The warranty costs incurred during the [●] are immaterial to our revenue and net profits. We are responsible for supplying our products to our customers and no installation services are provided by us to our customers. Currently, we have entered into framework agreements with each of China Unicom, China Mobile and China Telecom, specifying expected purchasing amount, product pricing including price adjustment in accordance with fluctuation of copper price, delivery arrangement, product warranty and liabilities in the event of breach. The framework agreements are normally valid until the customers declare the result of the next tenders and/or we enter into new framework agreements with the customers. According to our PRC legal advisers, Shanghai Veritas Law Corporation, the framework agreements entered into between us and each of China Unicom, China Mobile and China Telecom are legally binding.

Sales contribution through tenders accounted for approximately 84.5%, 83.6%, 94.1% and 89.7% of our revenue during the [●], and the success rate of our bid over the same period was approximately 67.7%, 65.4%, 65.6% and 62.5%, respectively.

Pricing

Product and contract pricing is controlled and determined by our [management team] and it is the responsibility of our commerce department to execute such plan. We usually have to bid for contracts through a tendering process organized by our customers. In determining our bid price and each product price, we will have regard to a number of factors, including cost of production which is mainly affected by prices of raw materials such as copper and PE, our business strategies and the level of likely competitive price given the prevailing market conditions.

Credit policy

Our sales to domestic customers are settled in Renminbi by way of banker's acceptance and bank transfers, while our export sales are generally settled in US dollars by telegraphic transfer.

Before accepting any new customer, we assess the potential customer's credit quality and define credit limits by customer. We use publicly available financial information and our own trading records to rate our major customers. We only transacts with customers that have good credit quality. Our exposure and the credit ratings of our counterparties are continuously monitored. Credit exposure is controlled by the counterparty limits that are reviewed and approved by the management. The management generally grants credit only to customers with good credit ratings and also closely monitors overdue trade debts. The credit terms that we offered to the three telecommunications operators in the PRC generally comprise two stages according to the payment terms as stipulated in the related framework agreement. At first stage, a portion of our bill is to be settled upon the receipt of our products. At second stage, the remaining portion will be settled upon the passing of final testing of the construction of their network infrastructures such as base stations in which our products form a part. The recoverable amount of each individual trade debt is reviewed at the end of each reporting period and adequate impairment for doubtful debts is made for irrecoverable amounts with reference to the aging of the trade debts, payment history, trading records and other publicly available information. In determining the recoverability of the trade receivables, we monitor any change in the credit quality of the trade receivables since the credit was granted and up to the end of the reporting period.

We have implemented a credit control system to minimise the risk of doubtful debts. Generally, we extend credit period of 180 days to our trade customers. The following are the key measures implemented to minimise our credit risk:

- We have implemented a system of credit period approval. Credit period which is longer than 180 days requires the approval by Dr. Song Haiyan, our executive Director.

- We focus our sales on customers which have proven financial track record and are creditworthy. Majority of the sales are generated from the major telecommunications companies in PRC, such as China Unicom, China Mobile and major equipment

manufacturers. They are reputable in the industry and have strong financial resources. For customers other than the major telecommunications companies and major equipment manufacturers, we normally require cash on delivery.

- On a periodic basis, we review our customers' creditworthiness and payment trend. Under our internal control system, if a customer does not satisfy our credit review, we will list and highlight such customer to our sales personnel. We will only sell to such customer upon receipt of their advanced payments.

We made allowance for doubtful trade debts of approximately RMB15.8 million, RMB15.8 million, RMB15.8 million and RMB15.8 million as at [●], respectively.

Customers

Our customers mainly include (i) telecommunications operators, such as the various branches or subsidiaries of China Unicom, China Mobile and China Telecom; and (ii) equipment manufacturers. During the [●], we principally sell our products to 31 of 32 branches of China Unicom in the PRC, 25 of 31 operating subsidiaries of China Mobile in the PRC, 29 of 31 subsidiaries of China Telecom in the PRC and 2 major equipment manufacturers. For each of the [●], revenue arising from sales to the China Unicom group of companies, the China Mobile group of companies and the China Telecom group of companies in aggregate accounted for 66.5%, 64.8%, 76.2% and 72.0% of our total revenue, respectively. The reduction in capital expenditure by the three telecommunications operators in the PRC since 2010 has resulted in the fall in demand for our products and thus our revenue for the nine months ended 30 September 2010. Our Group expects such slowdown in demand for our products induced by reduction in capital expenditure by the three telecommunications operators will continue for the rest of 2010, resulting in the decrease in our revenue and net profits for the year ending 31 December 2010.

We have established strong working relationships with our major customers, through the quality of our products and good customer service. Our sales team, including market development department and overseas business department, comprises 55 sales personnel who have accumulated on average of at least 5 years of sales experience each in the coaxial cable industry. Our sales team is responsible for coordinating with and handling enquiries from customers and providing after sales services including providing technical training, installation guidance and maintenance service in order to strengthen the relationship and communication with our customers. Our sales team also operates a 24-hour hotline and gives response within 24 hours. We had not encountered any material defective product claims during the [●].

If each group of China Mobile, China Unicom and China Telecom is regarded as a single customer, our five largest customers in aggregate accounted for approximately 88.0%, 83.9%, 86.7% and 85.5%, respectively, of our total sales for each of the [●]. Sales to our largest customer for the same periods accounted for approximately 34.7%, 32.1%, 36.8% and 36.6%,

respectively, of our total sales. As at the [●], we have established two to seven years of business relationship with the five largest customers. To the best knowledge of our Directors, none of our Directors, their associates or any shareholders of our Company holding more than 5% of the issued share capital of our Company, had any interest in any of the above five largest customers during the [●].

Marketing

Our sales team is also responsible for conducting marketing activities to expand our business. We promote our products through participating in industry trade fairs and advertising in industry publications and on websites. For each of the [●], our marketing expenses were RMB0.1 million, RMB1.0 million, RMB4.2 million and RMB2.5 million, respectively.

In order to further expand our business, we intend to strengthen our market position and further increase our sales of leaky coaxial cables for railways uses in the PRC. Our sales team maintains close business relationship with our customers, which enable us to better understand their requirements and promptly respond to their procurement needs. At the same time, we will continue to pursue export opportunities in geographical markets outside the PRC. Please refer to the paragraph headed "Business Strategies" in this section.

RESEARCH AND DEVELOPMENT

We are committed to keeping up with advancements in technology and in developing new products. As at the [●], our research and development department comprises 31 professional technical personnel who each holds at least a tertiary degree and has accumulated much experience and expertise in the product development of coaxial cables.

During the [●], we have established collaborative relationships with a Shanghai research institute, Zhejiang University (浙江大學) and Beijing University of Posts and Telecommunications (北京郵電大學) which we believe will enhance our research and development capability. In March 2005, we entered into a cooperation agreement with such Shanghai research institute in respect of the material and application areas of environmental friendly cables. Such Shanghai research institute agreed to provide technical support and consultation, while we are mainly responsible for the cost and expenses, requisite equipment and raw materials and working place. The cooperation agreement has a term of 5 years and expired on 31 March 2010. No terms of the cost and profit sharing arrangement, right to intellectual properties and termination clause have been set out in the cooperation agreement. Our Directors confirm that the research results and the rights to intellectual properties under the cooperation program with such Shanghai research institute are owned exclusively by us. Under the cooperation program with such Shanghai research institute, we have developed and commercialised 1 new variety of coaxial cables and obtained 1 registered patent for such new product. Currently, we have no intention to renew the cooperation agreement with such Shanghai research institute. In August 2006, we entered into a cooperation agreement with Zhejiang University in respect of leaky coaxial cables and accessories for 3G base station. Zhejiang University has agreed to provide technical support, requisite equipment and personnel in consideration of our annual payment of RMB200,000 as research fee. The research results and the rights to intellectual properties will be owned exclusively by us and there is no profit-sharing arrangement in respect of such cooperation. The cooperation agreement has a

term of 3 years and has been renewed for another 3 years commencing from 1 August 2009. Under the collaboration with Zhejiang University, we have developed and commercialized 4 new varieties of coaxial cables and telecommunications accessories, as shown in the below table, and are currently working on another 2 new varieties of coaxial cables and telecommunications accessories development projects with Zhejiang University.

Product	Awards/patents	Year of commercial sales
Quarter-wave broadband lightning surge arrester for mobile communications base station (移動通信基站用四分之一波長寬頻同軸避雷器)	Advanced Technology Product Certificate (高新技術產品認定證書) by Jiangsu Science and Technology Bureau (江蘇省科學技術廳)	2006
Surge protective device for 3G mobile communications TD-SCDMA technology (第三代(3G)移動通信TD-SCDMA技術用電湧保護器)	Advanced Technology Product Certificate (高新技術產品認定證書) by Jiangsu Science and Technology Bureau (江蘇省科學技術廳)	2009
Low attenuation connector for mobile communications antennas system (移動通信天饋系統用低損耗連接器)	obtained [3] patents	2009
Leaky coaxial cable for railway system (軌道交通系統用漏泄同軸電纜)	obtained [1] patent and in the process of applying for [2] more patents	2010

In August 2010, we entered into a cooperation agreement with Beijing University of Posts and Telecommunications (北京郵電大學) in respect of internet of things (IOT) and intelligent information processing. Beijing University of Posts and Telecommunications has agreed to provide technical support and consultation in consideration of our annual payment of RMB800,000 as research fee. The research results and the rights to intellectual properties will be owned by us and there is no profit-sharing arrangement in respect of such cooperation. The cooperation agreement has a term of 5 years commencing from 8 August 2010.

To ensure that we keep up with the latest technological developments and commercialise our research and development efforts into successful products in the market, we rely on our sales team to interact with our customers to understand market demands. Based on their feedback, we will research and develop new products suitable for the market. After the products are successfully developed, the research and development team will carry out relevant business training for our sales personnel to ensure that new products are marketed effectively

as soon as possible. Our commitment to synergise our research and development with our sales and marketing efforts will satisfy our customers demand for new products and give us an edge over competitors in the industry.

In developing new products, we focus on enhancing the technology and increasing the market competitiveness of our products. As a result of the improvement in our technology, we have developed products such as the super-flexible coaxial cable and low-attenuation coaxial cable. In addition, we concentrate on developing relevant products used in communications system and research on applications of our products such as developing leaky coaxial cables to railways. As a testament of our research and development capabilities, we have received a number of awards for our products. Please refer to the paragraph headed "Awards and Honors" in this section for details on the awards.

We have developed and commercialised 59 new varieties of coaxial cables and telecommunications accessories since 2003. We have 7 new varieties of coaxial cables and telecommunications accessories under development (including 2 development projects with Zhejiang University (浙江大學)) as at the [●].

We have also set up an academician workstation (院士工作站) in September 2010. Academician workstations in Jiangsu Province are regulated by Provisional Measures on Administration of Academician Workstations in Enterprises of Jiangsu Province. The academician workstation is led by Dr. Song Haiyan, our executive Director and General Manager of Hengxin (Jiangsu) and Mr. Liu Yunjie. Mr. Liu is an academician of Chinese Academy of Engineering (中國工程院) and an expert in communication and information system. He is currently the chief of the science and technology committee of China Unicom. Our Directors believe that the establishment of an academician workstation will drive our technical innovation and strengthen our market competitiveness. Moreover, it will bring opportunities to our Group to jointly carry out research work with the talented academic team, which in turn may improve our research and development capability. The academic team comprises Mr. Liu Yunjie and five members. All the six persons are working in Beijing University of Posts and Telecommunications (北京郵電大學) and major in communication engineering or electromagnetic field. Amongst the five members, one is professor, three are associate professors and one is lecturer. All of our 31 research and development personnel will allocate part of their working time to participate in the academician workstation. The academician workstation will engage in the research work of internet of things (IOT), an advanced technology in the world today. The ownership of the research results of the research projects undertaken by academician workstation is determined in the Cooperation Agreement signed by Mr. Liu Yunjie and Hengxin (Jiangsu). For those projects proposed by Hengxin (Jiangsu), if such projects are financially supported and the research work thereof is mainly carried out in the premises of Hengxin (Jiangsu), the ownership of the research results of such projects will belong to Hengxin (Jiangsu). For other projects (including the projects that financially supported by both of Hengxin (Jiangsu) and Mr. Liu Yunjie, or the projects contributed at the preliminary stage by the research result of Mr. Liu Yunjie), prior to the commencement of such projects, Hengxin (Jiangsu) will negotiate with Mr. Liu Yunjie about their respective rights and the ownership of the research results of such projects. The expenses

incurred by the academician workstation are to be borne by our Company and the government. Our Directors plan to use part of the [●] from the [●] to finance the operation of the academician workstation. The expenses mainly consist of construction of infrastructural facilities, acquisition of equipment, documentation fees, travelling fees and testing fees. The estimated annual research and operating budgets for each of the three years ending 31 December 2012 are approximately RMB8.1 million, RMB3.7 million and RMB4.2 million, respectively, among which, approximately 90% will be borne by our Company and approximately 10% will be borne by the government. A larger budget for 2010 is primarily due to the construction of infrastructural facilities and acquisition of requisite equipment.

Our research and development expenditures for each of the [●] were approximately RMB3.7 million, RMB5.5 million, RMB8.4 million and RMB4.4 million, respectively.

COMPETITION

The competition in the mobile communications RF cable industry in the PRC is intensive. Along with the development in the construction of mobile communications networks, the market for mobile communications RF cables has been expanding over recent years and the number of domestic mobile communications RF cable enterprises keeps increasing, as more enterprises are attracted by the market potential geared by 3G development. Therefore, it is expected that the competition in the mobile communications RF cable industry in the PRC will continue to intensify.

The mobile communications RF cable industry in the PRC is highly concentrated. By the end of 2009, there are 32 enterprises in this industry in the PRC, which increased from 22 in 2006. Among the 32 enterprises, revenues of the top two account for 55.5% of the total revenues of the industry in 2009; revenues of the top three enterprises in terms of revenue account for 67.6% of the total revenues of the industry in 2009; revenues of the top five enterprises in terms of revenue account for 88.4% of the total revenues of the industry in 2009.

Our Directors believe that our competitive strengths in the PRC RF cable market are as follows:

We have a comprehensive sales and distribution network;

We enjoy a good reputation and brand name in the coaxial cable industry;

We have advanced manufacturing technology and large-scale production capacity;

We offer a comprehensive range of RF coaxial cables series for mobile communications;

We have strong research and development capabilities; and

We have an experienced and professional management team.

For more information on competition, please refer to the section headed "Risk Factors – We may not be able to maintain our competitive strengths in the telecommunications industry".

We face competition from both of international players and Indian local players in the Indian mobile communications market. Our major competitors in India are either private companies or subsidiaries of public companies, the operation and financial information of which are not publicly available or verifiable. Our Directors consider that the prices of our products are more competitive than some of our major competitors in India, mainly attributable to the reason that the raw materials used by these competitors are imported to India which resulted in a higher cost of the products produced by these competitors. Our Directors also consider that the quality of our products is better than Indian local players, mainly attributable to the instable power supply in India which resulted in interruption of the operations of manufacturing equipments and thus a higher failure rate of the products produced by these competitors. As more telecommunications operators in India tend to purchase locally, we have set up Hengxin (India) and recruited local employees in order to enable us to provide instant response to customers' needs and strengthen post-sale services. However, some of our major competitors have longer presence in India market and its sales and distribution network is more well-established than ours.

INTELLECTUAL PROPERTY RIGHTS

We have obtained 15 patents in the PRC for our products and are in the process of applying for another 6 patents for our products in the PRC. We have registered 4 trademarks in the PRC and 2 trademarks in Singapore. We have applied for 4 trademarks in India, 1 trademark in Singapore and 1 trademark in Hong Kong. Please refer to "Statutory and General Information" in Appendix [VI] to this document for more details.

We seek to protect our intellectual property rights by relying on laws and regulations such as trademark and patent law of the PRC and by imposing confidentiality obligations on employees in our research and development department and on our senior staff in the sales department.

Our Directors confirm that during the [●] we were not involved in any proceedings in respect of, and we have not received notice of any claims of infringement of any intellectual property rights that maybe threatened or pending, in which we may be involved whether as a claimant or as a respondent.

AWARDS AND HONORS

We have received several awards issued by the government and various organisations which enhanced our reputation among customers, helped us establish a good brand name and evidenced our efforts in research and development, quality control and environmental

protection. Our commitment to excellence is evidenced by the following awards and certificates which we received amongst others during the [●]:

Awards/certificates	Issuing institutions	Year of grant/validity
Certificate of Jiangsu Famous Export Brand (江蘇省出口名牌)	Jiangsu Foreign Trade and Economic Cooperation Bureau (江蘇省對外貿易經濟合作廳)	2009-2010
Jiangsu Private Technology Enterprise (江蘇省民營科技企業)	Jiangsu Private Technology Enterprise Association (江蘇省民營科技企業協會)	December 2009 (two years)
Advanced Technology Enterprise (高新技術企業證書)	Jiangsu Science and Technology Bureau, Jiangsu Finance Bureau, Jiangsu State Tax Bureau, Jiangsu Local Tax Bureau (江蘇省科學技術廳、江蘇省財政廳、江蘇省國家税務局、江蘇省地方税務局)	24 September 2008 (three years)
Foreign Invested Advanced Technology Enterprise Certificate (外商投資先進技術企業確認證書)	Jiangsu Foreign Trade and Economic Cooperation Bureau (江蘇省對外貿易經濟合作廳)	2008
Certificate of the First Class Enterprise Producing Export Industrial Products in Jiangsu Province (江蘇出口工業產品生產企業分類一類企業證書)	Jiangsu Entry-exit Inspection & Quarantine Bureau of the PRC (中華人民共和國江蘇出入境檢驗檢疫局)	31 December 2008 to 31 December 2010
Jiangsu Famous Brand Certificate (江蘇名牌產品證書)	Jiangsu Promotion Committee for Top Brand Strategy (江蘇省名牌戰略推進委員會), a committee subordinate to Jiangsu Quality Supervision Bureau	December 2007 to December 2010
Jiangsu Environment Friendly Enterprise (江蘇省環境友好企業)	Jiangsu Environmental Protection Bureau (江蘇省環境保護廳)	2007

In addition to the above awards, the following table sets out the various awards we hold for our products amongst others during the [●]:

Awards/certificates	Issuing institutions	Year of grant (validity)
National Key New Product Certificate (bundle cable for 3G mobile communications TD-SCDMA base station) (國家重點新產品證書(第三代(3G)移動通信TD-SCDMA基站用集束電纜))	Ministry of Science and Technology of the PRC, Ministry of Environmental Protection of the PRC, Ministry of Commerce of the PRC, General Administration of Quality Supervision, Inspection and Quarantine of the PRC (中華人民共和國科學技術部、中華人民共和國環境保護部、中華人民共和國商務部、中華人民共和國國家質量監督檢驗檢疫總局)	November 2008 (three years)
Advanced Technology Product Certificate (surge protective device for 3G mobile communications TD-SCDMA technology) (高新技術產品認定證書 (第三代（3G）移動通信TD-SCDMA技術用電湧保護器))	Jiangsu Science and Technology Bureau (江蘇省科學技術廳)	24 December 2008 (five years)

Awards/certificates	Issuing institutions	Year of grant (validity)
Advanced Technology Product Certificate (low attenuation super-flexible coaxial cable for new generation mobile communications equipment) (高新技術產品認定證書 (新一代移動通信設備用低衰減超柔電纜))	Jiangsu Science and Technology Bureau (江蘇省科學技術廳)	15 October 2008 (five years)
Advanced Technology Product Certificate (bundle cable for 3G mobile communications TD-SCDMA base station) (高新技術產品認定證書 (第三代(3G)移動通信TD-SCDMA基站用集束電纜))	Jiangsu Science and Technology Bureau (江蘇省科學技術廳)	20 December 2007 (five years)
Advanced Technology Product Certificate (low attenuation 7/8" RF coaxial cable) (高新技術產品認定證書 (低衰減7/8"射頻同軸電纜))	Jiangsu Science and Technology Bureau (江蘇省科學技術廳)	19 April 2006 (five years)
Advanced Technology Product Certificate (7-16 RF connector for mobile communications) (高新技術產品認定證書 (移動通信用7-16型射頻同軸連接器))	Jiangsu Science and Technology Bureau (江蘇省科學技術廳)	19 April 2006 (five years)

EMPLOYEES

As at [30 September 2010], we had a total of 675 employees, almost all our employees are based in the PRC. A breakdown of our employees by function as at the same date is set forth below:

	As at [30 September 2010]
Management and administration (excluding the Directors)	73
Sales and marketing	55
Research and development	31
Quality control	54
Manufacturing	386
Back-end support	76
Total	675

The relationship and co-operation between our management and our employees has been good. Save as disclosed in the paragraph headed "Legal Compliance and Proceedings" in this section and the paragraph headed "Our inability to attract, retain and motivate skilled engineers, research personnel and our key management may adversely affect our business operations" in the section headed "Risk Factors", we have not experienced any incidence of work stoppage or labour dispute, nor have we experienced any significant turnover in employees during the [●].

We believe that our employees are important assets to our Group and we have adopted several human resource management policies to attract talent, retain good employees, develop and train our employees.

New employees are required to undergo training to familiarise themselves with the rules and regulations of our Company and the requirements of their job before they start working. They are also subject to a 3-month probation period. At the end of the probation period, they will have to pass a theoretical and practical assessment before they can be confirmed as full-time employees.

We also place emphasis on the continuing education and training of our staff. A detailed training plan is prepared every year to ensure that our staff improve their skills, acquire new knowledge and keep abreast of new developments. In particular, we focus on training our management and key personnel to develop their management and decision-making abilities to enhance their work performance. In this way, we strive to encourage a culture of learning and education in our Company.

The remuneration package we offer to our employees includes salary, bonuses and allowances. In general, we determine employee salaries based on the individual's qualifications, position and seniority. We have designed an annual review system to assess the performance of our employees, which forms the basis of our decisions with respect to salary increments, bonuses and promotions. Our employee benefits expense amounted to approximately RMB35.5 million, RMB44.4 million, RMB64.5 million and RMB34.3 million for each of the [●].

PROPERTIES

Property interests owned and rented in the PRC

As at the [●], we had obtained land use rights certificates for three parcels of land with a total site area of approximately 103,627 sq.m. for our production base situated at No. 138 Taodu Road, Dingshu Town, Yixing City, Jiangsu Province, the PRC. As at the [●], we had obtained building ownership certificates for our existing production plants and other buildings with a total gross floor area of approximately 54,463 sq.m. erected on the above parcels of land.

Our PRC legal advisers, Shanghai Veritas Law Corporation, have advised that we have obtained all required land use rights certificates for the above parcels of land and building ownership certificates for the above properties.

We also have six buildings on the above parcels of land, which are used as warehouse, back-up power room, water pump room and gatehouse, with a total gross floor area of approximately 2,282 sq.m. Such buildings are in nature of temporaries and therefore we have not applied building ownership certificates for these buildings as at the [●]. Given the use purposes of these buildings are complied with the use purposes of the land use rights certificates, and these buildings are only used as storage place for auxiliaries. Our PRC legal advisers, Shanghai Veritas Law Corporation, have advised that the defects in the legal title of these buildings will not have material impact on our production and operation.

We have occupied a parcel of land with a total site area of approximately 19,947 sq.m. adjacent to our current production base in Yixing City, Jiangsu Province, the PRC, on which we have set up our new production workshop. As at the [●], we have not yet obtained the relevant land use rights certificate for the new production plant and returned the building ownership certificate of the new production plant to the PRC authority. For details of the defects in the legal title of such properties, please refer to the paragraph headed "There are defects in the legal title of part of the land occupied by our production base and a new production plant erected thereon" in the section headed "Risk Factors" in this document.

Property interests rented in Singapore

As at the [●], we leased a property with a total gross floor area of approximately 452 sq.ft. as office in Singapore.

Property interests rented in India

After the establishment of our subsidiary, Hengxin (India), in India, we rented three properties with a total gross floor area of approximately 14,142 sq.ft. as our office, warehouse and staff quarters in India.

Our India legal advisers, DSK Legal have confirmed that the above lease is valid and enforceable in all material respects.

Valuation

CB Richard Ellis Limited, an independent property valuation firm, has assessed our property interests as at [●]. The letter, the summary of values and the valuation certificate issued by CB Richard Ellis Limited are set out in Appendix [III] to this document.

ENVIRONMENTAL PROTECTION

We are subject to the PRC national environmental laws and regulations and environmental regulations promulgated by the local governments where we operate. Please refer to the section headed "Laws and Regulations" in this document for details about the environmental protection requirements related to our operations.

There is no significant discharge of waste materials during our production process. We have implemented various environmental policies to ensure our compliance with the applicable law and regulations related to environmental protection. We were awarded Jiangsu Environment Friendly Enterprise (江蘇省環境友好企業) by Jiangsu Environmental Protection Bureau (江蘇省環境保護廳) in December 2007. According to a notice jointly announced by the Communist Party of China, Yixing Committee (中共宜興市委) and Yixing Municipal People's Government (宜興市人民政府) in April 2010, Hengxin (Jiangsu) was recognised as one of Jiangsu Yixing Advanced Ecological Construction Enterprises (江蘇省宜興市生態建設先進企業).

We have received a letter from Jiangsu Yixing Environmental Protection Department (江蘇省宜興市環境保護局) on 30 September 2010, confirming that Hengxin (Jiangsu) had been in compliance with national and local laws and regulations in respect of environmental protection since its establishment, and it had never been found to violate environment protection and had never been administratively punished for non-compliance with environmental protection laws and regulations. Our PRC legal advisers, Shanghai Veritas Law Corporation, have advised that we have complied with all applicable PRC environmental laws and regulations.

INSURANCE

We have taken up insurance policies for our properties, fixed assets, inventory and motor vehicles. Our insurance coverage is in line with common commercial practice in the PRC. [During the [●], we have not made any material claims under our insurance policies.] Please refer to the paragraph headed "We may face disruptions in the business operations at our production facilities" in the section headed "Risk Factors" for more details.

The social insurance funds system in the PRC includes pension insurance, medical insurance, unemployment insurance, work-related injury insurance and maternity insurance. During the [●], our subsidiary, Hengxin (Jiangsu), has failed to pay the social insurance funds for those employees in their probation period for the reason that the probation employees are usually subject to a higher chance of personnel changes, and we have not provided the social insurance contribution until after their probation period is completed. Pursuant to the PRC Labor Law and the PRC Labor Contract Law, employees who are under probation should participate in the social insurance funds system. Therefore, we are facing with risks and may be imposed of penalties, suffer loss arising from compensation sued by such employees and compensation to such employees if they suffer injuries during the probation period. Please refer to the paragraph headed "Our non-payment of social insurance funds for employees who are in probation could lead to imposition of penalties or other liabilities".

LEGAL COMPLIANCE AND PROCEEDINGS

Save as disclosed in this section, there were no legal proceedings or arbitrations, pending or threatened, against us during the [●] and/or as at the [●], which could be expected to have a material adverse effect on our business and operations. As confirmed by our PRC legal advisers, Shanghai Veritas Law Corporation, save as disclosed in the paragraph headed "Insurance" under the section headed "Business", we have obtained all licenses, approvals and permits for our operations in the PRC, and our operations comply with all the relevant requirements and rules of the competent authorities.

On 2 February 2007, Ruidi initiated legal action against Hengxin (Jiangsu) in the Yixing Court for infringement of its property interests in a parcel of land located at at No. 138 Taodu Road, Dingshu Town, Yixing City, Jiangsu Province, PRC, by which Ruidi requested that Hengxin (Jiangsu) should cease to infringe its interest, return the land use right of the land to Ruidi, and pay Ruidi fees for having used the land. On 3 July 2008, the court case was discontinued at Ruidi's own accord upon approval by the Yixing Court. But on the same day Ruidi started a fresh suit against Hengxin (Jiangsu) on substantially the same subject matter and same ground. On 11 October 2008, the Yixing Court pronounced its ruling that the suit should be suspended pending the outcome of another administrative lawsuit taken out by the former shareholder of Ruidi against the Foreign Investment Management Committee of Yixing City. On 2 November 2010, the court case was discontinued at Ruidi's own accord upon approval by the Yixing Court. But Ruidi started a fresh suit against Hengxin (Jiangsu) on substantially the same subject matter and same ground. The Yixing Court issued the Notice of

Responding (應訴通知書)[1] to Action to Hengxin (Jiangsu) on 10 November 2010. Please refer to the paragraph headed "There are defects in the legal title of part of the land occupied by our production base and a new production plant erected thereon" in the section headed "Risk Factors" in this document.

On 3 March 2008, our Company filed lawsuits in the High Court of the Republic of Singapore against our former Directors, Mr. Qian Lirong and Mr. Jiang Wei (the "**Former Directors**") in respect of breaches of their respective service agreements dated 9 February 2006 and breaches of duties owed by them to our Company. Our Company claimed for injunctions restraining the Former Directors from further breaches of their service agreements and for damages. As a result, the Former Directors counterclaimed against our Company for alleged non-payment of bonuses. Judgment was issued on 19 November 2009 whereby our Company's claims against the Former Directors were dismissed with costs. As for the counterclaims, Mr Qian was awarded the sum of S$1,260.28 and RMB1,480,474.85 and Mr. Jiang was awarded the sum of S$4,701.37. On 9 December 2009, our Company filed a notice of appeal to the Singapore Court of Appeal against the Judgment. Subsequently, our Company entered into a settlement agreement with the Former Directors on 11 February 2010, and our Company thus withdrew the appeal and each party agreed to release and discharge the other party any and all manner of claims, actions, damages, liabilities of any nature whatsoever arising in connection with the relevant disputes. Mr. Qian was our executive Director prior to his departure in January 2007. He was responsible for directing our Group's overall strategy and growth as well as the overall management of our Group. Mr. Jiang was our executive Director and head of sales prior to his departure in January 2007. He was responsible for our sales and marketing activities. Our Directors are of the opinion that the lawsuits and the settlement, as well as the amounts payable under the aforesaid settlement agreement, have no material impact on the earnings and net tangible assets of our Group.

As confirmed by our India legal advisers, DSK Legal, we have obtained all licenses that are materially necessary to carry on its operation in India.

Note 1: When a court accepts a lawsuit filed by a plaintiff, the court will issue a Notice of Responding to Action to the defendant. Such a Notice of Responding to Action informs the defendant the complaint filed by the plaintiff usually with the attachment of the indictment and relevant evidences submitted by the plaintiff and the time limit for the defendant to respond to the lawsuit with a written answer to complaint and relative evidences.