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[Date]

The Directors
Hengxin Technology Ltd.
[●] Capital Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") regarding Hengxin Technology Ltd. (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for each of the [●] (the "[●]"), for inclusion in the document of the Company dated [●] (the "[●]") in connection with [●] on the [●] of [●].

The Company is incorporated in the Republic of Singapore on 18 November 2004 under the Singapore Companies Act, Cap. 50, as a private limited company under the name of Hengxin International Pte. Ltd. ("HXI"). On 12 January 2006, HXI was converted into a public limited company and changed its name to Hengxin Technology Ltd. The Company is incorporated for the purpose of acquiring the shares in Jiangsu Hengxin Technology Co., Ltd. The shares of the Company are listed on the Singapore Exchange Securities Trading Limited ("SGX-ST") on 11 May 2006 and its registered office is at 10 Anson Road, #15-07 International Plaza, Singapore 079903. The principal activity of the Group is 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.

All companies now comprising the Group have adopted 31 December as their financial year end date. However, as a statutory requirement, Hengxin Technology (India) Pvt Ltd. established in India prepares its statutory accounts with financial year end date on 31 March.

The Company has direct interests in the following subsidiaries during the [●] and at the date of this report:

Name of company	Country and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital at the date of this report	Attributable equity interest of the Group: As at 31 December 2007	2008	2009	At 30 September 2010	At date of this report	Principal activities	Legal form
Jiangsu Hengxin Technology Co., Ltd. ("Hengxin (Jiangsu)")	People's Republic of China ("PRC") 26 June 2003	RMB 319,675,640	100%	100%	100%	100%	100%	Research, design, development and manufacture of telecommunications and technological products, company production of radio frequency coaxial cables for mobile communications and mobile communications systems exchange equipment.	Wholly foreign-owned limited liability
Hengxin Technology (India) Pvt Ltd. ("Hengxin (India)")	India 10 June 2009	INR 9,522,000	N/A	N/A	100%	100%	100%	Marketing and trading of the Group's products to the Indian telecommunications operators	Private company

The statutory financial statements of the entities comprising the Group were audited by the following certified public accountants registered in their respective jurisdictions.

Name of Group entity	Financial year	Name of statutory auditor
The Company	For each of the three years ended 31 December 2009	Deloitte & Touche LLP, Singapore
Hengxin (Jiangsu)	For each of the three years ended 31 December 2009	無錫宜信會計師事務所 Wuxi Yixin Certified Public Accountants Co., Ltd.
Hengxin (India)	For period ended 31 March 2010	Kamdar Desai & Patel Chartered Accountants

The statutory financial statements of the Company were prepared in accordance with the Singapore Financial Reporting Standards. The statutory financial statements of Hengxin (Jiangsu) were prepared in accordance with the relevant PRC accounting principles. The statutory financial statements of Hengxin (India) were prepared in accordance with the relevant accounting principles in India.

The directors of the Company have prepared the consolidated financial statements of the Group for each of the three years ended 31 December 2009 in accordance with Singapore Financial Reporting Standards and the consolidated financial statements of the Group for the period ended 30 September 2010 in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standard Board (the "IASB") (the "Underlying Financial Statements"). The Underlying Financial Statements of the Group for each of the three years ended 31 December 2009 were audited by Deloitte & Touche LLP, Singapore, in accordance with Singapore Standards on Auditing. We have conducted audit procedures on the consolidated financial statements of the Group for each of the three years ended 31 December 2009 in accordance with International Standards on Auditing. For the purpose of this report, we have undertaken independent audits of the consolidated financial statements of the Group for the nine months ended 30 September 2010 in accordance with International Standards on Auditing.

We have examined the Underlying Financial Statements in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The Financial Information of the Group for the [●] as set out in this report has been prepared with the accounting policies set out in Note 3 which are in conformity with IFRSs, and from the Underlying Financial Statements after making necessary adjustments as we considered appropriate for the purpose of preparing our report for the inclusion in the [●].

The Underlying Financial Statements are the responsibility of the directors of the Company who approved their issue. The directors of the Company are responsible for the contents of the [●] in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Company and the Group as at 31 December 2007, 31 December 2008, 31 December 2009 and 30 September 2010 and of the consolidated results and consolidated cash flows of the Group for each of the [●].

The comparative consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the nine months ended 30 September 2009 together with the notes thereon (the "September 2009 Financial Information") have been extracted from the Group's unaudited consolidated financial information for the same period, which was prepared by the directors of the Company solely for the purpose of this report. We have reviewed the September 2009 Financial Information in accordance with the Hong Kong Standard on Review Engagement 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. Our review of the September 2009 Financial Information consisted of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the September 2009 Financial Information. Based on our review, nothing has come to our attention that causes us to believe that the September 2009 Financial Information is not prepared, in all material respects, in accordance with the accounting policies consistent with those used in the preparation of the Financial Information which conform with IFRSs.

A. FINANCIAL INFORMATION

Consolidated Statements of Comprehensive Income

					Nine months ended 30 September	
		Year ended 31 December				
	NOTES	**2007**	**2008**	**2009**	**2009**	**2010**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(unaudited)	
Revenue	*6*	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	*7*	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	*8*	(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	*9*	120,579	123,524	178,930	128,342	95,923
Income tax expense	*11*	(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	*12*	31.8	31.8	44.6	31.9	23.6

Consolidated Statements of Financial Position

	NOTES	As at 31 December 2007 RMB'000	As at 31 December 2008 RMB'000	As at 31 December 2009 RMB'000	As at 30 September 2010 RMB'000
Non-current assets					
Property, plant and equipment	*14*	84,187	90,810	139,260	138,492
Available-for-sale investments	*20*	–	2,000	2,000	–
Leasehold land	*15*	18,281	17,791	20,581	20,162
Deferred tax assets	*16*	1,958	2,070	2,398	2,426
Deposit paid for acquisition of land use right		–	3,396	5,760	5,760
		104,426	116,067	169,999	166,840
Current assets					
Inventories	*17*	96,440	123,258	184,247	102,614
Trade receivables	*18*	419,657	554,521	718,172	700,653
Other receivables and prepayments	*19*	1,804	1,449	24,148	22,938
Available-for-sale investments	*20*	–	500	500	2,000
Leasehold land	*15*	491	491	560	560
Bank balances and cash	*21*	212,061	191,132	147,676	139,691
Pledged bank deposits	*22*	31,335	70,769	120,486	85,785
		761,788	942,120	1,195,789	1,054,241
Current liabilities					
Trade payables	*23*	104,637	203,935	474,642	340,361
Other payables	*24*	31,346	44,199	32,390	24,320
Tax liabilities		5,762	6,394	6,458	4,760
Short-term bank loans	*25*	289,000	271,800	175,221	109,528
		430,745	526,328	688,711	478,969
Net current assets		331,043	415,792	507,078	575,272

	NOTES	As at 31 December 2007	As at 31 December 2008	As at 31 December 2009	As at 30 September 2010
		RMB'000	RMB'000	RMB'000	RMB'000
Total assets less current liabilities		435,469	531,859	677,077	742,112
Non-current liabilities					
Deferred tax liabilities	*16*	–	581	1,413	1,850
		435,469	531,278	675,664	740,262
Capital and reserves					
Share capital	*26*	205,771	205,771	205,771	205,771
Reserves		229,698	325,507	469,893	534,491
Total equity attributable to owners of the Company		435,469	531,278	675,664	740,262

Statements of Financial Position of the Company

		As at 31 December			As at 30 September
	NOTES	**2007**	**2008**	**2009**	**2010**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets					
Property, plant and equipment		19	10	24	17
Investments in subsidiaries	*33*	163,655	231,784	320,961	321,984
		163,674	231,794	320,985	322,001
Current assets					
Other receivables and prepayments	*19*	68,984	382	1,416	9,682
Bank balances and cash		21,612	24,781	9,307	6,742
		90,596	25,163	10,723	16,424
Current liabilities					
Other payables		2,802	5,763	7,694	4,483
		2,802	5,763	7,694	4,483
Net current assets		87,794	19,400	3,029	11,941
Total assets less current liabilities		251,468	251,194	324,014	333,942
Capital and reserves					
Share capital	*26*	205,771	205,771	205,771	205,771
Reserves		45,697	45,423	118,243	128,171
Total equity		251,468	251,194	324,014	333,942

Consolidated Statements of Changes in Equity

	Equity attributable to owners of the Company					
	Share capital	PRC Statutory reserve	Translation reserves	Special reserve	Accumulated profits	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
		(note 1)		*(note 2)*		
At 1 January 2007	205,771	27,569	–	(6,017)	113,614	340,937
Net profit and total comprehensive income for the year	–	–	–	–	106,699	106,699
Transfer	–	17,336	–	–	(17,336)	–
Dividend paid *(Note 13)*	–	–	–	–	(12,167)	(12,167)
At 31 December 2007	205,771	44,905	–	(6,017)	190,810	435,469
Net profit and total comprehensive income for the year	–	–	–	–	106,743	106,743
Transfer	–	17,436	–	–	(17,436)	–
Dividend paid *(Note 13)*	–	–	–	–	(10,934)	(10,934)
At 31 December 2008	205,771	62,341	–	(6,017)	269,183	531,278
Net profit for the year	–	–	–	–	149,866	149,866
Exchange differences on translation	–	–	16	–	–	16
Total comprehensive income for the year	–	–	16	–	149,866	149,882
Transfer	–	24,946	–	–	(24,946)	–
Dividend paid *(Note 13)*	–	–	–	–	(5,496)	(5,496)
At 31 December 2009	205,771	87,287	16	(6,017)	388,607	675,664
Net profit for the period	–	–	–	–	79,312	79,312
Exchange differences on translation	–	–	5	–	–	5
Total comprehensive income for the period	–	–	5	–	79,312	79,317
Dividend paid *(Note 13)*	–	–	–	–	(14,719)	(14,719)
At 30 September 2010	205,771	87,287	21	(6,017)	453,200	740,262

	Equity attributable to owners of the Company					
	Share capital	PRC Statutory reserve	Translation reserves	Special reserve	Accumulated profits	Total
	RMB'000	*RMB'000* *(note 1)*	*RMB'000*	*RMB'000* *(note 2)*	*RMB'000*	*RMB'000*
For the nine months ended 30 September 2009 (unaudited)						
At 1 January 2009	205,771	62,341	–	(6,017)	269,183	531,278
Net profit for the period	–	–	–	–	107,205	107,205
Exchange differences on translation	–	–	(9)	–	–	(9)
Total comprehensive income for the period	–	–	(9)	–	107,205	107,196
Dividend paid *(Note 13)*	–	–	–	–	(5,496)	(5,496)
At 30 September 2009	205,771	62,341	(9)	(6,017)	370,892	632,978

Note:

1. The PRC statutory reserve represents the amount transferred from net profit for the year of the subsidiary established in the PRC in accordance with the relevant PRC laws until the PRC statutory reserve reaches 50% of the registered capital of the subsidiary. The statutory reserve cannot be reduced except either in setting off the accumulated losses or increasing capital.

2. The special reserve represents the difference between the acquisition cost and carrying amount of net assets of Hengxin (Jiangsu) arising from the acquisition of Hengxin (Jiangsu) in 2004.

Consolidated Statements of Cash Flows

	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*
Operating activities					
Profit before tax	120,579	123,524	178,930	128,342	95,923
Adjustments for:					
Depreciation of property, plant and equipment	8,849	10,128	11,528	8,172	10,744
Allowance for (Reversal of) inventory obsolescence	148	243	(577)	–	188
Interest expense	23,764	21,743	16,013	12,895	8,972
Loss on disposal of property, plant and equipment	13	5	5	4	5
Release of leasehold land	490	490	537	396	419
Gain on disposal of available-for-sales investments	(644)	(22)	(698)	–	(109)
Interest income	(3,427)	(4,551)	(3,362)	(2,314)	(3,771)
Unrealised net foreign exchange loss (gain)	135	(2,607)	571	(252)	(859)
Operating cash flows before movements in working capital	149,907	148,953	202,947	147,243	111,512
(Increase) decrease in inventories	(6,695)	(27,061)	(60,412)	(38,026)	81,445
Decrease (increase) in trade receivables	74,602	(134,864)	(163,651)	(242,989)	17,519
Decrease (increase) in other receivables	1,275	355	(22,699)	(6,928)	1,210
(Decrease) increase in trade payables	(51,663)	99,298	270,707	300,092	(134,281)
(Decrease) increase in other payables	(8,291)	12,853	(11,809)	160	(8,070)
Cash generated from operations	159,135	99,534	215,083	159,552	69,335
Interest paid	(23,764)	(21,743)	(16,013)	(12,895)	(8,972)
Interest received	3,427	4,551	3,362	2,314	3,771
Income taxes paid	(10,076)	(15,680)	(28,496)	(21,136)	(17,901)
Net cash generated from operating activities	128,722	66,662	173,936	127,835	46,233

	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)	
Investing activities					
Payments for acquisition of property, plant and equipment	(16,960)	(17,239)	(59,988)	(36,842)	(9,983)
Payments for land use rights	–	(3,396)	(5,760)	(5,760)	–
Payment for available-for-sale investments	–	(38,500)	(28,600)	(2,600)	–
Proceeds from disposal of available-for-sale investments	894	36,022	29,298	2,600	609
Proceeds from disposal of property, plant and equipment	42	483	5	5	2
Net cash used in investing activities	(16,024)	(22,630)	(65,045)	(42,597)	(9,372)
Financing activities					
Decrease (increase) in pledged bank deposits	45,817	(39,434)	(49,717)	(81,597)	34,701
Short-term bank loans raised	389,000	603,800	852,221	632,000	410,000
Repayment of short-term bank loans	(435,000)	(621,000)	(948,800)	(588,800)	(475,000)
Dividends paid	(12,167)	(10,934)	(5,496)	(5,496)	(14,719)
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 beginning of 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 end of year/period, represented by					
Bank balances and cash	212,061	191,132	147,676	232,721	139,691

Notes to the Financial Information

1. CORPORATE INFORMATION

The Company was incorporated in the Republic of Singapore with its principal place of business at 16 Raffles Quay, #33-02B Hong Leong Building, Singapore 048581 and registered office at 10 Anson Road, #15-07 International Plaza, Singapore 079903. The Company is listed on the [●] of the Singapore Exchange Securities Trading Limited.

The individual financial statements of each Group entity are measured and presented in the currency of the primary economic environment in which the entity operates (its functional currency). The functional currency of the Company is Renminbi ("RMB"), which is also the functional currency of Hengxin (Jiangsu), the subsidiary in the PRC, and the presentation currency for the consolidated financial statements. The functional currency of Hengxin (India) is Indian Rupees. The choice of presentation currency is to better reflect the currency that mainly determines economic effects of transactions, events and conditions of the Group.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

For the purpose of preparing and presenting the Financial Information, the Group has applied a number of new and revised International Accounting Standards ("IASs"), International Financial Reporting Standards ("IFRSs"), amendments and the related Interpretations ("IFRICs") ("hereinafter collectively referred to as new IFRSs") which are effective on 1 January 2010.

IFRS 3 (2008) *Business Combinations* has been applied prospectively to business combinations for which the acquisition date is on or after 1 January 2010. IFRS 3 (2004) *Business Combinations* has been applied to business combinations for which the acquisition date is before 1 January 2010.

IAS 27 (2008) *Consolidated and Separate Financial Statements* has been applied consistently throughout the [●] with the following exceptions which have been applied prospectively from 1 January 2010:

(i) total comprehensive income is attributed to the owners of the Company and non-controlling interests even if this results in the non-controlling interests having a deficit balance; and

(ii) changes of the Group's ownership interest in a subsidiary are accounted for as equity transactions.

Other new IFRSs have been applied consistently throughout the [●].

The Group has not applied the following new and revised standards, amendments or interpretations that have been issued but not yet effective.

IFRSs (Amendments)	Improvements to IFRSs May 2010[1]
IAS 24 (Revised)	Related Party Disclosures[4]
IAS 32 (Amendment)	Classification of Rights Issues[2]
IFRS 1 (Amendment)	Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters[3]
IFRS 7 (Amendment)	Disclosures – Transfers of Financial Assets[5]
IFRS 9	Financial Instruments[6]
IFRIC 14 (Amendment)	Prepayments of a Minimum Funding Requirement[4]
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments[3]

1 Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate
2 Effective for annual periods beginning on or after 1 February 2010
3 Effective for annual periods beginning on or after 1 July 2010
4 Effective for annual periods beginning on or after 1 January 2011
5 Effective for annual periods beginning on or after 1 July 2011
6 Effective for annual periods beginning on or after 1 January 2013

The Group has not early adopted these new and revised standards, amendments or interpretations in the preparation of the Financial Information.

The directors of the Company anticipate that the application of these new or revised standards, amendments and interpretations will have no material impact on the consolidated financial statements of the Group.

3. PRINCIPAL ACCOUNTING POLICIES

Basis of accounting

The Financial Information has been prepared on the historical cost convention except for certain financial instruments, which are measured at fair values, and in accordance with the accounting policies set out below which are in conformity with IFRSs. These policies have been consistently applied throughout the [●].

In addition, the Financial Information includes applicable disclosures required by the [●] and by the Hong Kong Companies Ordinance.

The principle accounting policies adopted are as follows:

Basis of consolidation

The Financial Information incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year (other than business combinations involving entities under common control) are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of sales related taxes.

Revenue from sales of goods is recognised when goods are delivered and title has passed.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods and services, or administrative purposes (other than construction in progress) are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided 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

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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 (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the profit or loss in the period in which the item is derecognised.

Leasing

Leases are classified as finance leases wherever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally classified as finance lease. To the extent the allocation of the lease payments can be made reliably, leasehold land is classified as finance leases if substantially all the risk and rewards incidental to ownership of the land element is transferred to the Group. In other cases, leasehold land is classified as operating leases.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than that entity's functional currency (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are re-translated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purpose of presenting the Financial Information, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the period unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the translation reserve).

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Other government grants are recognised as income over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefit costs

Payments to defined contribution retirement benefit plans are charged as an expense when employees have rendered service entitling them to the contributions.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the liability is settled or the asset realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflect the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

– the technical feasibility of completing the intangible asset so that it will be available for use or sale;

– the intention to complete the intangible asset and use or sell it;

– the ability to use or sell the intangible asset;

– how the intangible asset will generate probable future economic benefits;

– the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

– the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (see the accounting policy in respect of impairment losses on non-current assets below), if any. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Impairment losses on non-current assets

At the end of the reporting period, the Group reviews the carrying amounts of its non-current assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statements of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into financial assets at fair value through profit or loss ("FVTPL"), loans and receivables and available-for-sale investments.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL, of which interest income is included in net gains or losses.

Financial assets at fair value through profit and loss

Financial assets at FVTPL include financial assets held for trading investments.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade receivables , bank balances and cash and pledged bank deposits are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Available-for-sale investments

Available-for-sale investments are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

Available-for-sale financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income and accumulated in investment revaluation reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

– significant financial difficulty of the issuer or counterparty; or

– default or delinquency in interest or principal payments; or

– it becoming probable that the borrower will enter bankruptcy or financial reorganisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in other comprehensive income and accumulated in investment revaluation reserve.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities including trade and other payables, and short-term bank loans are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the following financial year.

Impairment of trade receivables

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

The Group makes 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. As at 31 December 2007, 2008, 2009 and 30 September 2010, the carrying amount of trade receivables are RMB419,657,000, RMB554,521,000, RMB718,172,000 and RMB700,653,000, net of allowance for doubtful debts of RMB15,762,000, RMB15,762,000, RMB15,762,000 and RMB15,762,000 respectively.

Write-down of inventories

Inventories are valued at the lower of cost and net realisable value. Also, the Group regularly inspects and reviews its inventories to identify slow-moving and obsolete inventories. The amount of the impairment loss is measured as the difference between inventories' cost and net realised value.

The identification of impairment of inventories requires the use of judgement and estimate of expected net realisable value. Where the net realisable value is lower than the cost, a material impairment loss may arise. As at 31 December 2007, 2008, 2009 and 30 September 2010, the carrying amount of inventories are RMB96,440,000, RMB123,258,000, RMB184,247,000 and RMB102,614,000, net of write-down of inventories of RMB555,000, RMB798,000, RMB221,000 and RMB409,000, respectively.

Useful lives of property, plant and equipment

The Group reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period. During the [●], management is satisfied that there is no change in the estimated useful lives of the property, plant and equipment from prior years. The carrying amounts of property, plant and equipment at the end of the reporting period are disclosed in note 14.

Impairment of property, plant and equipment and leasehold land

At the end of the reporting period, management reviews the carrying amounts of its property, plant and equipment and leasehold land 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 and leasehold land. 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.

5. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged during the [●], the Group is in compliance with all capital requirements on its external borrowings.

The capital structure of the Group consists of debt, which includes the bank borrowings and equity attributable to owners of the Company, comprising issued share capital and reserves.

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

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

	As at 31 December			As at 30 September
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Net cash borrowings	76,939	80,668	27,545	(30,163)
Total equity	435,469	531,278	675,664	740,262
Net gearing ratio (%)	17.67	15.18	4.08	(4.07)

Categories of financial instruments

The carrying amounts of financial assets and financial liabilities are as follows:

	The Group			
	As at 31 December			As at 30 September
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial assets				
Available-for-sale investments	–	2,500	2,500	2,000
Loan and receivables (including Cash and cash equivalents)	664,204	817,093	987,423	931,500
Financial liabilities				
Amortised cost	394,387	476,610	650,946	451,114

	The Company			
	As at 31 December			As at 30 September
	2007	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial assets				
Loan and receivables (including Cash and cash equivalents)	90,570	25,163	10,723	8,560
Financial liabilities				
Amortised cost	142	261	25	53

Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, trade and other payables, short-term bank loans, bank balances and cash and pledged bank deposits. Details of these financial instruments are disclosed in respective notes.

The risk associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Foreign currency risk management

The primary economic environment in which the principal subsidiary of the Company operates is the PRC and its functional currency is RMB. However, certain sales and purchases of the Group are denominated in United States Dollars ("USD"), Singapore dollars ("SGD") and Euro ("EUR"), which are currencies other than the functional currency of the relevant group entities and expose the Group to foreign currency risk. Transactions in Indian Rupees ("INR") are limited.

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the respective reporting periods are as follows:

	As at 31 December			As at 30 September
	2007	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Assets				
The Group				
USD	51,532	43,358	27,806	21,219
EUR	413	–	–	–
SGD	1,888	4,807	8,328	2,534
INR	–	–	799	1,161
The Company				
SGD	1,888	4,807	8,328	2,534
Liabilities				
The Group				
USD	–	20	991	3,191
EUR	–	–	11,681	9,528

The Group has 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. The Group has not entered into such forward contracts but the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Foreign currency sensitivity analysis

The following table details the Group's 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 each of the end of the 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 net profit for the year/period.

	Year ended 31 December			Nine months ended 30 September
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
The Group				
USD impact	4,535	3,792	2,346	1,532
EUR impact	36	–	(1,022)	(810)
SGD impact	166	421	729	215
INR impact	–	–	70	99
The Company				
SGD impact	166	421	729	215

Interest rate risk management

The Group's fair value interest rate risk relates primarily to its fixed-rate bank borrowings. The Group's cash flow interest rate risk relates primarily to their variable-rate bank borrowings and bank balances which carry prevailing market interest rates. However, such exposure relating to bank balances is minimal to the Group as the bank balances are all short-term in nature. The Group currently has not entered into interest rate swaps to hedge against their exposure to changes in fair values of the borrowings. Currently, the Group does not have an interest rate hedging policy. However, management monitors interest rate exposure and will consider restructuring the Group's credit facilities should the need arise.

The Group's exposures to interest rate changes on its financial liabilities are detailed in the liquidity risk management below.

Interest rate sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to interest rates for non-derivative instruments at the end of the [●]. For variable-rate bank borrowings, the analysis is prepared assuming the amount of liabilities outstanding at the end of the [●] was outstanding for the whole year. A 50 basis point for bank borrowing 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 the bank borrowings interest rate had been 50 basis points higher/lower and all other variables were held constant, the Group's net profit for the year ended December 31, 2007, 2008 and 2009 and nine months ended 30 September 2010 would decrease/increase by RMB700,000, RMB232,000, RMB459,000 and RMB213,000 respectively. This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

Credit risk management

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has 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. Before accepting any new customer, the Group has to assess the potential customer's credit quality and defines credit limits by customer. The Group uses publicly available financial information and its own trading records to rate its major customers. The Group only transacts with customers that have good credit quality. The Group's exposure and the credit ratings of its 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.

The Group's credit risk primarily relates to the Group's 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 over approximately 88%, 92%, 93% and 89% of the carrying amounts of trade receivables as at 31 December 2007, 2008 and 2009 and 30 September 2010. The management of the Group 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. In this regard, the management of the Group considers that the credit risk associated with the Group's trade receivable and trade prepayments is significantly reduced.

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 minimise the risk, trade prepayments are generally made to suppliers with good credit ratings and with good trading history with the Group.

The credit risk in relation to the Group's bank balances and cash and pledged bank deposits is not significant as the corresponding banks are reputable banking institutions in the PRC.

Liquidity risk management

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowing and ensure compliance with loan covenants.

The following table details the Group's and the Company's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date in which the Group can be required to pay. The tables include both interest and principal cash flows.

	Weighted average effective interest rate	On demand or less than 1 months	1-3 months	3 months to 1 year	Total undiscounted cash flows	Carrying amount
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
The Group:						
At 31 December 2007						
Financial liabilities						
Trade and other payables	–	41,858	62,784	745	105,387	105,387
Short-term bank loans	6.66	40,134	–	257,639	297,773	289,000
		81,992	62,784	258,384	403,160	394,387

	Weighted average effective interest rate	On demand or less than 1 months	1-3 months	3 months to 1 year	Total undiscounted cash flows	Carrying amount
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2008						
Financial liabilities						
Trade and other payables	–	42,733	46,969	115,108	204,810	204,810
Short-term bank loans	5.27	20,024	33,296	223,868	277,188	271,800
		62,757	80,265	338,976	481,998	476,610
At 31 December 2009						
Financial liabilities						
Trade and other payables	–	165,110	216,747	93,967	475,725	475,725
Short-term bank loans	4.55	35,130	–	142,576	177,706	175,221
		200,141	216,747	236,543	653,431	650,946
At 30 September 2010						
Financial liabilities						
Trade and other payables	–	117,836	103,690	120,060	341,586	341,586
Short-term bank loans	4.20	20,036	90,159	–	110,195	109,528
		137,872	193,849	120,060	451,781	451,114
The Company:						
At 31 December 2007						
Financial liabilities						
Other payables	–	124	–	18	142	142
At 31 December 2008						
Financial liabilities						
Other payables	–	261	–	–	261	261
At 31 December 2009						
Financial liabilities						
Other payables	–	25	–	–	25	25
At 30 September 2010						
Financial liabilities						
Other payables	–	53	–	–	53	53

Fair value

The fair value of the Group's financial assets and financial liabilities are determined as follows:

– the fair value of financial assets with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market bid prices and ask prices, respectively; and

– the fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Financial Information approximate their fair values.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

– Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.

– Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

– Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	31/12/2008			
	Level 1	**Level 2**	**Level 3**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Available-for-sale investments				
Listed investment fund	500	–	–	500
Unlisted investment fund	–	2,000	–	2,000
	500	2,000	–	2,500

	31/12/2009			
	Level 1	**Level 2**	**Level 3**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Available-for-sale investments				
Listed investment fund	500	–	–	500
Unlisted investment fund	–	2,000	–	2,000
	500	2,000	–	2,500

	30/09/2010			
	Level 1	**Level 2**	**Level 3**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Available-for-sale investments				
Unlisted investment fund	–	2,000	–	2,000

There were no transfers between Level 1 and 2 during the [●].

6. REVENUE AND SEGMENT INFORMATION

The Group has consistently applied IFRS 8 *Operating Segments* throughout the [●]. IFRS 8 is a disclosure standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (the "CODM"), the board of directors in order to allocate resources to segments and to assess their performance.

The Group is organised into business units based on their products, based on which information is prepared and reported to the Group's CODM for the purposes of resource allocation and assessment of performance.

For management purposes, the Group is organised into two core product lines, radio frequency coaxial cables series for mobile communications, and coaxial cables for telecommunications equipment and accessories. These products are the basis on which the Group reports its segment information.

The following is an analysis of the Group's revenue and results by operating segments 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*	*%*
Segment revenue										
Radio frequency coaxial cables series for mobile communications	818,644	85	1,073,959	88	1,344,014	83	1,026,877	84	722,764	84
Coaxial cables for telecommunications equipment and accessories	144,180	15	140,220	12	271,251	17	196,061	16	142,652	16
Total revenue	962,824	100	1,214,179	100	1,615,265	100	1,222,938	100	865,416	100
Segment profit										
Radio frequency coaxial cables series for mobile communications	119,759	79	131,378	88	167,651	83	123,073	84	84,078	84
Coaxial cables for telecommunications equipment and accessories	31,156	21	18,193	12	33,835	17	23,498	16	16,594	16
Total segment profit	150,915	100	149,571	100	201,486	100	146,571	100	100,672	100

	Year ended 31 December						Nine months ended 30 September			
	2007		**2008**		**2009**		**2009**		**2010**	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%
Other income	5,976		7,405		7,557		5,306		12,901	
Other expenses (exclude research and development expenses)	(4,222)		(2,908)		1,047		478		(2,364)	
Financial costs	(23,764)		(21,743)		(16,013)		(12,895)		(8,972)	
Unallocated administrative and general expenses	(8,326)		(8,801)		(15,147)		(11,118)		(6,314)	
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	106,699		106,743		149,866		107,205		79,312	

Revenue reported above represents revenue generated from external customers. There were no inter-segment sales during the [●].

The accounting policies of the operating segments are the same as the Group's accounting policies describe in Note 3 to the Financial Information. Segment profit represents the gross profit earned by each segment, less distribution and selling expenses, research and development expenses, and certain administration and general expenses. This is the measure reported to CODM for the purposes of resource allocation and performance assessment.

The following is an analysis of the Group's assets and liabilities by operating segment:

	Radio frequency coaxial cables series for mobile communications	Coaxial cables for tele-communication equipment and accessories	Total
	RMB'000	*RMB'000*	*RMB'000*
At 31 December 2007			
Assets:			
Segment assets	717,739	126,408	844,147
Unallocated assets			22,067
Total assets			866,214
Liabilities:			
Segment liabilities	363,860	64,083	427,943
Unallocated liabilities			2,802
Total liabilities			430,745

	Radio frequency coaxial cables series for mobile communications	Coaxial cables for telecommunication equipment and accessories	Total
	RMB'000	*RMB'000*	*RMB'000*
At 31 December 2008			
Assets:			
Segment assets	913,716	119,298	1,033,014
Unallocated assets			25,173
Total assets			1,058,187
Liabilities:			
Segment liabilities	461,375	59,771	521,146
Unallocated liabilities			5,763
Total liabilities			526,909
At 31 December 2009			
Assets:			
Segment assets	1,127,489	227,552	1,355,041
Unallocated assets			10,747
Total assets			1,365,788
Liabilities:			
Segment liabilities	567,834	114,596	682,430
Unallocated liabilities			7,694
Total liabilities			690,124
At 30 September 2010			
Assets:			
Segment assets	1,014,089	200,151	1,214,240
Unallocated assets			6,841
Total assets			1,221,081
Liabilities:			
Segment liabilities	397,819	78,517	476,336
Unallocated liabilities			4,483
Total liabilities			480,819

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to operating segments other than property, plant and equipment, other receivables and bank balances of the Company and Hengxin (India). Assets used jointly by operating segments are allocated on the basis of the revenues earned by individual operating segments;

- all liabilities are allocated to operating segments other than other payables of the Company. Liabilities for which operating segments are jointly liable are allocated in proportion to segment assets.

Other segment information

	Radio frequency coaxial cables series for mobile communications	Coaxial cables for tele-communication equipment and accessories	Subtotal	Adjustments	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(note 2)*	*RMB'000*
Amounts included in the measure of segment profit or loss or segment assets:					
For the year ended 31 December 2007					
Addition to non-current assets *(note 1)*	14,413	2,538	16,951	9	16,960
Depreciation and amortisation	7,933	1,397	9,330	9	9,339
Write-down of inventories	129	19	148	–	148
For the year ended 31 December 2008					
Addition to non-current assets *(note 1)*	17,779	526	18,305	2,330	20,635
Depreciation and amortisation	9,393	1,216	10,609	9	10,618
Write-down of inventories	234	9	243	–	243
For the year ended 31 December 2009					
Addition to non-current assets *(note 1)*	54,396	10,978	65,374	374	65,748
Depreciation and amortisation	10,031	2,024	12,055	10	12,065
Write-down of inventories	(480)	(97)	(577)	–	(577)
For the period ended 30 September 2009 (unaudited)					
Addition to non-current assets *(note 1)*	35,697	6,816	42,513	89	42,602
Depreciation and amortisation	6,856	1,309	8,165	7	8,172
Write-down of inventories	–	–	–	–	–
For the period ended 30 September 2010					
Addition to non-current assets *(note 1)*	8,297	1,638	9,935	48	9,983
Depreciation and amortisation	8,891	1,755	10,646	98	10,744
Write-down of inventories	157	31	188	–	188

Notes:

1. Non-current assets excluded financial instruments and deferred tax assets.

2. Adjustments represent the information related to items relevant to the Company that cannot be allocated to the operating segments.

Geographical information

The Group's operations are mainly located in the PRC.

The Group's revenue from continuing operation from external customers, based on location of customers and information about its non-current assets by geographical location of the assets are detailed below:

	Revenue from external customers				
	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	954,804	1,526,800	1,156,710	838,285
South Asia *(note 1)*	124,971	259,375	85,165	64,968	21,426
Others *(note 2)*	620	–	3,300	1,260	5,705
Total	962,824	1,214,179	1,615,265	1,222,938	865,416

	Non-current assets *(note 3)*			
	As at 31 December			As at 30 September
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
PRC	102,449	111,987	165,453	164,315
Singapore and India	19	10	148	99
Total	102,468	111,997	165,601	164,414

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.

3. Non-current assets excluded financial instruments and deferred tax assets.

The majority of the Group's non-current assets are located in the PRC, the country of domicile of the major subsidiary, Hengxin (Jiangsu), at the end of each reporting period.

Information about major customers

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

	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*
Customer A[1]	287,549	390,090	594,634	521,619	162,894
Customer B[1]	334,327	351,842	373,220	231,292	317,041
Customer C[1]	N/A[2]	N/A[2]	263,120	185,152	142,803
Customer D[1]	122,348	136,060	N/A[2]	N/A[2]	N/A[2]
Customer E[1]	N/A[2]	N/A[2]	N/A[2]	N/A[2]	N/A[2]
Total	744,224	877,992	1,230,974	938,063	622,738

1 Revenue from radio frequency coaxial cables.

2 The corresponding revenue did not contribute over 10% of the total sales of the Group.

7. OTHER INCOME

	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*
Interest income	3,427	4,551	3,362	2,314	3,771
Government grants	1,105	2,406	2,856	2,489	8,430
Gain on disposal of available-for-sale investments	644	22	698	–	109
Sales of scrap material	475	7	–	–	–
Others	325	419	641	503	591
	5,976	7,405	7,557	5,306	12,901

8. OTHER EXPENSES

	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*
Net foreign exchange loss (gain)	3,649	2,264	(1,553)	(982)	(343)
Donation	560	630	501	500	500
Loss on disposal of property, plant and equipment	13	5	5	4	5
Research and development expenses	3,672	5,460	8,437	5,852	4,441
Loss on fair value change of held-for-trading investments *(note)*	–	–	–	–	1,472
Others	–	9	–	–	730
	7,894	8,368	7,390	5,374	6,805

Note: The amount represents the decrease in fair value of the Group's held-for-trading investments, which comprised listed fund in the PRC purchased and sold during the period ended 30 September 2010.

9. PROFIT BEFORE TAX

	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*
Profit before tax has been arrived at after charging:					
Amortisation of leasehold land	490	490	537	396	419
Audit fees paid:					
to the auditors of the Company	345	370	390	341	320
to other auditors	560	781	1,063	778	929
Cost of inventories recognised as expense (including allowance for (reversal of) inventory obsolescence)	752,769	988,960	1,302,579	986,428	699,975
Depreciation of property, plant and equipment	8,849	10,128	11,528	8,172	10,744
Cost of defined contribution plans	1,327	1,897	2,246	1,667	1,857
Directors' emoluments					
Directors of the Company *(note 10)*	3,202	3,536	4,989	3,725	1,543
Directors of the subsidiary	419	547	439	424	206
Employee benefits expense	35,451	44,406	64,509	49,083	34,344
Total staff cost	40,399	50,386	72,183	54,899	37,950
Less: staff cost included in research and development expenses	(2,129)	(2,594)	(4,449)	(2,863)	(2,520)
	38,270	47,792	67,734	52,036	35,430
Research and development expenses (included in other expenses)	3,672	5,460	8,437	5,852	4,441

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Details of the emoluments paid to the directors of the Company for the [●] were as follows:

	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*
Directors' emoluments:					
– Directors' fee	1,084	1,082	1,270	939	998
– Salaries and other benefits	1,251	1,263	1,244	930	545
– Performance related incentive payments *(note)*	867	1,191	2,475	1,856	–
Total	3,202	3,536	4,989	3,725	1,543

	Directors' fee *RMB'000*	Salaries and other benefits *RMB'000*	Performance related incentive payments *(note)* *RMB'000*	Total *RMB'000*
For the year ended 31 December 2007				
Raymond Ong*	76	–	–	76
Lai Seng Kwoon*	50	–	–	50
Cui Genxiang	202	–	–	202
Zhang Zhong	202	–	–	202
Tay Ah Kong Bernard	302	–	–	302
Chee Teck Kwong Patrick	252	–	–	252
Xu Guochen#	–	1,251	867	2,118
	1, 084	1,251	867	3,202
For the year ended 31 December 2008				
Cui Genxiang	172	–	–	172
Zhang Zhong	172	–	–	172
Tay Ah Kong Bernard	394	–	–	394
Chee Teck Kwong Patrick	344	–	–	344
Xu Guochen#	–	1,263	1,191	2,454
	1,082	1,263	1,191	3,536
For the year ended 31 December 2009				
Cui Genxiang	188	–	–	188
Zhang Zhong	188	–	–	188
Tay Ah Kong Bernard	470	–	–	470
Chee Teck Kwong Patrick	424	–	–	424
Xu Guochen#	–	1,244	2,475	3,719
	1,270	1,244	2,475	4,989
For the period ended 30 September 2009 (unaudited)				
Cui Genxiang	139	–	–	139
Zhang Zhong	139	–	–	139
Tay Ah Kong Bernard	348	–	–	348
Chee Teck Kwong Patrick	313	–	–	313
Xu Guochen#	–	930	1,856	2,786
	939	930	1,856	3,725
For the period ended 30 September 2010				
Cui Genxiang	–	443	–	443
Zhang Zhong	185	–	–	185
Tay Ah Kong Bernard	425	–	–	425
Chee Teck Kwong Patrick	388	–	–	388
Xu Guochen#	–	102	–	102
	998	545	–	1,543

* *The directors have resigned on 17 January 2007*

\# *The director has resigned on 1 April 2010*

Note: The performance related incentive payment is determined as a percentage of the net profit of the Group during the [●].

The five highest paid individuals included one, one, one, one and nil directors of the Group, for each of the years ended 31 December 2007, 2008 and 2009 and nine months ended 30 September 2009 and 2010, respectively. Details of whose emoluments are set out above. The emoluments of the remaining individuals during the [●] were as follows:

	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*
Employees					
– salaries and other benefits	2,824	3,782	4,515	2,650	3,610
– retirement benefit schemes contributions	30	64	62	50	64
	2,854	3,846	4,577	2,700	3,674

During the [●], no emoluments were paid by the Group to the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the [●].

Their emoluments were within the following bands:

	Year ended 31 December			**Nine months ended 30 September**	
	2007	**2008**	**2009**	**2009**	**2010**
	No. of employees	*No. of employees*	*No. of employees*	*No. of employees*	*No. of employees*
HKD nil to HKD1,000,000	4	0	0	4	4
HKD1,000,001 to HKD1,500,000	–	4	4	–	1

11. INCOME TAX EXPENSE

	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*
Current tax:					
PRC enterprise income tax ("EIT")	15,838	16,768	23,846	16,837	16,132
Withholding tax	–	–	4,675	4,675	–
Under (Over) provision of current tax in prior years	–	(456)	39	39	70
Deferred tax charge (credit): current year *(note 16)*	(1,958)	469	504	(414)	409
	13,880	16,781	29,064	21,137	16,611

The tax charge for the [●] can be reconciled to profit before tax as follows:

	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*
Profit before tax	120,579	123,524	178,930	128,342	95,923
Tax at the PRC income tax rate of 25% (2007: 24%)	28,939	30,881	44,732	32,086	23,981
Tax effect of expenses not deductible	3,735	2,591	3,923	2,319	3,414
Tax effect of income not taxable in determining taxable profit	–	–	(50)	–	–
Tax effect of previously not recognized deductible temporary difference	(1,941)	–	–	–	–
Effect of PRC exemption and concessions	(16,853)	(16,737)	(24,673)	(17,568)	(11,291)
Under (Over) provision of current tax in prior years	–	(456)	39	39	70
Increase in opening deferred tax balances resulting from an increase in applicable tax rate	–	(79)	(414)	(414)	–
Withholding tax	–	581	5,507	4,675	437
Taxation for the year/period	13,880	16,781	29,064	21,137	16,611

The Company

The Company has no assessable profits subject to Singapore income tax since its incorporation.

Hengxin (Jiangsu)

PRC Enterprise Income Tax ("EIT") is calculated at rates prevailing under the relevant laws and regulations in the PRC.

For the year ended 31 December 2007, Hengxin (Jiangsu) was entitled to a preferential corporate tax rate of 24% as Hengxin (Jiangsu) is established in the city of the coastal open economic zone in the PRC. Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the statutory tax rate is 25% from 1 January 2008 onwards. Hengxin (Jiangsu) acquired "High-tech enterprise" certificate, "No. GR200832000262" which was jointly authorized by Jiangsu Science and Technology Department, Jiangsu Finance Department, Jiangsu Provincial Office of State Administration of Taxation and Jiangsu Local Taxation Bureau. According to the EIT Law effective from 1 January 2008, applicable income tax rate of Hengxin (Jiangsu) in 2010 is 15%.

Hengxin (Jiangsu) 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. Hengxin (Jiangsu) commenced its first profit-making year in the financial year ended 31 December 2005.

Hengxin (India)

The subsidiary has no assessable profits subject to local income tax since its incorporation.

12. EARNINGS PER SHARE

The calculation of the basic earnings per share for the [●] is based on the following:

	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*
Profits					
Profit attributable to owners of the Company	106,699	106,743	149,866	107,205	79,312
Number of shares ('000)	**336,000**	**336,000**	**336,000**	**336,000**	**336,000**
Earnings per share (RMB cents) – Basic	31.8	31.8	44.6	31.9	23.6

The Group has no potential ordinary shares throughout the [●].

13. DIVIDEND

	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*
Dividend recognised as distribution during the year/period: Final dividend of SGD 0.0091 (2009: 0.0035; 2008: 0.0064; 2007: 0.0071) per share of the Company paid in respect of the previous financial year	12,167	10,934	5,496	5,496	14,719

14. PROPERTY, PLANT AND EQUIPMENT

	Building	Plant and machinery	Office equipment	Motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
COST						
At 1 January 2007	17,822	73,134	3,694	3,291	464	98,405
Additions	317	3,058	918	144	12,523	16,960
Transfers	–	834	–	–	(834)	–
Disposals	–	–	(150)	–	–	(150)
At 31 December 2007	18,139	77,026	4,462	3,435	12,153	115,215
Additions	796	675	240	1,545	13,983	17,239
Transfers	4,626	14,046	14	–	(18,686)	–
Disposals	(283)	(324)	(110)	(716)	–	(1,433)
At 31 December 2008	23,278	91,423	4,606	4,264	7,450	131,021
Additions	941	1,110	1,567	206	56,164	59,988
Transfers	9,518	28,103	92	–	(37,713)	–
Disposals	–	(9)	(56)	–	–	(65)
At 31 December 2009	33,737	120,627	6,209	4,470	25,901	190,944
Additions	115	48	418	–	9,402	9,983
Transfers	8,675	23,483	72	500	(32,730)	–
Disposals	–	–	(85)	–	–	(85)
At 30 September 2010	42,527	144,158	6,614	4,970	2,573	200,842

	Building	Plant and machinery	Office equipment	Motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
DEPRECIATION						
At 1 January 2007	2,611	16,608	1,911	1,144	–	22,274
Provided for the year	863	6,665	716	605	–	8,849
Eliminated on disposals	–	–	(95)	–	–	(95)
At 31 December 2007	3,474	23,273	2,532	1,749	–	31,028
Provided for the year	1,064	7,672	723	669	–	10,128
Eliminated on disposals	(65)	(142)	(93)	(645)	–	(945)
At 31 December 2008	4,473	30,803	3,162	1,773	–	40,211
Provided for the year	1,337	9,147	385	659	–	11,528
Eliminated on disposals	–	(6)	(49)	–	–	(55)
At 31 December 2009	5,810	39,944	3,498	2,432	–	51,684
Provided for the period	1,334	8,515	499	396	–	10,744
Eliminated on disposals	–	–	(78)	–	–	(78)
At 30 September 2010	7,144	48,459	3,919	2,828	–	62,350
CARRYING VALUES						
At 31 December 2007	14,665	53,753	1,930	1,686	12,153	84,187
At 31 December 2008	18,805	60,620	1,444	2,491	7,450	90,810
At 31 December 2009	27,927	80,683	2,711	2,038	25,901	139,260
At 30 September 2010	35,383	95,699	2,695	2,142	2,573	138,492

At 31 December 2007, 2008, 2009 and 30 September 2010, buildings, plant and equipment with a carrying value of RMB14,407,000, RMB60,913,000, nil and nil respectively has been pledged as collaterals to secure certain short term bank loans (Note 25) of the Group.

15. LEASEHOLD LAND

	As at 31 December			As at 30 September
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cost				
At beginning of the year/period	20,980	20,980	20,980	24,376
Addition	–	–	3,396	–
At end of the year/period	20,980	20,980	24,376	24,376
Accumulated amortisation				
At beginning of the year/period	1,718	2,208	2,698	3,235
Amortisation	490	490	537	419
At end of the year/period	2,208	2,698	3,235	3,654
Carrying amount	18,772	18,282	21,141	20,722
Current asset	491	491	560	560
Non-current asset	18,281	17,791	20,581	20,162
	18,772	18,282	21,141	20,722

The amount represents land use rights located in the PRC and are amortised on a straight-line basis over the lease terms of 42 to 48 years.

At 31 December 2007, 2008, 2009 and 30 September 2010, the land use right with carrying amount of RMB18,772,000, RMB18,282,000, nil and nil respectively has been pledged as security for the Group's short term bank loans (Note 25). The pledged was discharged during the year ended 31 December 2009 upon the repayment of bank loans.

16. DEFERRED TAX

The following are the major deferred tax assets and liabilities recognised by the Group and movements thereon during the [●]:

	Allowance for doubtful receivables	Write down of inventories	Withholding tax on undistributed profits	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2007	–	–	–	–
Credit to profit or loss	1,891	67	–	1,958
At 31 December 2007	1,891	67	–	1,958
Credit (charge) to profit or loss	–	33	(581)	(548)
Effect of change in tax rate	79	–	–	79
At 31 December 2008	1,970	100	(581)	1,489
Credit (charge) to profit or loss	–	(86)	(832)	(918)
Effect of change in tax rate	394	20	–	414
At 31 December 2009	2,364	34	(1,413)	985
Credit (charge) to profit or loss	–	28	(437)	(409)
At 30 September 2010	2,364	62	(1,850)	576

The following is the analysis of the deferred tax balances for financial reporting purposes:

	As at 31 December			As at 30 September
	2007	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Deferred tax assets	1,958	2,070	2,398	2,426
Deferred tax liabilities	–	(581)	(1,413)	(1,850)

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiary as at 31 December 2008, 2009 and 30 September 2010 amounting to RMB104,621,000, RMB254,288,000 and RMB332,959,000 as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

The deferred tax balance has reflected the tax rates that are expected to apply in the respective periods when the asset is realised or the liability is settled.

As at the end of each reporting period, the Group had no other significant unprovided deferred taxation.

17. INVENTORIES

	As at 31 December			As at 30 September
	2007	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
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

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-downs of inventories previously recognised are reversed.

18. TRADE RECEIVABLES

	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
Total	419,657	554,521	718,172	700,653

The Group allows credit period of 180 days to its trade customers. The aging of trade receivables, net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period, is as follows:

	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

At 31 December 2007, 2008, 2009 and 30 September 2010, 88%, 95%, 79% and 76% of the trade receivables that are neither past due nor impaired. No impairment loss is provided for these receivables because they are within the credit period granted to the respective customer and the management considers the default rate is low for such receivables based on historical information and experience.

Included in the Group's trade receivables are debtors with a carrying amount of RMB51,545,000, RMB27,319,000, RMB153,055,000 and RMB170,469,000 as at 31 December 2007, 2008, 2009 and 30 September 2010 respectively, which were overdue for which the Group has not provided for impairment loss as there has not been a significant change in good credit quality and the amounts are still considered recoverable.

Aging of trade receivables which are past due but not impaired

	As at 31 December			As at 30 September
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
181 to 360 days	47,481	27,319	149,860	111,497
Over 360 days	4,064	–	3,195	58,972
	51,545	27,319	153,055	170,469

Movement in the allowance for doubtful debts:

	As at 31 December			As at 30 September
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Balance at beginning of the year/period	15,771	15,762	15,762	15,762
Amounts written off as uncollectible	(9)	–	–	–
Impairment losses recognised on receivables	–	–	–	–
Balance at end of the year/period	15,762	15,762	15,762	15,762

The Group does not hold any collateral over these balances. In determining the recoverability of the trade receivables, the Group monitors any change in the credit quality of the trade receivables since the credit was granted and up to the reporting date. After reassessment, the directors believe that no further allowance is required.

The Group's trade receivables that were denominated in USD, foreign currency of the relevant group entities, were re-translated in RMB and stated for reporting purposes as:

	As at 31 December			As at 30 September
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables denominated in USD	7,843	15,198	24,779	15,285

19. OTHER RECEIVABLES AND PREPAYMENTS

	The Group			
	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

	The Company			
	As at 31 December			As at 30 September
	2007	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Dividend receivable from subsidiary	68,548	–	–	–
Prepayments	26	–	–	–
Prepayment for listing related expenses	–	–	–	7,864
Others	410	382	1,416	1,818
	68,984	382	1,416	9,682

20. AVAILABLE-FOR-SALE INVESTMENTS

	As at 31 December			As at 30 September
	2007	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current asset:				
Listed investment fund, at fair value, listed in PRC	–	500	500	–
Unlisted investment fund, at fair value	–	–	–	2,000
	–	500	500	2,000
Non-current asset				
Unlisted investment fund, at fair value	–	2,000	2,000	–

The unlisted investment fund is an investment through a fund which invests in the equity of a listed security. It is due for maturity in 2011 and does not have a fixed rate of return. The fair values of unlisted investment fund are estimated using cash flow model. The management consider that the carrying amount approximate its fair value.

21. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and the Company and short-term bank deposits with an original maturity of three months or less which carried interest at market rates ranging from 0.72% to 1.35% per annum, 0.36% to 1.35% per annum, 0.36% to 1.35% per annum, 0.36% to 1.35% per annum, at 31 December 2007, 2008 and 2009 and 30 September 2010, respectively.

The Group's bank balances and cash that were denominated in currencies other than the functional currency of the relevant group entities are set out below:

	As at 31 December			As at 30 September
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Denominated in:				
USD	43,689	28,160	3,027	5,934
EUR	413	–	–	–
SGD	1,888	4,807	8,328	2,534
INR	–	–	799	990

22. PLEDGED BANK DEPOSITS

Pledged bank deposits of the Group represents deposits pledged as securities of notes payables and letter of guarantee and carries interest rate as follows:

	As at 31 December			As at 30 September
	2007	**2008**	**2009**	**2010**
Annum interest rate	1.8-3.42%	1.71%	1.98%	1.98%

23. TRADE PAYABLES

	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

Trade payables comprise amounts outstanding for trade purchases. Payment terms with suppliers are mainly on credit within 90 days from the invoice date. The aging of trade payables and notes payables are as follows:

	As at 31 December			As at 30 September
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Age				
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

The Group's trade payables that were denominated in USD and EUR, foreign currencies of the relevant group entities, were re-translated in RMB and stated for reporting purposes as:

	As at 31 December			As at 30 September
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables denominated in				
USD	–	20	991	3,191
EUR	–	–	1,460	–

24. OTHER PAYABLES

	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

25. SHORT-TERM BANK LOANS

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

At 31 December 2007, bank loans amounting to RMB263,000,000 were guaranteed by related party (note 31) 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 related party (note 31) 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 RMB 4,800,000 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. Bank loans amounting RMB9,528,000 are secured by certain of the Group's pledged bank deposit of RMB11,000,000 and bear interest at 2.36% per annum.

The Group's short term bank loans that were denominated in EUR were re-translated in RMB and stated for reporting purposes as:

	As at 31 December			As at 30 September
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Short term loans denominated in EUR	–	–	10,221	9,528

26. SHARE CAPITAL

	Number of shares	**Amount**
	('000)	*S$'000*
Issued and paid-up:		
At beginning and end of each [●]	336,000	40,766
Equivalent to approximately *(RMB'000)*		205,711

The Company has one class of ordinary shares with no par value and carry no right to fixed income.

27. PRC STATUTORY RESERVE

Pursuant to the relevant laws and regulations in the PRC applicable to foreign investment enterprises and the Articles of Association of the PRC subsidiary, the subsidiary is required to maintain a statutory surplus reserve fund. Appropriations to these funds are made out of net profit after taxation as reported in the PRC statutory financial statements of the subsidiary (the "PRC Accounting Profit").

The subsidiary is required to transfer 15% of its PRC Accounting Profit to the statutory surplus reserve fund until the balance reaches 50% of the registered capital of the PRC subsidiary. The statutory surplus reserve fund may be used to make up prior year losses incurred and to increase capital.

The Company did not resolve to appropriate any fund to the staff welfare and bonus fund since its establishment.

28. OPERATING LEASES

	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*
Minimum lease payments paid under operating leases in the year/period	380	563	778	555	790

At the end of each reporting period, the Group has outstanding commitment in respect of non-cancellable operating leases which fall due 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

Operating lease payments represented rentals payable by the Group and Company for certain of its offices and workshop properties. Leases are negotiated for terms from 1 to 3 years.

29. COMMITMENTS

	As at 31 December			As at 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

At 30 September 2010, included in building in note 14 was approximately RMB7,320,000 which represents certain constructions built on a piece of land located in the PRC (the "No. 5 Land") which the Group has prepaid RMB5,760,000 as deposit for the acquisition of such land from the owner but the Group has not yet obtained the land certificate. In the opinion of the directors, the No. 5 Land is highly likely to be put on auction. Pursuant to a directors' resolution dated 5 August 2010, the directors resolved to take part in the future auction of the No. 5 Land at an estimated price of RMB6,800,000 or at a higher price to be authorised by the directors.

30. RETIREMENT BENEFITS SCHEMES

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

During the [●], the total amounts contributed by the Group to the schemes and charged to profit or loss represent contribution payable to the schemes by the Group at rates specified in the rules of the schemes and are as follows:

	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*
Amount contributed and charged to the profit or loss	1,327	1,897	2,246	1,667	1,857

As at 31 December 2007, 2008, 2009 and 30 September 2010, the contributions due in respect of the year/period that had not been paid over to the schemes were RMB88,000, RMB184,600, RMB192,600 and RMB230,600, respectively.

31. RELATED PARTY TRANSACTIONS

Related party transactions

During the [●], the Group had the following related party transactions:

	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*
Discontinued related party transaction: Provide guarantee for short-term bank loans by: Hengtong Group Co., Ltd *(note 1)*	263,000	133,000	–	–	–
Continuing related party transaction: Purchase of raw materials from: Suzhou Hengli Telecommunications Materials Co., Ltd *(note 2)*	–	179	7,227	4,966	6,627

Note 1: A director of Hengtong Group Co., Ltd is a sibling of Mr. Cui Genxiang, who is director of the Company.

Note 2: A subsidiary of Hengtong Group Co., Ltd.

Compensation of key management personnel

The remuneration of directors and other members of key management during the [●] were as follows:

	Year ended 31 December			Nine months ended 30 September	
	2007	2008	2009	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Short-term benefits	6,177	7,783	9,369	6,799	6,144
Retirement benefits scheme contributions	37	64	67	50	78
	6,214	7,847	9,436	6,849	6,222

32. PLEDGE OF ASSETS

At the end of each reporting period, the following assets were pledged to banks for banking facilities, including bank loans, notes payables and letter of guarantee.

	As at 31 December			As at 30 September
	2007	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Bank deposits	31,335	70,769	120,486	85,785
Buildings	14,407	12,400	–	–
Plant and equipment	–	48,513	–	–
Land use rights	18,772	18,282	–	–
	64,514	149,964	120,486	85,785

33. INVESTMENTS IN SUBSIDIARIES

	As at 31 December			As at 30 September
	2007	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Unquoted share capital, at cost				
At beginning of year/period	163,655	163,655	231,784	320,961
Capitalisation of dividend receivable	–	68,129	88,826	–
Addition	–	–	351	1,023
At end of year/period	163,655	231,784	320,961	321,984

B. DIRECTORS' REMUNERATION

Save as disclosed herein, no remuneration has been paid or is payable to the Company's directors by the Company or any of its subsidiaries during the [●].

Under the arrangement currently in force, the aggregate amount of the directors' fees and other emoluments for the year ended 31 December 2010 is estimated to be approximately RMB2,065,000.

C. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 30 September 2010.

Yours faithfully
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong