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 the 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 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. Our products, marketed under the award-winning "HongSun" brand name, are used in signal transmission systems for deployment into the network which telecommunications operators are constructing and operating in the PRC and overseas market.

Through an extensive sale and distribution network spanning the PRC, we serve a blue-chip and established customer base comprising major telecommunications operators including China Unicom, China Mobile, China Telecom and key telecommunications equipment manufacturers in the PRC.

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.

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.

BASIS OF PRESENTATION

Our company is a limited liability company incorporated in the Republic of Singapore on 18 November 2004. The principal activities of our Group are research, design, development and manufacture of telecommunications and technological products, production of radio frequency coaxial cables for mobile communications and mobile communications systems exchange equipment. Our consolidated financial information has been prepared in accordance with International Financial Reporting Standards ("IFRSs") under the historical cost convention. The consolidated financial information is presented in Renminbi, which is also our functional currency.

FACTORS AFFECTING THE RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The factors affecting the results of operations and financial condition include the followings:

Economic cycles, including the recent global financial and economic crisis

Since the second half of 2008, the global financial crisis had led to reduced liquidity, greater volatility, widened credit spreads and a lack of price transparency in the global credit and financial markets. The difficulties in global credit and financial markets have also resulted in a widening global economic crisis and depressed consumer sentiments deep into the first half of 2009. The slowdown experienced in the economies of the United States, the European Union and certain Asian countries adversely affected the capital expenditures of the telecommunications operators in different countries. The resulting decrease and slowdown in demand for mobile communications infrastructure equipment has put significant downward pressure on prices of these products, including RF coaxial cables, which are our major source of sales revenues.

Our business model is very sensitive to the spending cycle of the telecommunications operators, and without a recovery in consumer usage, downward pressure on prices and demand for our products will persist. If the global economy continues to grow at a slower rate than expected or experiences a recession, growth in demand for the mobile communications infrastructure products will also continue to slow down or decrease. As a result, our business, financial condition and results of operations would continue to be adversely affected.

Development of telecommunications industry in the PRC and overseas

Demand for our products depends primarily on the amount of capital spending by telecommunications operators and equipment manufacturers in the PRC and overseas. We sell our products to telecommunications operators and equipment manufacturers, who incorporate our products into equipments and hardware in areas such as base stations for wireless mobile communications and innovative indoor signal coverage systems. As the entire telecommunications industry in the PRC geared up for the phenomenal growth of 3G, the country's telecommunications operators pumped in significant capital to build their 3G infrastructure, spurring demand for related telecommunications equipments. This in turn, drove sales of our RF coaxial cables in 2009. The reduction in capital expenditure by the three telecommunications operators in the PRC since 2010 has resulted in the decreased demand for our products and thus our revenue for the nine months ended 30 September 2010. Our Group expects this trend will continue for the rest of 2010, resulting in the fall in demand for our products and the decrease in our revenue and net profits for this financial year. Our future success depends upon the growth in demand for wireless mobile communications and innovative indoor signal coverage systems.

Further, capital spending by telecommunications operators and equipment manufacturers in the PRC, our largest market, can be influenced by a variety of factors, including the evolution of the Chinese communication network standards, the intensity of competition and the international stock exchange listings of some of the telecommunications operators and equipment manufacturers, which could result, among other things, in greater access to capital for infrastructure building or an increased focus on controlling costs in order to increase returns for investors.

These factors can cause our operating results to fluctuate from period to period. If telecommunications operators and equipment manufacturers delay or reduce their levels of capital spending, our operating results would be negatively affected.

Market competition

We are in an extremely competitive industry, which is characterized by rapid technological advancement, downward pricing trends and high working capital requirements. We primarily compete on the following bases:

- Quality of RF coaxial cables;
- Extensive sale and distribution network spanning the PRC;
- Strong focus on research, design and product development;
- After-sales services; and
- Relationships with telecommunications operators.

There can be no assurance that we will maintain our competitiveness in these areas. If we fail to develop new products and services, maintain high quality of our products and services, or otherwise compete successfully, it would reduce our sales and adversely affect our future prospects.

Pressure on selling prices

The increasing competition in the mobile communications market is expected to put margin pressure on the telecommunications operators and equipment manufacturers, as prices of 2G services and 3G services are kept depressed as a result of the keen competition. This in turn has an impact on the selling prices that equipment suppliers like us can command. Further, the intensifying competition among telecommunications equipment suppliers also placed much pressure on our selling prices.

However, there can be no assurance that we will maintain our overall gross profit margin in the future. If we fail to maintain our gross profit margin, it would adversely affect our profitability.

CRITICAL ACCOUNTING POLICIES AND JUDGEMENTS

Critical accounting policies are those that require management to exercise judgments and make estimates which yield materially different results if management were to apply different assumptions or make different estimates. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The preparation of the Combined Financial Information requires management to make judgments, estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Revenue recognition

Our revenue comprises the fair value for the sale of goods and is recognized upon delivery of goods and pass of title. It is recorded net of sales related taxes.

Inventory valuation

Inventory is valued at the lower of cost and net realisable value. Cost is calculated using the weighted average method. The Group regularly inspects and reviews its inventory levels in order to identify slow-moving and obsolete inventory. The amount of the impairment loss is measured as the difference between inventories' cost and net realized value. The identification of impairment of inventories requires the use of judgement and estimate of expected net realisable value. Where the net realizable value is lower than the cost, a material impairment loss may arise. When subsequent evaluations show that the circumstances that previously caused inventories to be written down below cost no longer exist, or when there is clear evidence of an increase in net realisable value because of changed economic circumstances, write-down of inventories previously recognised are reversed.

Our inventories had been reduced by RMB555,000, RMB798,000, RMB221,000 and RMB409,000 of such write-downs for the [●]. For the years ended 31 December 2007 and 2008, our cost of sales had included inventory provision of RMB148,000 and RMB243,000, respectively. For the year ended 31 December 2009, our cost of sales had been reduced by reversal of write-downs of inventories of RMB577,000. For the nine months ended 30 September 2010, our cost of sales had included inventory provision of RMB188,000.

We consider our existing inventory policy to be adequate because we generally procure raw materials and schedule our production based on customers' purchase orders that we have received and we adjust our provisions by taking stock of our inventory and conducting write-downs on an annual basis.

Impairment of trade receivables

Our trade receivables are carried at amortised cost using the effective interest method, less any identified impairment losses. Appropriate allowances for estimated irrecoverable amounts are recognized in the profit or loss when there is objective evidence that the asset is impaired.

We make allowances for bad and doubtful debts based on an assessment of the recoverability of trade and other receivables. Allowances are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise.

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 date of the accountants' report. After reassessment, our directors believe that no further allowance is required.

Property, plant and equipment

Our property, plant and equipment other than construction-in-progress are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Construction-in-progress is stated at cost which includes all construction costs and other direct costs attributable to such projects.

Our construction-in-progress is carried at cost less any recognised impairment loss. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is charged so as to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account of their estimated residual values, using the straight-line method, on the following bases:

Building	–	20 years
Plant and machineries	–	10 years
Office equipment	–	5 years
Motor vehicles	–	5 years

The estimated useful lives of property, plant and equipment are reviewed at the end of each annual reporting period. At the end of the reporting period, management reviews the carrying amounts of its property, plant and equipment to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, management carried out impairment reviews of its property, plant and equipment. In making its judgement, management considered the future cash flows expected to arise from the cash generating unit and suitable discount rates in order to calculate the present value. An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset is determined as the difference between the net disposal proceeds and the carrying amounts of the asset and is recognized in the profit and loss statement in the period in which the asset is derecognised.

PRINCIPAL INCOME STATEMENT COMPONENTS

Revenue

Revenue comprises the fair value for the sale of goods and is recognized upon delivery of goods and pass of title. It is recorded net of sales related taxes. All of our revenue is generated from the sale of RF coaxial cables and telecommunications equipment and accessories.

The following table sets out a breakdown of our revenue from different business segments 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	962,824	100	1,214,179	100	1,615,265	100	1,222,938	100	865,416	100

During the [●], over 80% of our revenue is generated from the sales of RF coaxial cables series for mobile communications. As a result, fluctuation of our revenue is mainly attributable to fluctuation of revenue from RF coaxial cables series for mobile communications. During the three years ended 31 December 2009, the average unit selling prices (the "ASP") of RF coaxial cables series for mobile communications were on a downward trend. The average monthly unit selling prices of RF coaxial cables series for mobile communications decreased by approximately 19.4% and 42.2% for 2008 and 2009 as compared to the corresponding period for 2007 and 2008 respectively. This is mainly due to intense competition which led to selling price under pressure as players lower their prices during tenders in order to win the bid. However, the revenue had been increasing during the same period, mainly attributable to an increase in the sales volume of RF coaxial cables series for mobile communications especially arising from the issue of 3G licences by the PRC government to the 3 main telecommunications operators in January 2009. The sales volume of RF coaxial cables series for mobile communications increased by approximately 46.0% and 93.0% for 2008 and 2009 as compared to the corresponding period for 2007 and 2008, respectively. For the nine months ended 30 September 2010, the average monthly unit selling prices of RF coaxial cables series for mobile communications increased by approximately 13.1% as compared to the corresponding period for 2009, however, the sales volume of RF coaxial cables series for mobile communications decreased by approximately 37.5% for the same period. The decrease in revenue 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.

The following table sets out a breakdown of our revenue from different geographic segments during the [●]:

	Year ended 31 December						Nine months ended 30 September			
	2007		2008		2009		2009		2010	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%
							(unaudited)			
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	0	0	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. The reasons for the significant drop in revenue from "South Asia" are mainly due to that, (i) the global financial crisis since late 2008 has led to the decrease in the infrastructure investment in base stations, and (ii) the inventory of telecommunications equipments in India was relatively high in 2008 and as a result, the telecommunications equipments market in India in 2009 experienced a de-inventory process. However, our Directors expect that the Indian market will be recovering in the coming years. 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.

Cost of sales

Our cost of sales consists of raw materials, labor costs and manufacturing costs.

The following table sets out a breakdown of our cost of sales during the [●]:

	Year ended 31 December						Nine months ended 30 September			
	2007		2008		2009		2009		2010	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%
							(unaudited)			
Raw materials	709,597	94.3	943,491	95.4	1,229,376	94.4	933,626	94.7	656,102	93.7
Labor costs	8,398	1.1	13,004	1.3	20,353	1.6	15,931	1.6	9,449	1.4
Manufacturing costs	34,774	4.6	32,465	3.3	52,850	4.0	36,871	3.7	34,424	4.9
Total	752,769	100	988,960	100	1,302,579	100	986,428	100	699,975	100

The following table sets out a breakdown of our cost of sales 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	648,466	86.1	876,392	88.6	1,093,589	84.0	833,687	84.5	595,302	85.0
Coaxial cables for telecommunications equipment and accessories	104,303	13.9	112,568	11.4	208,990	16.0	152,741	15.5	104,673	15.0
Total	752,769	100	988,960	100	1,302,579	100	986,428	100	699,975	100

Gross profit and gross profit margin

The following table sets out our total gross profit and gross profit margin by business segment during the [●]:

	Year ended 31 December						Nine months ended 30 September			
	2007		2008		2009		2009		2010	
	Gross profit RMB'000	*Gross profit margin %*	*Gross profit RMB'000*	*Gross profit margin %*	*Gross profit RMB'000*	*Gross profit margin %*	*Gross profit RMB'000* (unaudited)	*Gross profit margin %*	*Gross profit RMB'000*	*Gross profit margin %*
RF coaxial cables series for mobile communications	170,178	20.8	197,567	18.4	250,425	18.6	193,190	18.8	127,462	17.6
Coaxial cables for telecommunications equipment and accessories	39,877	27.7	27,652	19.7	62,261	23.0	43,320	22.1	37,979	26.6
Total	210,055	21.8	225,219	18.5	312,686	19.4	236,510	19.3	165,441	19.1

Other income

Our other income comprises mainly of interest income, government grants, gain on disposal of available-for-sale investments, and sundry income. Government grants mainly include (i) reward for listed companies in Yixing City; (ii) reward to encourage companies investing in advanced equipments; (iii) reward for Advanced Technology Product (高新技術產品).

Distribution and selling expenses

Our distribution and selling expenses comprise mainly of salary expenses paid to our distribution and sales employees, customer development expenses, telecommunications expenses, the costs of advertising, travel, carriages and rent.

Administrative and general expenses

Our administrative and general expenses comprise mainly of salary expenses paid to our management and administrative personnel, maintenance of our administrative office, depreciation, rent and utilities, travel, transportation, social welfare obligations, auditors' and professional fees.

Other expenses

Our other expenses comprise mainly of net foreign exchange loss (gain), donation, loss on disposal of property, plant and equipment, research and development expenses and others.

Finance costs

Our finance costs comprise mainly of interest expense on bank loans.

Income tax expense

Our income tax expense comprises of corporate income tax for the companies of the Group. Our company is incorporated in Singapore and has no assessable profits subject to Singapore income tax since its incorporation.

PRC Enterprise Income Tax ("EIT") is calculated at rates prevailing under the relevant laws and regulations in the PRC. Under the PRC Enterprise Income Tax Law (the "EIT Law") and Implementation Regulation of the EIT Law, the statutory tax rate is 25% from 1 January 2008 onwards. Our subsidiary, Hengxin (Jiangsu) is incorporated in the PRC and is a wholly foreign-owned enterprise, which used to be eligible for certain tax holidays and concessions and was exempted from PRC EIT for two years starting from the first profit-making year, followed by a 50% reduction for the following three years. The subsidiary commenced its first profit-making year in the financial year ended 31 December 2005. The effective tax rate for the subsidiary is 12%, 12.5% and 12.5% for each of the three years ended 31 December 2009. It acquired "High-tech enterprise" certificate in 2008. According to the EIT Law, applicable income tax rate of the Company in 2010 is 15%.

Our subsidiary, Hengxin (India), is incorporated in India on 10 June 2009 and is not in taxable position for the year ended 31 December 2009 and the nine months ended 30 September 2010.

RESULTS OF OPERATIONS

The following table presents our consolidated statements of comprehensive income for 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*
Revenue	962,824	1,214,179	1,615,265	1,222,938	865,416
Cost of sales	(752,769)	(988,960)	(1,302,579)	(986,428)	(699,975)
Gross profit	210,055	225,219	312,686	236,510	165,441
Other income	5,976	7,405	7,557	5,306	12,901
Distribution and selling expenses	(35,681)	(48,530)	(82,768)	(64,532)	(41,276)
Administrative and general expenses	(28,113)	(30,459)	(35,142)	(30,673)	(25,366)
Other expenses	(7,894)	(8,368)	(7,390)	(5,374)	(6,805)
Finance costs	(23,764)	(21,743)	(16,013)	(12,895)	(8,972)
Profit before tax	120,579	123,524	178,930	128,342	95,923
Income tax expense	(13,880)	(16,781)	(29,064)	(21,137)	(16,611)
Net profit for the year/period attributable to owners of the Company	106,699	106,743	149,866	107,205	79,312
Other comprehensive income: Exchange differences on translation	–	–	16	(9)	5
Total comprehensive income for the year/period attributable to owners of the Company	106,699	106,743	149,882	107,196	79,317
	RMB cents	*RMB cents*	*RMB cents*	*RMB cents*	*RMB cents*
Earnings per share – basic	31.8	31.8	44.6	31.9	23.6

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

Nine months ended 30 September 2010 compared to nine months ended 30 September 2009

Revenue

Revenue for the nine months ended 30 September 2010 was RMB865.4 million, a decrease of RMB357.5 million, or 29.2%, from revenue of RMB1,222.9 million for the nine months ended 30 September 2009. Revenue from RF coaxial cables series for mobile communications was RMB722.8 million for the nine months ended 30 September 2010, a decrease of RMB304.1 million or 29.6%, from revenue of RMB1,026.9 million from RF coaxial cables series for mobile communications for the nine months ended 30 September 2009. Revenue from the coaxial cables for telecommunications equipment and accessories segment were RMB142.7 million for the nine months ended 30 September 2010, a decrease of RMB53.4 million or 27.2%, from revenue of RMB196.1 million from the coaxial cables for telecommunications equipment and accessories segment for the nine months ended 30 September 2009. Revenue from export sales to India were RMB15.4 million for the nine months ended 30 September 2010, a decrease of RMB47.0 million or 75.3% from revenue of RMB62.4 million from export sales to India for the nine months ended 30 September 2009.

The decrease in revenue in the nine months ended 30 September 2010 was primarily due to reduction in capital expenditure by the three telecommunications operators in the PRC which resulted in decreased demand for our products. The decrease in revenue from export sales to India in the nine months ended 30 September 2010 was primarily due to the reason that in anticipation of the issuance of 3G License, most of the telecommunications operators halted their network expansion, which resulted in decreased demand for our products.

Cost of sales

Cost of sales for the nine months ended 30 September 2010 was RMB700.0 million, a decrease of RMB286.4 million, or 29.0%, from cost of sales of RMB986.4 million for the nine months ended 30 September 2009, which was in line with the decrease in revenue. Cost of sales from RF coaxial cables series for mobile communications was RMB595.3 million for the nine months ended 30 September 2010, a decrease of RMB238.4 million or 28.6%, from cost of sales of RMB833.7 million from RF coaxial cables series for mobile communications for the nine months ended 30 September 2009. Cost of sales from the coaxial cables for telecommunications equipment and accessories segment was RMB104.7 million for the nine months ended 30 September 2010, a decrease of RMB48.0 million or 31.4%, from cost of sales of RMB152.7 million from the coaxial cables for telecommunications equipment and accessories segment for the nine months ended 30 September 2009.

Gross profit and Gross profit margin

Gross profit for the nine months ended 30 September 2010 was RMB165.4 million, a decrease of RMB71.1 million, or 30.1%, from gross profit of RMB236.5 million for the nine months ended 30 September 2009. Gross profit margin slightly decreased to 19.1% for the nine months ended 30 September 2010 as compared to 19.3% for the nine months ended 30 September 2009. Gross profit margin of coaxial cables for telecommunications equipment and accessories increased from 22.1% for the nine months ended 30 September 2009 to 26.6% for the nine months ended 30 September 2010, which was mainly attributable to the improved production efficiencies during the period.

Other income

Other income for the nine months ended 30 September 2010 was RMB12.9 million, an increase of RMB7.6 million, or 143.4%, from other income of RMB5.3 million for the nine months ended 30 September 2009. The increase was mainly attributable to increase in government grants by RMB5.9 million and increase in interest income by RMB1.5 million.

Distribution and selling expenses

Distribution and selling expenses for the nine months ended 30 September 2010 were RMB41.3 million, a decrease of RMB23.2 million, or 36.0%, from distribution and selling expenses of RMB64.5 million for the nine months ended 30 September 2009. The decrease was mainly due to decreased marketing expenses in line with lower sales.

Administrative and general expenses

Administrative expenses for the nine months ended 30 September 2010 were RMB25.4 million, a decrease of RMB5.3 million, or 17.3%, from RMB30.7 million for the nine months ended 30 September 2009. The decrease was mainly due to lower staff costs during the period.

Other expenses

Other expenses for the nine months ended 30 September 2010 were RMB6.8 million, an increase of RMB1.4 million, or 25.9%, from RMB5.4 million for the nine months ended 30 September 2009. The increase was mainly due to loss on disposal of held-for-trading investments of RMB1.5 million.

Finance costs

Finance costs for the nine months ended 30 September 2010 were RMB9.0 million, a decrease of RMB3.9 million, or 30.2%, from RMB12.9 million for the nine months ended 30 September 2009. The decrease was mainly due to lower average amount of loans during the nine months ended 30 September 2010.

Profit before income tax

Profit before income tax for the nine months ended 30 September 2010 was RMB95.9 million, a decrease of RMB32.4 million, or 25.3%, from RMB128.3 million for the nine months ended 30 September 2009. The decrease was in line with lower sales.

Income tax expense

Income tax expense for the nine months ended 30 September 2010 was RMB16.6 million, a decrease of RMB4.5 million, or 21.3%, from RMB21.1 million for the nine months ended 30 September 2009. The decrease was in line with lower sales.

Net profit for the period attributable to owners of the Company

Net profit for the nine months ended 30 September 2010 attributable to owners of the Company was RMB79.3 million, a decrease of RMB27.9 million, or 26.0%, from RMB107.2 million for the nine months ended 30 September 2009 attributable to owners of the Company. The decrease was in line with lower sales.

Total comprehensive income for the period attributable to owners of the Company

Total comprehensive income for the nine months ended 30 September 2010 attributable to owners of the Company was RMB79.3 million, a decrease of RMB27.9 million, or 26.0%, from RMB107.2 million for the nine months ended 30 September 2009 attributable to owners of the Company. The decrease was in line with lower sales.

Year ended 31 December 2009 compared to year ended 31 December 2008

Revenue

Revenue for the year ended 31 December 2009 were RMB1,615.3 million, an increase of RMB401.1 million, or 33.0%, from RMB1,214.2 million for the year ended 31 December 2008. Revenue from RF coaxial cables series for mobile communications were RMB1,344.0 million for the year ended 31 December 2009, an increase of RMB270 million or 25.1%, from RMB1,074.0 million from RF coaxial cables series for mobile communications for the year ended 31 December 2008. Revenue from the coaxial cables for telecommunications equipment and accessories segment were RMB271.3 million for the year ended 31 December 2009, an increase of RMB131.1 million or 93.5%, from RMB140.2 million from the coaxial cables for telecommunications equipment and accessories segment for the year ended 31 December 2008. Revenue from export sales to India were RMB83.9 million for the year ended 31 December 2009, a decrease of RMB165.0 million or 66.3% from revenue of RMB248.9 million from export sales to India for the year ended 31 December 2008.

The increase in revenue for the year ended 31 December 2009 was primarily attributable to the issue of 3G licenses in the PRC in January 2009, the introduction of one additional player China Telecom and our customers' increased intensity of capital expenditure in building their 3G infrastructure in the major cities.

Cost of sales

Cost of sales for the year ended 31 December 2009 was RMB1,302.6 million, an increase of RMB313.6 million, or 31.7%, from RMB989.0 million for the year ended 31 December 2008, which was in line with the increase in revenue. Cost of sales from RF coaxial cables series for mobile communications was RMB1,093.6 million for the year ended 31 December 2009, an increase of RMB217.2 million or 24.8%, from RMB876.4 million from RF coaxial cables series for mobile communications for the year ended 31 December 2008. Cost of sales from the coaxial cables for telecommunications equipment and accessories segment was RMB209.0 million for the year ended 31 December 2009, an increase of RMB96.4 million or 85.6%, from RMB112.6 million from the coaxial cables for telecommunications equipment and accessories segment for the year ended 31 December 2008.

Gross profit and Gross profit margin

Gross profit for the year ended 31 December 2009 was RMB312.7 million, an increase of RMB87.5 million, or 38.9%, from gross profit of RMB225.2 million for the year ended 31 December 2008. Gross profit margin increased to 19.4% for the year ended 31 December 2009 as compared to 18.5% for the year ended 31 December 2008. This increase was achieved through better control of costs. Gross profit margin of coaxial cables for telecommunications equipment and accessories increased from 19.7% for the year ended 31 December 2008 to 23.0% for the year ended 31 December 2009, which was mainly attributable to the cost-control approaches undertaken by us to reduce the use of raw materials for telecommunications accessories during 2009 so that to cope with the more intense competition, which effectively increased the gross profit margin.

Other income

Other income for the year ended 31 December 2009 was RMB7.6 million, an increase of RMB0.2 million, or 2.7%, from RMB7.4 million for the year ended 31 December 2008. The increase was mainly due to gain on disposal of available-for-sale investments amounting RMB0.7 million, partially offset by decrease in interest income by RMB1.2 million.

Distribution and selling expenses

Distribution and selling expenses for the year ended 31 December 2009 were RMB82.8 million, an increase of RMB34.3 million, or 70.7%, from RMB48.5 million for the year ended 31 December 2008. The increase was mainly due to increased marketing costs in line with higher revenue and change in terms of revenue, which encompasses payment of export related custom duties and the amount is correspondingly recorded in distribution and selling expenses.

Administrative and general expenses

Administrative and general expenses for the year ended 31 December 2009 were RMB35.1 million, an increase of RMB4.6 million, or 15.1%, from RMB30.5 million for the year ended 31 December 2008. The increase was mainly due to increased staff costs by RMB3.6 million in line with the Group's overall better performance.

Other expenses

Other expenses for the year ended 31 December 2009 were RMB7.4 million, a decrease of RMB1.0 million, or 11.9%, from RMB8.4 million for the year ended 31 December 2008. The decrease was mainly due to foreign exchange losses of RMB2.3 million incurred in 2008.

Finance costs

Finance costs for the year ended 31 December 2009 were RMB16.0 million, a decrease of RMB5.7 million, or 26.3%, from finance costs of RMB21.7 million for the year ended 31 December 2008. The decrease was mainly due to lower amount of loans and lower interest rates carrying on the loans obtained in 2009.

Profit before income tax

Profit before income tax for the year ended 31 December 2009 was RMB178.9 million, an increase of RMB55.4 million, or 44.9%, from profit before income tax of RMB123.5 million for the year ended 31 December 2008. The increase was mainly due to the increase in our revenues and better control of our cost of sales.

Income tax expense

Income tax expense for the year ended 31 December 2009 was RMB29.1 million, an increase of RMB12.3 million, or 73.2%, from income tax expense of RMB16.8 million for the year ended 31 December 2008. The increase was mainly due to the increase of RMB7.1 million in PRC enterprise income tax and the increase of RMB4.7 million in withholding tax.

Net profit for the year attributable to owners of the Company

Net profit for the year ended 31 December 2009 attributable to owners of the Company was RMB149.9 million, an increase of RMB43.2 million, or 40.5%, from net profit of RMB106.7 million for the year ended 31 December 2008 attributable to owners of the Company. The increase was mainly due to the increase in our revenues and better control of our cost of sales.

Total comprehensive income for the year attributable to owners of the Company

Total comprehensive income for the year ended 31 December 2009 attributable to owners of the Company was RMB149.9 million, an increase of RMB43.2 million, or 40.5%, from total comprehensive income of RMB106.7 million for the year ended 31 December 2008 attributable to owners of the Company. The increase was mainly due to the increase in our revenues and better control of our cost of sales.

Year ended 31 December 2008 compared to year ended 31 December 2007

Revenue

Revenue for the year ended 31 December 2008 was RMB1,214.2 million, an increase of RMB251.4 million, or 26.1%, from RMB962.8 million for the year ended 31 December 2007. Revenue from RF coaxial cables series for mobile communications were RMB1,074.0 million for the year ended 31 December 2008, an increase of RMB255.4 million or 31.2%, from RMB818.6 million from RF coaxial cables series for mobile communications for the year ended 31 December 2007. Revenue from the coaxial cables for telecommunications equipment and accessories segment were RMB140.2 million for the year ended 31 December 2008, a decrease of RMB4.0 million or 2.8%, from RMB144.2 million from the coaxial cables for telecommunications equipment and accessories segment for the year ended 31 December 2007. Revenue from export sales to India were RMB248.9 million for the year ended 31 December 2008, an increase of RMB125.2 million or 101.2% from revenue of RMB123.7 million from export sales to India for the year ended 31 December 2007.

The increase in revenue for the year ended 31 December 2008 was primarily attributable to strengthening of current 2G networks in PRC, commencement of construction of base stations in anticipation of 3G license issue and increased exports mainly to India.

Cost of sales

Cost of sales for the year ended 31 December 2008 was RMB989.0 million, an increase of RMB236.2 million, or 31.4%, from cost of sales of RMB752.8 million for the year ended 31 December 2007, which was basically in line with the increase in revenue. Cost of sales from RF coaxial cables series for mobile communications was RMB876.4 million for the year ended 31 December 2008, an increase of RMB227.9 million or 35.1%, from RMB648.5 million from RF coaxial cables series for mobile communications for the year ended 31 December 2007. Cost of sales from the coaxial cables for telecommunications equipment and accessories segment was RMB112.6 million for the year ended 31 December 2008, an increase of RMB8.3 million or 8.0%, from RMB104.3 million from the coaxial cables for telecommunications equipment and accessories segment for the year ended 31 December 2007.

Gross profit and Gross profit margin

Gross profit for the year ended 31 December 2008 was RMB225.2 million, an increase of RMB15.1 million, or 7.2%, from gross profit of RMB210.1 million for the year ended 31 December 2007. Gross profit margin decreased to 18.5% for the year ended 31 December 2008 as compared to 21.8% for the year ended 31 December 2007. This decrease was mainly due to decreased selling prices in response to decreasing copper prices due to financial crisis. Gross profit margin of coaxial cables for telecommunications equipment and accessories decreased from 27.7% for the year ended 31 December 2007 to 19.7% for the year ended 31 December 2008, which was mainly due to the more intense competition in 2008.

Other income

Other income for the year ended 31 December 2008 was RMB7.4 million, an increase of RMB1.4 million, or 23.3%, from other income of RMB6.0 million for the year ended 31 December 2007. The increase was mainly due to increase in interest income as more fixed deposits were placed with financial institutions and increase in outright government grants given as a result of our Company's listed status.

Distribution and selling expenses

Distribution and selling expenses for the year ended 31 December 2008 were RMB48.5 million, an increase of RMB12.8 million, or 35.9%, from distribution and selling expenses of RMB35.7 million for the year ended 31 December 2007. The increase was mainly due to increased marketing costs in exploring overseas markets and attending overseas exhibitions.

Administrative and general expenses

Administrative and general expenses for the year ended 31 December 2008 were RMB30.5 million, an increase of RMB2.4 million, or 8.5%, from administrative and general expenses of RMB28.1 million for the year ended 31 December 2007. The increase was mainly due to increase in staff costs.

Other expenses

Other expenses for the year ended 31 December 2008 were RMB8.4 million, an increase of RMB0.5 million, or 6.3%, from other expenses of RMB7.9 million for the year ended 31 December 2007. The increase was mainly due to increase in research and development expenses for developing new products and improving manufacturing processes of existing products, partially offset by a decrease in net foreign exchange loss.

Finance costs

Finance costs for the year ended 31 December 2008 were RMB21.7 million, a decrease of RMB2.1 million, or 8.8%, from finance costs of RMB23.8 million for the year ended 31 December 2007. The decrease was mainly due to lower amount of loans obtained during 2008.

Profit before income tax

Profit before income tax for the year ended 31 December 2008 was RMB123.5 million, an increase of RMB2.9 million, or 2.4%, from profit before income tax of RMB120.6 million for the year ended 31 December 2007.

Income tax expense

Income tax expense for the year ended 31 December 2008 was RMB16.8 million, an increase of RMB2.9 million, or 20.9%, from income tax expense of RMB13.9 million for the year ended 31 December 2007. The increase was mainly due to the increase of RMB0.9 million in PRC enterprise income tax and the increase of RMB2.4 million in deferred tax charge, partially offset by decrease of RMB0.5 million in over provision of current tax in prior years.

Net profit for the year attributable to owners of the Company

Net profit for the year ended 31 December 2008 attributable to owners of the Company was RMB106.7 million, which is relatively constant compared to the net profit of RMB106.7 million for the year ended 31 December 2007 attributable to owners of the Company.

Total comprehensive income for the year attributable to owners of the Company

Total comprehensive income for the year ended 31 December 2008 attributable to owners of the Company was RMB106.7 million, which is relatively constant compared to the total comprehensive income of RMB106.7 million for the year ended 31 December 2007 attributable to owners of the Company.

LIQUIDITY AND CAPITAL RESOURCES

We have historically funded our operations primarily from cash flows from operating activities and bank borrowings. Our principal uses of cash have been, and are expected to continue to be, operational costs and capital expenditures.

The following table is a summary of our cash flows during the [●].

	Year ended 31 December			Nine months ended 30 September	
	2007	2008	2009	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Net cash generated from operating activities	128,722	66,662	173,936	127,835	46,233
Net cash used in investing activities	(16,024)	(22,630)	(65,045)	(42,597)	(9,372)
Net cash used in financing activities	(12,350)	(67,568)	(151,792)	(43,893)	(45,018)
Net increase (decrease) in cash and cash equivalents	100,348	(23,536)	(42,901)	41,345	(8,157)
Cash and cash equivalents at the beginning of the year/period	111,848	212,061	191,132	191,132	147,676
Effects of foreign exchange rate changes	(135)	2,607	(555)	244	172
Cash and cash equivalents at the end of the year/period	212,061	191,132	147,676	232,721	139,691

Net cash generated from operating activities

Our net cash flow generated from operating activities reflects our profit before taxation, as adjusted for non-cash items, such as depreciation and amortization, and the effects of changes in working capital, such as increases or decreases in trade and other receivables, accruals and other payables.

For the nine months ended 30 September 2010, we had net cash from operating activities of RMB46.2 million, primarily as a result of operating profits of RMB95.9 million, a decrease in inventories of RMB81.4 million and a decrease in trade payables of RMB134.3 million. The decrease in inventories was mainly due to decrease in demand for our products in line with lower sales which requires a lower level of inventories compared with previous year. The decrease in trade payables was mainly due to less purchases from suppliers in line with lower sales.

For the year ended 31 December 2009, we had net cash from operating activities of RMB173.9 million, primarily as a result of operating profits of RMB178.9 million, an increase in inventories of RMB60.4 million, an increase in trade receivables of RMB163.7 million and an increase in trade payables of RMB270.7 million. The increase in inventories was primarily attributable to growing product demand in 2009. The increase in trade receivables was primarily attributable to an increase in sales. The increase in trade payables was primarily attributable to increased purchases of supplies as a result of business growth and an increase in the number of turnover days of accounts payable.

For the year ended 31 December 2008, we had net cash from operating activities of RMB66.7 million, primarily as a result of operating profits of RMB123.5 million, and an increase in inventories of RMB27.1 million, an increase in trade receivables of RMB134.9 million, an increase in trade payables of RMB99.3 million. The increase in inventories was primarily attributable to growing product demand in 2008. The increase in trade receivables was primarily attributable to an increase in sales. The increase in trade payables was primarily attributable to increased purchases of supplies as a result of business growth.

For the year ended 31 December 2007, we had net cash from operating activities of RMB128.7 million, primarily as a result of operating profits of RMB120.6 million, and a decrease in trade receivables of RMB74.6 million and a decrease in trade payables of RMB51.7 million. The decrease in trade receivables was primarily attributable to amounts received from customers in 2007. The decrease in trade payables was primarily attributable to amounts paid to customers in 2007.

Net cash used in investing activities

Our cash from investing activities primarily consists of proceeds from disposal of available-for-sale investments and property, plant and equipment. Our cash used in investing activities primarily consists of capital expenditures for the purchase of property, plant and equipment, land use rights and available-for-sale investments.

For the nine months ended 30 September 2010, we had net cash used in investing activities of RMB9.4 million, primarily as a result of RMB10.0 million used for the payment of acquisition of property, plant and equipment.

For the year ended 31 December 2009, we had net cash used in investing activities of RMB65.0 million, primarily as a result of RMB60.0 million used for the purchase of property, plant and equipment, RMB28.6 million used for the payment of available-for-sale investments and RMB29.3 million generated from disposal of available-for-sale investments.

For the year ended 31 December 2008, we had net cash used in investing activities of RMB22.6 million, primarily as a result of RMB38.5 million used for the purchase of available-for-sale investments and RMB36.0 million from the proceeds from disposal of available-for-sale investments.

For the year ended 31 December 2007, we had net cash used in investing activities of RMB16.0 million, primarily as a result of RMB17.0 million used for the purchase of property, plant and equipment.

Net cash used in financing activities

For the nine months ended 30 September 2010, we had net cash used in financing activities of RMB45.0 million, primarily as a result of RMB410.0 million raised from short-term bank loans and RMB475.0 million used for repayment of short-term bank loans.

For the year ended 31 December 2009, we had net cash used in financing activities of RMB151.8 million, primarily as a result of RMB948.8 million used for repayment of short-term bank loans, RMB49.7 million increase in pledged bank deposits and RMB852.2 million raised from the short-term bank loans.

For the year ended 31 December 2008, we had net cash used in financing activities of RMB67.6 million, primarily as a result of RMB621.0 million used for repayment of short-term bank loans, RMB39.4 million increase in pledged bank deposits and RMB603.8 million raised from the short-term bank loans.

For the year ended 31 December 2007, we had net cash used in financing activities of RMB12.4 million, primarily as a result of RMB435.0 million used for repayment of short-term bank loans, RMB45.8 million decrease in pledged bank deposits and RMB389.0 million raised from the short-term bank loans.

NET CURRENT ASSETS

The following table sets out details of our current assets and current liabilities as at the dates indicated:

		As at 31 December		As at 30 September	As at [31 October]
	2007	**2008**	**2009**	**2010**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(unaudited)
Current assets					
Inventories	96,440	123,258	184,247	102,614	115,322
Trade receivables	419,657	554,521	718,172	700,653	661,139
Other receivables and prepayments	1,804	1,449	24,148	22,938	21,574
Available-for-sale investments	–	500	500	2,000	2,000
Leasehold land	491	491	560	560	560
Bank balances and cash	212,061	191,132	147,676	139,691	177,656
Pledged bank deposits	31,335	70,769	120,486	85,785	86,605
	761,788	942,120	1,195,789	1,054,241	1,064,856
Current liabilities					
Trade payables	104,637	203,935	474,642	340,361	366,824
Other payables	31,346	44,199	32,390	24,320	24,716
Tax liabilities	5,762	6,394	6,458	4,760	1,835
Short-term bank loans	289,000	271,800	175,221	109,528	89,715
	430,745	526,328	688,711	478,969	483,090
Net current assets	331,043	415,792	507,078	575,272	581,766

Our net current assets increase from RMB575.3 million as of 30 September 2010 to RMB581.8 million as of [31 October] 2010, primarily due to decrease in short-term loans arising from repayment of such loans during the period and increase in bank balances and cash.

Our net current assets increased from RMB507.1 million as of 31 December 2009 to RMB575.3 million as of 30 September 2010, primarily due to a decrease in trade payables of RMB134.2 million as a result of less purchases from suppliers in line with lower sales and a decrease in short-term bank loans of RMB65.7 million as a lower amount of bank loans were raised during the period. This increase was partially offset by a decrease in inventories of RMB81.6 million as decrease in demand for our products in line with lower sales which requires a lower level of inventories during the period and a decrease in pledged bank deposits of RMB34.7 million.

We had net current assets of RMB507.1 million as of 31 December 2009, as compared to net current assets of RMB415.8 million as of 31 December 2008, primarily due to an increase in inventories of RMB61.0 million and trade receivables of RMB163.7 million as a result of the increase in revenue, and a decrease in short-term bank loans of RMB96.6 million as a result of repayment of such amounts. This increase was partially offset by an increase in trade payables of RMB270.7 million due to our purchase of more raw materials to support the increase in production volume and our use of more bills to settle such payments.

We had net current assets of RMB415.8 million as of 31 December 2008, as compared to net current assets of RMB331.0 million as of 31 December 2007, primarily due to an increase in trade receivables of RMB134.9 million as a result of the increase in revenue. This increase was partially offset by an increase in trade payables of RMB99.3 million due to our purchase of more raw materials to support the increase in production volume and our use of more bills to settle such payments.

INVENTORY ANALYSIS

During the [●], inventories were one of the major components of our current assets. The following table sets out a summary of our inventory balances as at the respective balance sheet dates.

	As at 31 December			As at 30 September
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Inventories				
Raw materials	20,632	25,644	25,436	35,499
Work in progress	6,932	8,878	8,779	7,923
Finished goods	69,431	89,534	150,253	59,601
	96,995	124,056	184,468	103,023
Write down of inventories to net book value	(555)	(798)	(221)	(409)
	96,440	123,258	184,247	102,614

We review our inventory levels on a periodical basis in order to identify slow-moving and obsolete inventory throughout the [●]. This review requires comparison of estimated net realisable value with the cost of inventory. For the years ended 31 December 2007 and 2008, we recorded inventory provision of RMB148,000 and RMB243,000, respectively, due to lower estimated net realisable value comparing to the cost of inventory. For the year ended 31 December 2009, we recorded a reversal of inventory write-downs of RMB577,000, as the inventories were sold above carrying amounts. For the nine months ended 30 September 2010, we recorded inventory provision of RMB188,000.

Our inventory balance increased by approximately RMB26.9 million, or approximately 27.9%, from approximately RMB96.4 million as of 31 December 2007 to approximately RMB123.3 million as of 31 December 2008, which was in line with our increase in revenue for the year ended 31 December 2008. Our inventory balance increased by approximately RMB60.9 million, or approximately 49.4%, from approximately RMB123.3 million as of 31 December 2008 to approximately RMB184.2 million as of 31 December 2009 due primarily to our increased scale of operation.

Up to 31 October 2010, approximately RMB99.1 million or approximately 96.2% of the inventories as at 30 September 2010 were subsequently used/sold.

The following table sets out our average inventory turnover days for the period indicated:

	Year ended 31 December			Nine months ended 30 September
	2007	**2008**	**2009**	**2010**
Average inventory turnover days[1]	45	41	43	56

Note:

(1) Average inventory turnover days equals average of the beginning and ending balance of inventories for the period divided by cost of sales for the period, and multiplied by the number of days during the period.

TRADE RECEIVABLES

The following table sets out a breakdown of our trade receivables as at the respective balance sheet dates:

	As at 31 December			As at 30 September
	2007	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Third parties	416,517	561,838	729,037	693,721
Less: Allowance for doubtful debts	(15,762)	(15,762)	(15,762)	(15,762)
Net	400,755	546,076	713,275	677,959
Notes receivables	18,902	8,445	4,897	22,694
	419,657	554,521	718,172	700,653

Appropriate allowances for estimated irrecoverable amounts are recognized in the profit or loss when there is objective evidence that the asset is impaired. In making this judgment, we consider the procedures that have been in place to monitor this risk as a significant proportion of the Group's working capital is devoted to trade receivables. We have adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. We only transact with entities that have good credit quality. We use publicly available financial information and our own trading records to rate our major customers. Our exposure and the credit ratings of our counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by the counterparty limits that are reviewed and approved by the management.

We make allowances for bad and doubtful debts based on an assessment of the recoverability of trade and other receivables. Allowances are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. After assessment, the Directors believe that no further allowance is required.

The following table sets out the aging analysis of our trade receivables as at the respective balance sheet dates:

	As at 31 December			As at 30 September
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
0 to 180 days	368,112	527,202	565,117	530,184
181 to 360 days	47,481	27,319	149,860	111,497
Over 360 days	4,064	–	3,195	58,972
	419,657	554,521	718,172	700,653

Our trade receivables balance increased by approximately RMB134.8 million, or approximately 32.1%, from approximately RMB419.7 million as of 31 December 2007 to approximately RMB554.5 million as of 31 December 2008, which was in line with our increase in revenue for the year ended 31 December 2008. Our trade receivables balance increased by approximately RMB163.7 million, or approximately 29.5%, from approximately RMB554.5 million as of 31 December 2008 to approximately RMB718.2 million as of 31 December 2009, which was in line with our increase in revenue for the year ended 31 December 2009.

Up to [31 October 2010], approximately RMB138.2 million or approximately 19.7% of the trade receivables which were outstanding as at 30 September 2010 were subsequently settled.

The following table sets out our average trade receivables turnover days for the period indicated:

	Year ended 31 December			Nine months ended 30 September
	2007	**2008**	**2009**	**2010**
Average trade receivables turnover days(1)	179	151	147	229(2)

Note:

(1) Average trade receivables turnover days equals average of the beginning and ending balance of gross trade receivables (i.e. trade receivables plus allowance for doubtful debts) for the period divided by sales for the period, and multiplied by the number of days during the period.

(2) The reasons for the significant increase in trade receivables turnover days for the nine months ended 30 September 2010 are attributable to two principal factors: (i) the increase in the trade receivables due over 360 days as at 30 September 2010 from one major customer who is one of the three principal telecommunications operators in the PRC. Such increase was because of the relatively slower bill repayment from this telecommunications operator. As advised by the Directors, similar to other two telecommunications operators, this telecommunications operator will settle our bill in two stages according to the credit 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 of our bill 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. During the nine months ended 30 September 2010, the Directors were given to understand that the related network infrastructures of

this telecommunications operators in which our products are used had a relatively longer construction period and the final testing was still under progress. As such, there was a slower bill repayment from this telecommunications operator during the period; and (ii) the revenue decreased significantly during the period principally as a result of decreased demand of our products due to the reduction in capital expenditure by our principal customers in the PRC. Although there were an increase in the trade receivables due over 360 days from such telecommunications operator during the nine months ended 30 September 2010, our Directors consider that (i) this customer is a sizeable and reputable stated-owned enterprise and as one of the three principal telecommunications operators in the PRC; and (ii) such overdue from such customer was not unusual but this customer would eventually settle the related trade receivables, we have not written off any bad debts from the telecommunications operator during the [●]. The average trade receivables turnover days for the nine months ended 30 September 2009 was 154.

OTHER RECEIVABLES AND PREPAYMENTS

The following table sets out a breakdown of our other receivables and prepayments as at the dates indicated:

	As at 31 December			As at 30 September
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Prepayments	92	112	129	231
Advance payment to suppliers	561	666	22,930	9,472
Prepayment for listing related expenses	–	–	–	7,864
Others	1,151	671	1,089	5,371
	1,804	1,449	24,148	22,938

Our advance payment to suppliers refers to the deposit paid by us upon signing the purchase orders. Such deposit will be deducted from the total amount payable by us under the purchase orders. The higher balance of advance payment to suppliers as at 31 December 2009 was due to increase in purchase of raw materials which is in line with higher demand for our products.

TRADE PAYABLES

The following table sets out a breakdown of our trade payables as at the dates indicated:

	As at 31 December			As at 30 September
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	37,015	80,875	158,035	96,024
Notes payables	67,622	123,060	316,607	244,337
	104,637	203,935	474,642	340,361

The following table sets out the aging analysis of our trade payables and notes payables as at the dates indicated:

	As at 31 December			As at 30 September
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
0 to 90 days	94,737	192,619	286,955	207,531
91 to 180 days	9,618	10,337	185,961	129,980
181 to 360 days	248	494	1,532	2,609
Over 360 days	34	485	194	241
	104,637	203,935	474,642	340,361

Our trade payables balance increased by approximately RMB99.3 million, or approximately 94.9%, to approximately RMB203.9 million as of 31 December 2008, and further increased by approximately RMB270.7 million, or approximately 132.8%, to approximately RMB474.6 million as of 31 December 2009, which was mainly due to increased purchases of raw materials in line with increased sales and the increasing use of bank acceptance bills (銀行承兑匯票) to settle the payment to suppliers, most of which are six-month term bank acceptance bills and thus our actual cash outflow for the payment to suppliers are postponed six months further, among which, some bank acceptance bills are outstanding as at the end of a financial year.

Up to [31 October 2010], approximately RMB96.6 million or approximately 28.4% of the trade payables which were outstanding as at 30 September 2010 were subsequently settled.

The following table sets out our average trade payables turnover days for the period indicated:

	Year ended 31 December			Nine months ended 30 September
	2007	**2008**	**2009**	**2010**
Average trade payables turnover days(1)	63	57	95	159(2)

Notes:

(1) Average trade payables turnover days equals average of the beginning and ending balance of trade payables for the period divided by cost of sales for the period, and multiplied by the number of days during the period.

(2) The significant increase in trade payables turnover days for the nine months ended 30 September 2010 was mainly due to the increasing use of bank acceptance bills (銀行承兑匯票) to settle the payment to

suppliers, most of which are six-month term bank acceptance bills and thus our actual cash outflow for the payment to suppliers are postponed six months further, among which, some bank acceptance bills are outstanding as at the end of a financial year.

OTHER PAYABLES

The following table sets out a breakdown of our other payables as at the dates indicated:

	As at 31 December			As at 30 September
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Accruals	6,122	5,898	7,960	4,770
Payroll payables	22,131	15,695	22,528	15,281
Other tax liabilities	2,343	21,731	819	3,044
Others	750	875	1,083	1,225
	31,346	44,199	32,390	24,320

MAJOR FINANCIAL RATIOS

The following table sets out our major financial ratios as at the dates indicated:

	As at 31 December			As at 30 September
	2007	**2008**	**2009**	**2010**
Return on equity(1)	24.5%	20.1%	22.2%	10.7%
Return on assets(2)	12.3%	10.1%	11.0%	6.5%
Current ratio(3)	1.8	1.8	1.7	2.2
Debt to equity ratio(4)	17.7%	15.2%	4.1%	Net cash

Notes:

(1) Return on equity equals the profit for the period divided by equity attributable to equity holders of our Company and multiplied by 100%.

(2) Return on assets equals the profit for the period divided by total assets as at the end of the period and multiplied by 100%.

(3) Current ratio equals total current assets divided by total current liabilities as at the end of the period.

(4) Debt to equity ratio equals net debt divided by total equity as at the end of the period and multiplied by 100%. Net debt is calculated as total borrowings less cash and cash equivalents.

Return on equity for the nine months ended 30 September 2010 decreased to 10.7% from return on equity of 22.2% for the year ended 31 December 2009, which was due to decreased profit for the period in line with lower sales. Return on equity for the year ended 31 December

2009 increased to 22.2% from return on equity of 20.1% for the year ended 31 December 2008, which was primarily attributable to the higher net profits attained in 2009 than 2008. Return on equity for the year ended 31 December 2008 decreased to 20.1% from return on equity of 24.5% for the year ended 31 December 2007, which was mainly due to the higher equity base in 2008 contributed from net profits in 2007.

Return on assets for the nine months ended 30 September 2010 decreased to 6.5% from return on assets of 11.0% for the year ended 31 December 2009, which was due to decreased profit for the period in line with lower sales. Return on assets for the year ended 31 December 2009 increased to 11.0% from return on assets of 10.1% for the year ended 31 December 2008, which was primarily attributable to the higher net profits attained in 2009 than 2008. Return on assets for the year ended 31 December 2008 decreased to 10.1% from return on assets of 12.3% for the year ended 31 December 2007, which was due to the higher assets base in 2008 mainly from the increase in trade receivables in 2008.

Current ratio for the nine months ended 30 September 2010 increased to 2.2 from current ratio at 1.7 for the year ended 31 December 2009, which was mainly due to decrease in trade payables as a result of less purchases from suppliers in line with lower sales and decrease in short-term bank loans as less bank loans raised during the period. Current ratio was stable during the three years ended 31 December 2009.

Debt to equity ratio for the nine months ended 30 September 2010 was not applicable due to the reason that the balance of bank balances and cash is larger than the balance of short-term bank loans as a lower amount of borrowings were raised during the period. Debt to equity ratio for the year ended 31 December 2009 decreased to 4.1% from debt to equity ratio of 15.2% for the year ended 31 December 2008, which was primarily attributable to the lower borrowings raised, the higher cash from collections and the higher equity base in 2009. Debt to equity ratio for the year ended 31 December 2008 decreased to 15.2% from debt to equity ratio of 17.7% for the year ended 31 December 2007, which was mainly due to the higher equity base in 2008 contributed from net profits in 2007.

WORKING CAPITAL

We have historically financed our operations through cash from operating activities and bank borrowings. In the future, we expect to use funds from a combination of sources to fund our operation and expansion plan, including bank loans, internally generated cash flow and [●] from the [●].

The Directors confirm that the Group has sufficient working capital for its requirements for at least the next 12 months from the date of this document, taking into account the estimated [●] from the [●], available banking facilities and cash flows from operations.

INDEBTEDNESS

Borrowings

At the close of business on [31 October] 2010, which is the latest practicable date for the purpose of ascertaining information contained in the indebtedness statement prior to the printing of this document, we had outstanding short-term loans of approximately RMB89.7 million (of which approximately RMB9.7 million was secured by certain pledged bank deposits of RMB11.0 million). As of [31 October] 2010, we have a total available banking facilities of approximately RMB1,610.0 million, of which approximately RMB213.8 million have been utilized.

Subject to the completion of this [●], we do not intend to raise material external debt financing. There are no material covenants relating to the outstanding bank borrowing.

	As at 31 December			As at 30 September	As at 31 October
	2007	**2008**	**2009**	**2010**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Secured	289,000	181,800	10,221	9,528	9,715
Unsecured	–	90,000	165,000	100,000	80,000
	289,000	271,800	175,221	109,528	89,715

At 31 December 2007, bank loans amounting to RMB263,000,000 were guaranteed by a related party and bear interest in the range from 6.57% to 7.13% per annum. Bank loans amounting to RMB26,000,000 were secured by certain of the Group's buildings and land use right and bear interest at 6.57% per annum.

At 31 December 2008, bank loans amounting to RMB133,000,000 were secured and guaranteed by a related party and bear interest in the range from 4.86% to 5.04% per annum. Bank loans amounting to RMB44,000,000 were secured by certain of the Group's buildings, land use right and machinery and bear interest at 6.03% per annum. Bank loans amounting to RMB4,800,000 were secured by certain of the Group's trade receivable of RMB4,800,000 and bear interest at 6.03% per annum. Bank loans amounting to RMB90,000,000 were unsecured and bear interest in the range from 5.04% to 5.29% per annum.

At 31 December 2009, bank loans amounting to RMB165,000,000 are unsecured and bear interest in the range from 4.37% to 4.86% per annum. Bank loans amounting to RMB10,221,000 are secured by certain of the Group's pledged bank deposits of RMB11,000,000 and bear interest at 2.36% per annum.

At 30 September 2010, bank loans amounting to RMB100,000,000 are unsecured and bear interest of 4.37% per annum. A bank loans amounting to RMB9,528,000 is secured by certain of the Group's pledged bank deposit of RMB11,000,000 and bears interest at 2.36% per annum.

As at 31 October 2010, bank loans amounting to RMB80,000,000 are unsecured and bear interest of 4.37% per annum. A bank loan amounting to RMB9,715,000 is secured by certain of the Group's pledged bank deposit of RMB11,000,000 and bears interest at 2.36% per annum.

Disclaimer

Save as aforesaid, the Group did not have any outstanding bank borrowings, bank overdrafts, mortgages, charges, debentures, loan capital, debt securities or other similar indebtedness, finance leases or hire purchase commitments, acceptance liabilities or acceptance credits, any guarantees or other material contingent liabilities as at [31 October 2010]. The Directors confirm that there has been no material change in the Group's indebtedness and contingent liabilities since [31 October 2010].

CAPITAL EXPENDITURES

The following table sets out the Group's capital expenditures for the periods indicated. Our capital expenditures were funded out of the proceeds of bank loans and cash generated from operating activities.

	Year ended 31 December			Nine months ended 30 September
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
(A) Capital expenditures on project basis				
Buildings	317	796	941	115
Plant and machinery	3,058	675	1,110	48
Construction in progress	12,523	13,983	56,164	9,402
Land use rights	–	–	3,396	–
(B) Capital expenditures on non-project basis				
Office equipment	918	240	1,567	418
Motor vehicles	144	1,545	206	–
	16,960	17,239	63,384	9,983

CAPITAL COMMITMENTS

The following table sets out the Group's capital commitments as of the dates indicated:

	Year ended 31 December			Nine months ended 30 September
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Contracted but not provided for:				
Property, plant and equipment	3,745	25,775	4,225	9,663

We lease various offices and workshop properties under non-cancellable operating lease agreements. Leases are negotiated for an average term of 1 to 3 years.

As at the dates presented, the future aggregate minimum lease payments of our Group under the non-cancellable operating leases were as follows:

	As at 31 December			As at 30 September
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one year	317	474	686	578
In the second to fifth years inclusive	212	118	895	587
Total	529	592	1,581	1,165

DIVIDEND POLICY

For each of [●], members of our Group declared dividends of approximately RMB12.2 million, RMB10.9 million, RMB5.5 million and RMB14.7 million.

The dividends were declared to reward the then shareholder's investments in our Group. Our Directors consider the level of distribution appropriate and in the best interests of our Group as a portion of the net profits from ordinary activities attributable to shareholders has also been retained to support our Group's expansion. Our Directors consider that it is beneficial to utilise a combination of retained profits and borrowings to finance our Group's working capital needs rather than to solely rely on retained profits for the following reasons:

(i) it maximizes the return on equity;

(ii) it maintains the commercial relationship with banks; and

(iii) it rewards the shareholders for their investments in our Company and shareholders may be inclined to invest further in our Company.

OFF-BALANCE SHEET ARRANGEMENTS

As of the close of business on 30 September 2010, we did not have any outstanding derivative financial instruments, off-balance sheet guarantees, interest rate swap transactions or foreign currency forward contracts.

MARKET RISKS

Credit risk

Our credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to our Company. Our credit risk is primarily attributable to our trade and other receivables, trade prepayments, bank balances and cash and pledged bank deposits. There is significant concentration of credit risk as the top five biggest customers account for the majority of the trade receivables. Our management generally grants credit only to customers with good credit ratings and also closely monitors overdue trade debts. The recoverable amount of each individual trade debt is reviewed at the end of each reporting period and adequate impairment for doubtful debts has been made for irrecoverable amounts. The top five raw material suppliers did not account for any of the carrying amount of trade prepayments as at each end of the [●]. In order to minimize the risk, trade prepayments are generally made to suppliers with good credit ratings and with good trading history with our Group. The credit risk in relation to our bank balances and cash and pledged bank deposits is not significant as the corresponding banks are reputable banking institutions in the PRC. For more details, please see the section "Credit Policy" under the section headed "Sales and Marketing" and "Appendix I – Accountants' Report" of this document.

Interest rate risk

We are exposed to fair value interest rate risk which arose primarily from fixed-rate bank borrowings. We are also exposed to cash flow interest rate risk in relation to variable-rate bank borrowings and deposits. We currently have not implemented any interest rate hedging policy.

Management considers the exposure to interest rates on these borrowings to be limited and will consider restructuring our credit facilities should the need arises. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the possible change in interest rates. If interest rate had been 50 basis points higher/lower and all other variables were held constant, our profit for the nine months ended 30 September 2010 and each of the years ended 31 December 2009, 2008 and 2007 would decrease/increase by RMB213,000, RMB459,000, RMB232,000 and RMB700,000, respectively. This is mainly attributable to our exposure to interest rates on variable rate borrowings.

Currency risk

Our exposure to foreign currency risk is attributable to the trade and other receivables, trade and other payables, and recognized assets and liabilities which are denominated in currencies other than the functional currency of the entity to which they relate (mainly US dollars, Singapore dollars and Euro). Currently, transactions in Indian Rupees are limited. We have set up hedging policy to strike a balance between uncertainty and the risk of opportunity loss due to the growing significance of its exposures to fluctuations in foreign currency. Foreign exchange forward contracts can be used to eliminate the currency exposures. We have not entered into such forward contracts. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

The carrying amount of the foreign currency denominated monetary assets and monetary liabilities at the end of each reporting period are as follows:

	As of 31 December			As of 30 September
	2007	**2008**	**2009**	**2010**
		RMB in thousands		
Assets				
USD	51,532	43,358	27,806	21,219
EUR	413	0	0	0
SGD	1,888	4,807	8,328	2,534
INR	0	0	799	1,161
Liabilities				
USD	0	20	991	3,191
EUR	0	0	11,681	9,528

The following table details the sensitivity to a 10% change in RMB against USD, EUR, SGD and INR. 10% represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currencies denominated monetary items and adjusts their translation at the end of each reporting period for a 10% change in foreign currency rates. A positive (negative) number below indicates an increase (decrease) in profit for the year/period where the relevant foreign currencies strengthen 10% against RMB. For a 10% weakening of the relevant foreign currency against RMB, there would be an equal and opposite impact on the profit for the year/period.

	Year ended 31 December			**Nine months ended 30 September**
	2007	**2008**	**2009**	**2010**
		RMB in thousands		
USD impact	4,535	3,792	2,346	1,532
EUR impact	36	0	(1,022)	(810)
SGD impact	166	421	729	215
INR impact	0	0	70	99

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the exposure at the end of each reporting period does not reflect the exposure during each of the respective reporting period.

Liquidity risk

We monitor and maintain a level of cash and cash equivalents deemed adequate by management to finance our operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilization of bank borrowing and ensure compliance with loan covenants. In addition, our Management maintains flexibility in funding through having available source of bank financing.

PROPERTY INTERESTS

CB Richards Ellis, an independent property valuer, has valued our property interests as at [30 September] 2010 and is of the opinion that the value of our property interests as of such date was an aggregate amount of RMB87.0 million. The full text of the letter, summary of valuation and valuation certificates with regard to such property interests are set out in Appendix III to this document.

The table below sets out the reconciliation of the net book value of our Group's property interests as at [30 September 2010] and the valuation of such property interests as at [30 September 2010]:

	RMB'000
Net book values of property interests as of 30 September 2010:	
Building included in property, plant and equipment carried at cost	35,383
Leasehold land carried at cost	20,722
	56,105
Revaluation surplus	30,895
Valuation as of 30 September 2010	87,000

RELATED PARTY TRANSACTIONS

With respect to the related party transactions set out in our consolidated financial statements included in the Accountant's Report set out in Appendix I in this document, our Directors confirm that these transactions were conducted on normal commercial terms and/or such terms no less favorable to us than terms available to Independent Third Parties and which were fair and reasonable and in the interests of our Shareholders as a whole.

For details of related party transactions, please refer to Note 31 to the Accountant's Report in Appendix I in this document.

DISTRIBUTABLE AND STATUTORY RESERVE

According to relevant PRC laws and regulations applicable to foreign investment enterprises and the Articles of Association of the Company, Hengxin (Jiangsu) is required to transfer 15% of its net profit after taxation, as reported in the PRC statutory financial statements, to the statutory surplus reserve fund until the balance reaches 50% of its registered capital. The statutory surplus reserve fund may be used to make up prior year losses incurred and, with approval from relevant government authority, to increase capital.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that there has been no material adverse change in the financial or trading position, indebtedness, mortgage, contingent liabilities, guarantees or prospects of our Group since 30 September 2010, the date to which the latest audited financial statements of our Group were made up.