# ONE WIRED WORLD

**HENGXIN TECHNOLOGY LTD.**

ANNUAL REPORT 2012

Stock Code 1085

# CONTENTS

# CORPORATE PROFILE

Hengxin Technology Ltd. ("Hengxin Technology" or the "Company" and together with its subsidiaries, the"Group") is one of the leading manufacturers of radio frequency ("RF") coaxial cables series for mobile communications in the PRC.

Based in Yixing city in Jiangsu Province, we now have an aggregate annual production capacity of approximately 148,770 kilometres for RF coaxial cables for mobile communications.

We adopt a strategic regional sales system in the PRC and serve a blue-chip and established customer base comprising major telecommunications operators such as China Unicom, China Mobile, and China Telecom; and major telecommunications equipment manufacturers in the PRC. Outside the PRC, our products are also exported to the international markets mainly within the Asian continent. Through our wholly-owned subsidiary in India, our sales to local telecommunication operators commenced since 2010.

Based on the sales volume of RF coaxial cables for the mobile communications sector, we have been one of the leading market players in the PRC in this market segment.

The Group was listed on the Main Board of the Singapore Exchange Securities Trading Limited ("SGX-ST") on 11 May 2006, and was primarily dual listed on the Main Board of The Stock Exchange of Hong Kong Limited ("SEHK") on 23 December 2010.

## MAIN PRODUCT PORTFOLIO

**RF coaxial cable series for mobile communications ("RF Coaxial Cables")**

- Transmission of high-frequency signals between antenna and base station equipment in outdoor base station wireless signal coverage system and indoor wireless signal coverage system in buildings
- Used in radiating high frequency signals to surrounding environment through continuous small antenna elements along the cable in railways, highways, tunnels, underground car parks, elevators and high rise buildings

**Coaxial cables for telecommunications equipment and accessories ("Accessories")**

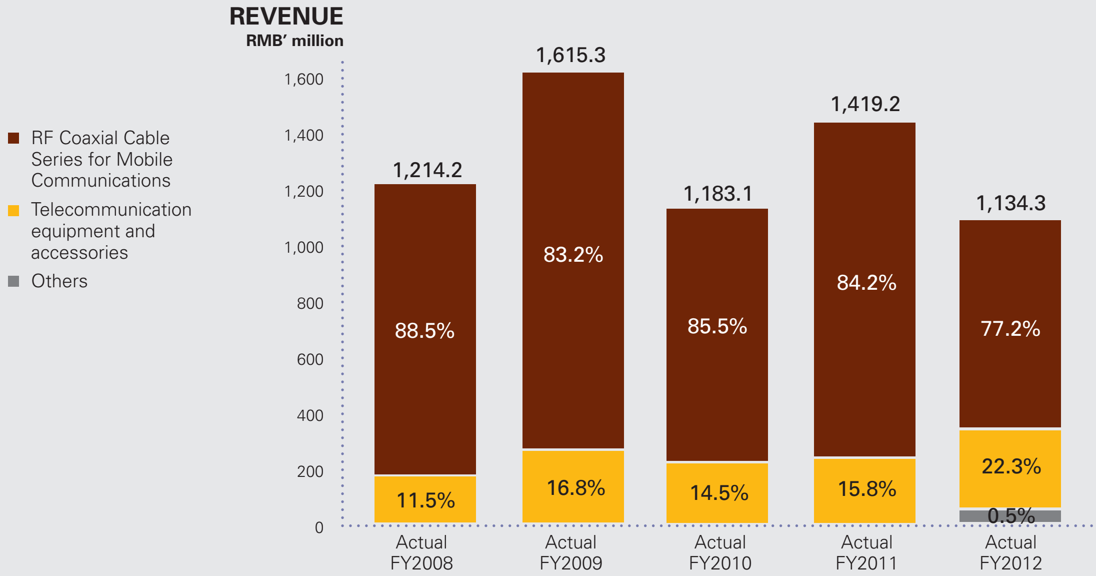
- Transmission of signals within microwave communications systems, radio broadcast wireless systems and air/sea radar systems
- Accessories to wireless signal coverage system for base stations

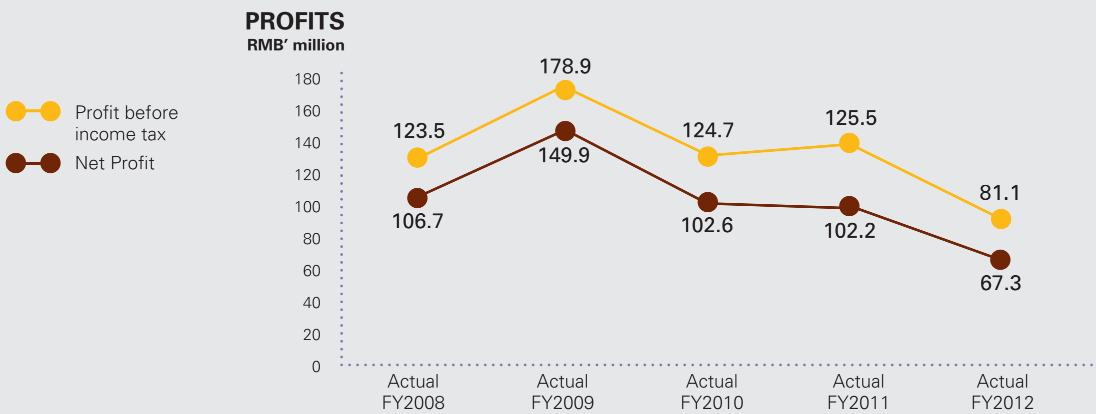
# FIVE-YEAR FINANCIAL SUMMARY

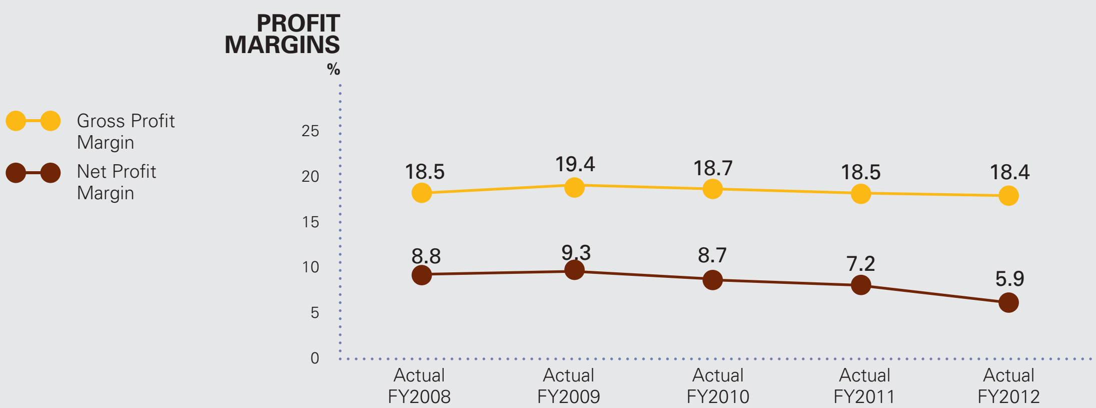
A summary of the consolidated results and assets and liabilities of the Group for the last five financial years, as extracted from the published audited financial statements is set out below.

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 | 2012 |
| | RMB '000 | RMB '000 | RMB '000 | RMB '000 | RMB '000 |
| | (Re-stated) | (Re-stated) | | | |
| **RESULTS** | | | | | |
| Revenue | 1,214,179 | 1,615,265 | 1,183,131 | 1,419,327 | 1,134,343 |
| Cost of sales | (988,960) | (1,302,579) | (961,470) | (1,157,224) | (925,952) |
| Gross profit | 225,219 | 312,686 | 221,661 | 262,103 | 208,391 |
| Other income | 7,405 | 7,557 | 15,292 | 7,405 | 12,135 |
| Selling and distribution expenses | (48,530) | (82,768) | (55,841) | (62,522) | (62,899) |
| Administrative expenses | (30,459) | (35,142) | (36,256) | (41,108) | (38,539) |
| Other operating expenses | (8,368) | (7,390) | (10,404) | (27,147) | (17,436) |
| Finance costs | (21,743) | (16,013) | (9,723) | (13,203) | (20,507) |
| Profit before income tax | 123,524 | 178,930 | 124,729 | 125,528 | 81,145 |
| Income tax expense | (16,781) | (29,064) | (22,174) | (23,279) | (13,867) |
| Net profit | 106,743 | 149,866 | 102,555 | 102,249 | 67,278 |
| **ASSETS AND LIABILITIES** | | | | | |
| Total assets | 1,058,187 | 1,365,788 | 1,249,548 | 1,471,549 | 1,227,709 |
| Total liabilities | (526,909) | (690,124) | (396,839) | (532,575) | (222,261) |
| | 531,278 | 675,664 | 852,709 | 938,974 | 1,005,448 |

# FINANCIAL HIGHLIGHTS



01

# OUR PEOPLE

# FINANCIAL RATIOS & PERFORMANCE

| Financial Performance | Unit | FY2008 | FY2009 | FY2010 | FY2011 | FY2012 |
|---|---|---|---|---|---|---|
| Revenue | RMB '000 | 1,214,179 | 1,615,265 | 1,183,131 | 1,419,327 | 1,134,343 |
| Gross margin | % | 18.5 | 19.4 | 18.7 | 18.5 | 18.4 |
| Profit before income tax | RMB '000 | 123,524 | 178,930 | 124,729 | 125,528 | 81,145 |
| Income tax expense | RMB '000 | 16,781 | 29,064 | 22,174 | 23,279 | 13,867 |
| Net profit | RMB '000 | 106,743 | 149,866 | 102,555 | 102,249 | 67,278 |

| Financial Position | Unit | FY2008 | FY2009 | FY2010 | FY2011 | FY2012 |
|---|---|---|---|---|---|---|
| Net assets | RMB '000 | 531,278 | 675,664 | 852,709 | 938,974 | 1,005,448 |

| Financial Ratios | Note | Unit | FY2008 | FY2009 | FY2010 | FY2011 | FY2012 |
|---|---|---|---|---|---|---|---|
| Earnings per share | | RMB cents | 31.8 | 44.6 | 30.4 | 26.4 | 17.3 |
| Net asset per share | | RMB | 1.58 | 2.01 | 2.53 | 2.42 | 2.59 |
| Return on total equity | | % | 20.1 | 22.2 | 12.0 | 10.9 | 6.7 |
| Debit/equity ratio | a | % | 15.2 | 4.1 | (24.3) | (10.0) | (22.3) |
| Interest cover ratio | b | times | 6.7 | 12.2 | 13.8 | 10.5 | 5.0 |
| Current ratio | c | times | 1.8 | 1.7 | 2.2 | 2.4 | 4.7 |
| Trade receivables turnover | | days | 151 | 147 | 212 | 179 | 223 |
| Inventory turnover | | days | 41 | 43 | 60 | 42 | 48 |

a Debt includes bank borrowings and bill payables
b Interest cover ratio = EBIT / Interest expense
c Current ratio = Current assets / Current liabilities

# CHAIRMAN'S MESSAGE

**Dear Shareholders,**

2012 continued to be a challenging year for the group, marred by the ongoing economic uncertainties, stiffer competition in the telecommunications industry, and regulatory uncertainties in India – one of the two key markets for the Group. On a positive note, these challenges have put our mettle to the test, ensuring that we emerge as a stronger and better-run entity in the process.

In India, stiffer competition has forced telecommunications operators to look for creative ways to reduce capital expenditure and trim costs.

## THE YEAR IN REVIEW

Despite a tough operating environment, we remained profitable in 2012 albeit at a lower level compared to 2011. Net profit in 2012 stood at RMB67.3 million against a 20.1% decline in revenue to RMB1,134.3 million.

Revenue from RF Coaxial Cables declined 26.7% to RMB875.4 million due to lower spending on our products by telecommunication operators in China and overseas. The decline was partially offset by a 4.1% increase in sales of Accessories, which typically command slightly higher margins.

Notwithstanding our overall lower sales, we are heartened to have maintained a relatively steady gross profit margin at 18.4%. This demonstrated the effectiveness of our ongoing cost management and resource planning programmes, which ensure efficiency and optimal raw materials utilization. These steps are aimed at mitigating the impact of higher costs and depressed selling prices due to keen competition – a common situation faced by most firms today.


To protect our operations, it is important that we are assured of a steady supply of raw materials. To this end, we have recently renewed our raw materials purchase master agreement with our supplier, Suzhou Hengli, for another three years commencing 1 January 2013. This agreement provides us with the certainty of a steady raw materials supply should there be a supply crunch. We will, however, continue with our good practice of purchasing quality raw materials at the most competitive price from any supplier, via an internal tender process.

## NEW PRODUCTS

We registered our maiden revenue for the sale of High Temperature Resistant Cable ("HTRC") products in 2012, amounting to RMB6.3 million. This product range will add a new revenue stream to the Group.

Following the completion of the antenna manufacturing facility and testing chamber, we have started work on a few prototypes of mobile communication antennas. We have submitted and successfully tendered for the sale of antennas with some telecommunications operators in the PRC. Although the sales volume is not expected to be high as time is needed for our customers to conduct the relevant quality assessments, due to the time required for our customers to understand and assess the quality of our products, the volume for first time tenders are not expected to be high. We view this as a positive step towards our expansion into the antenna market. We remain confident of our product and look forward to pursuing bigger tenders in the future.

Once relevant assessments are given the all clear by our customers after a certain period which is typically determined internally by the telecommunications operators, we will then be able to tender for a bigger volume of antennas. Moving ahead, we will also actively look out for potential tenders put up by the other PRC telecommunications operators to commence manufacturing and the sales of antennas moving forward.

## MEETING THE CHALLENGES

The road ahead of us is expected to remain challenging.

In India, stiffer competition has forced telecommunications operators to look for creative ways to reduce capital expenditure and trim costs. As a result, more and more operators are opting to use aluminum-made RF Coaxial Cables, which are more affordable than copper ones. This will in turn affect our sales quantum in the country.

With the advent of 3G, telecom operators globally have been demanding higher quality RF cabling systems at even lower costs. We need to brace ourselves for greater competition, as well as continued pressure on our selling prices and margins.

Despite the difficult operating environment, we have worked hard and continue to strive towards maintaining our market share in the PRC, which we believe will continue to be our key revenue contributor. In the years ahead, we will step up our sales and marketing efforts to extend our presence in the PRC and India. We will continue to also actively seek new geographical markets and attract customers outside of the PRC and India to diversify our earnings streams.

It is important that we continue to push ahead with our tight capital management to maintain healthy cash flows and a strong cash position, as this will equip us with the financial resources to pursue attractive business opportunities that can further strengthen our industry position.

In summary, we will ride on our strong fundamentals and sound brand name to grow the company. We will approach our growth with prudence by closely monitoring and responding to the fast-changing market conditions. Resources will be devoted to broadening our product range, refining sales mix towards the higher value products, and enhancing customers' business experience with us.

## WORDS OF APPRECIATION

On behalf of the board of directors, I would like to thank our staff for their professionalism and commitment. More importantly, I would like to thank you, our valued shareholder, customers and bankers for your trust and continued support.

**CUI GENXIANG**
Executive Chairman

02

# OUR PARTNER

# MANAGEMENT DISCUSSION AND ANALYSIS

## REVENUE

Group revenue for the financial year ended 31 December 2012 ("FY2012") decreased by approximately RMB 285.0 million, or approximately 20.1% from RMB 1,419.3 million in the previous financial year ("FY2011") to approximately RMB 1,134.3 million in FY2012. There was a general decrease in demand for our RF cable products by telecom operators during the financial year, resulting in an overall lower sales for the financial year.

## RF COAXIAL CABLE

Revenue generated from RF Coaxial Cables decreased by approximately RMB 319.5 million or approximately 26.7% from approximately RMB 1,194.9 million in FY2011 to approximately RMB 875.4 million in FY2012.

## ACCESSORIES

Revenue generated from Accessories increased by approximately RMB 28.2 million or approximately 12.6% from approximately RMB 224.4 million in FY2011 to approximately RMB 252.6 million in FY2012.

## OTHERS

The Group commenced its first sales for its HTRC products in 2012, generating RMB 6.3 million during the year.

## GROSS PROFIT MARGIN

The Group was able to maintain a relatively steady gross profit margin during FY2012 at approximately 18.4% compared to approximately 18.5% in FY2011. Cost control measures have been continuously undertaken and monitored by the management.

## OTHER INCOME

Other income increased by approximately RMB 4.7 million or approximately 63.5% from approximately RMB 7.4 million in FY2011 to approximately RMB 12.1 million in FY2012. The increase is mainly due to:

1. Outright government grants amounting approximately RMB 4.4 million being given to the Group's key subsidiary, Jiangsu Hengxin Technology Co., Ltd in the financial year as against RMB 1.0 million in FY2011; and
2. Foreign exchange gains of RMB 2.3 million as compared to a loss in the previous financial year.

## SELLING AND DISTRIBUTION EXPENSES

Selling and distribution expenses increased by approximately RMB 0.4 million or approximately 0.1% from approximately RMB 62.5 million in FY2011 to approximately RMB 62.9 million in FY2012 as a result of additional marketing efforts performed during this period.

## ADMINISTRATIVE EXPENSES

Administrative expenses decreased by approximately RMB 2.6 million or approximately 6.3% from approximately RMB 41.1 million in FY2011 to approximately RMB 38.5 million in FY2012. The decrease was due to the Group adopting various cost control measures during the financial year.

## OTHER OPERATING EXPENSES

Other operating expenses decreased by approximately RMB 9.7 million or approximately 35.8% from approximately RMB 27.1 million in FY2011 to approximately RMB 17.4 million in FY2012. The decrease was mainly due to an absence of foreign exchange losses in which an amount of approximately RMB 11.8 million was incurred in FY2011, and is partially offset by the increase in R&D expenses by approximately RMB 2.7 million.

## FINANCE COSTS

Finance costs increased by approximately RMB 7.3 million or approximately 55.3% from approximately RMB 13.2 million in FY2011 to approximately RMB 20.5 million in FY2012.

The reduction in liquidity in the PRC financial market in the first half of FY2012 led to an increase in interest rate borrowings, and with a higher amount of bills being discounted to banks, contributed to the increase in finance costs during the financial year.

## PROFIT BEFORE INCOME TAX

Profit before income tax decreased by approximately RMB 44.4 million or approximately 35.4% from approximately RMB 125.5 million in FY2011 to approximately RMB 81.1 million in FY2012.

## INCOME TAX EXPENSE

The Group's main subsidiary has been subject to an incentive tax rate of 15% as it has been awarded as a high-tech enterprise in the PRC. The decrease in income tax expenses is in line with the decrease in profit before tax for FY2012. Accordingly, income tax expense decreased by approximately RMB 9.4 million or approximately 40.3% from approximately RMB 23.3 million in FY2011 to approximately RMB 13.9 million in FY2012.

## NET PROFIT

In view of the above, net profit attributable to equity holders of the parent decreased approximately RMB 34.9 million from approximately RMB 102.2 million in FY2011 compared to approximately RMB 67.3 million in FY2012.


## STATEMENT OF FINANCIAL POSITION

### PLEDGED BANK DEPOSITS

Pledged bank deposits are used as a pledge against commercial bills used for payment to suppliers. The decrease by approximately RMB 32.7 million from approximately RMB 52.9 million as at 31 December 2011 to approximately RMB 20.2 million as at 31 December 2012 was due to lower amount of bank deposits required to be set aside as securities for a correspondingly lower amount payable in the form of commercial bills to suppliers.

### TRADE RECEIVABLES

Trade receivables decreased by approximately RMB 116.2 million from approximately RMB 734.6 million as at 31 December 2011 to approximately RMB 618.4 million as at 31 December 2012.

Average trade receivables turnover days are 223 days as at 31 December 2012 compared to 179 days as at 31 December 2011. The increase, despite a positive operating cash flows for FY2012, is due to a lower revenue base in FY2012 being used in arriving at the average trade receivables turnover days.

### OTHER RECEIVABLES AND PREPAYMENTS

Other receivables and prepayments decreased by approximately RMB 4.0 million from approximately RMB 28.3 million as at 31 December 2011 to approximately RMB 24.3 million as at 31 December 2012. The decrease was due mainly to a reduction in advances to suppliers during the year.

### INVENTORIES

Inventories (comprising raw materials, work-in-progress and finished goods) decreased by approximately RMB 27.7 million from approximately RMB 135.9 million as at 31 December 2011 to approximately RMB 108.2 million as at 31 December 2012.

The decrease is in line with lower anticipated orders from telecom operators.

### PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment decreased by approximately RMB 5.9 million from approximately RMB 157.9 million as at 31 December 2011 to approximately RMB 152.0 million as at 31 December 2012 due to depreciation, and offset by certain acquisitions of fixed assets during the year.

## SHORT-TERM BANK LOANS

Short-term bank loans decreased by approximately RMB 188.0 million from approximately RMB 230.0 million as at 31 December 2011 to approximately RMB 42.0 million as at 31 December 2012 as there was an easing of working capital requirements as at 31 December 2012.

## TRADE PAYABLES AND OTHER PAYABLES

Trade payables decreased by approximately RMB 102.2 million from approximately RMB 258.5 million as at 31 December 2011 to approximately RMB 156.3 million as at 31 December 2012 in line with the decrease in purchases for raw materials during the year.

Other payables and accruals decreased by approximately RMB 9.6 million from approximately RMB 28.7 million as at 31 December 2011 to approximately RMB 19.1 million as at 31 December 2012. The decrease in balance arose mainly due to certain year end performance payments being made in the middle of the year, resulting in an overall lower balance at year end.

## INCOME TAX PAYABLE

Income tax payable decreased by approximately RMB 10.9 million during the year due to lower profits achieved during FY2012.

## CASH AND BANK BALANCES

Cash and bank balances decreased by approximately RMB 57.8 million from approximately RMB 323.7 million to approximately RMB 265.9 million mainly due to the repayment of short term bank borrowings and payment towards trade payables during the year.

## SUBSIDIARIES

The subsidiaries of the Company are Jiangsu Hengxin Technology Co., Ltd and Hengxin Technology (India) Private Limited. Details of the subsidiaries of the Company are set out in Note 12 to the financial statements.

## FINANCIAL RESOURCES, LIQUIDITY AND LIABILITY POSITION

As at 31 December 2012, the Group's total assets were approximately RMB1,227,709,000 (2011:RMB1,471,549,000) (of which, current assets were approximately RMB1,037,472,000 (2011:RMB1,275,916,000) and non-current assets were approximately RMB190,237,000 (2011: RMB195,633,000)) and the total liabilities were approximately RMB222,261,000 (2011: RMB532,575,000) (of which, current liabilities were approximately RMB219,282,000 (2011: RMB529,979,000) and non-current liabilities were approximately RMB2,979,000 (2011: RMB2,596,000)), and shareholder's equity reached approximately RMB1,005,448,000 (2011: RMB938,974,000).

In addition to its short-term interesting-bearing facilities, the Group generally finances its operations from cash flows generated internally.

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

The 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 | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| Net cash borrowings | **(223,854)** | (93,710) |
| Total equity | **1,005,448** | 938,974 |
| Net debt to equity ratio (%) | **(22.3)** | (10.0) |


Amount repayable in one year or less, or on demand:

| As at 31 December 2012 | | As at 31 December 2011 | |
|---|---|---|---|
| Secured RMB'000 | Unsecured RMB'000 | Secured RMB'000 | Unsecured RMB'000 |
| - | 41,999 | - | 230,000 |

There is no amount repayable after one year.

## FOREIGN CURRENCY EXPOSURE

Renminbi ("RMB") is the functional currency of the Group. Currencies other than RMB expose the Group to foreign currency risk. We have foreign currency sales and some of our bank balances are denominated in United States dollar ("USD"), Singapore dollar ("SGD") and India Rupee ("INR"). The Group has set up a 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.

## DONATION & CAPITAL COMMITMENTS

As at 31 December 2012, the capital commitments of the Group in respect of the purchase of property, plant and equipment, and a donation commitment to a charity association which is payable in equal installments over a period of 20 years at RMB500,000 per annum, which had been contracted but not provided for in FY2012, were RMB1,120,000 (2011: RMB6,258,000) and RMB7,000,000 (2011: RMB 7,500,000) respectively.

## PLEDGE OF ASSETS

As at 31 December 2012, the Group did not pledge any assets (2011: Nil) as securities for banking facilities granted by its bankers.

## COMMITMENTS

As at 31 December 2012, certain constructions were built on a piece of land located in the PRC (the "No. 5 Land") amounting to approximately RMB 27.8 million. In addition, the Group had prepaid RMB 5.76 million as deposit for the acquisition of such land but the Group has yet to obtain the land certificate. At the end of the reporting period, the Management remains committed to secure the No. 5 Land.

## CONTINGENT LIABILITIES

There are no contingent liabilities as at 31 December 2012.

## EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2012, there were 676 (2011: 698) employees in the Group. Staff remuneration packages are determined in consideration of market conditions and the performance of the individuals concerned, and are subject to review from time to time. The Group also provides other staff benefits including medical and life insurance, and grants discretionary incentive bonuses and share options to eligible staff based on their performance and contributions to the Group.

The Company adopted the share option scheme for its employees at an extraordinary general meeting held on 27 October 2010 (the "Scheme"). No option has been granted under the Scheme since its adoption and up to the date of this annual report.

## MATERIAL LITIGATION AND ARBITRATION

As at 31 December 2012, the Group was not involved in any material litigation or arbitration.

## FUTURE PROSPECTS

With the advent of 3G, telecom operators within and outside the PRC have been demanding better and higher quality RF cabling systems at even lower costs. This has led to greater competition with continued pressure on selling prices and narrowing margins. Amid the factors above, the Group had managed to maintain its market share in the PRC, which continues to be the Group's key business contributor.

Looking ahead, the telecoms industry, especially in the areas of mobile networks, will remain sluggish and challenging.

The Group will continue its efforts to monitor changing market conditions closely, make proactive refinements on the business strategy and equip itself to grasp the opportunities in the market whenever they arise. Resources will be devoted to broadening its product variety as well as enhance its branding in expanding the Group's business contributors in the long run. In addition, we will capitalize on our good relationships with our suppliers and customers to, amongst others, negotiate more favourable prices, and continue to market the Group's antenna products.

# CONTINUING CONNECTED TRANSACTIONS

The significant related party transactions set out in Note 5 to the financial statements constitute continuing connected transactions as defined in Chapter 14A of the Rules Governing the Listing of Securities on SEHK (the "Listing Rules").

During the year, the Group had the following continuing connected transactions, details of which are disclosed in compliance with the requirements of Chapter 14A of the Listing Rules.

## MATERIALS PURCHASE FRAMEWORK AGREEMENT

The Group entered into a master agreement with Suzhou Hengli Telecommunications Materials Co., Ltd ("Suzhou Hengli") on the purchase of raw materials commencing 9 November 2010 until 31 December 2012, in which Suzhou Hengli will supply metal plastic tape, aluminium plastic tape and other raw materials for the production of RF coaxial cables, on terms no less favourable than those offered by independent third parties. Pursuant to an addendum dated 5 December 2011, the details of which are set out in the announcement of the Company dated 5 December 2011, the annual cap in respect of the transactions under the master agreement for each of the years ended 31 December 2011 and 2012 was increased from RMB9,000,000 to RMB12,000,000. The aggregate amount paid by the Group for the purchase of raw materials amounted to approximately RMB3,581,300 (excluding VAT payable to State Administration of Taxation of the PRC amounted RMB608,821) for the year ended 31 December 2012.

According to the announcement made by the Company on 2 November 2012, the Group and Suzhou Hengli has agreed to renew the master agreement for a further term of three years commencing 1 January 2013. The annual cap in respect of the transactions under the renewed master agreement for each of the years ending 31 December 2013, 2014 and 2015 will not exceed RMB 9,000,000, RMB 9,000,000 and RMB 9,000,000 respectively.

## BACKGROUND OF SUZHOU HENGLI

Suzhou Hengli is wholly owned by Jiangsu Hengtong Cable Technology Co., Ltd, which is in turn wholly owned by Hengtong Optic-Electric Co., Ltd. Hengtong Optic-Electric Co., Ltd is held at approximately 40.71% by Hengtong Group Co., Ltd, which is beneficially owned by Mr Cui Genliang, the elder brother of the Company's Executive Chairman, Mr Cui Genxiang, as to 90% of equity interest, and by Mr Cui Wei, the son of Mr Cui Genliang, as to 10% of the equity interest. Therefore, Suzhou Hengli, its subsidiaries and associates are deemed as the Group's connected persons under Rule 14A.11(4)(a) of the Listing Rules of SEHK in Hong Kong, and is also deemed as our Group's "interested person" in accordance with the listing rules of the SGX-ST (the "Listing Manual") in Singapore.

The independent non-executive Directors have reviewed the above continuing connected transactions and confirmed that such continuing connected transactions have been entered into:

1 in the ordinary and usual course of business of the Group;
2 on normal commercial terms or on terms no less favourable to the Group than terms available from independent third parties; and
3 in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Board has received a letter from the auditors which has confirmed the matters required under Rule 14A.38 of the Listing Rules.

03

# OUR
## INVESTORS

# BOARD OF DIRECTORS

## CUI GENXIANG
Executive Chairman

Mr. Cui Genxiang (崔根香), aged 44, is our Chairman and was appointed on 23 June 2005 and re-designated from non-executive Director and non-executive Chairman to our executive Director and Executive Chairman on 11 January 2010. Mr. Cui was one of the founders and directors of Jiangsu Hengxin Technology Co., Ltd. since its establishment in June 2003. He has been responsible for providing advice in relation to our overall corporate strategy and corporate management when he acted as our non-executive Director and non-executive Chairman.

Mr. Cui is also currently the chairman and general manager of Suzhou Nongkai Bio-products Co., Ltd. (苏州农凯生物制品有限公司), a company primarily engaged in the research and development and manufacture of biological products and the chairman and general manager of Wujiang Zhouji Penzhi Co. Ltd (吴江市洲际喷织有限公司), a company primarily engaged in the business of processing and weaving of chemical fibre fabrics and silk.

From 1991 to 2000, Mr. Cui was doing sales and marketing at Hengtong Group Co., Ltd.. Between 1988 and 1990, Mr. Cui was in the non-ferrous metals business. Prior to that, Mr. Cui was head of production at Wujiang Qidu Knitted Clothing Factory (吴江市七都织服厂) from 1987 to 1988 and the vice factory head of Huzhou Sanchang Silk Weaving Factory (湖州市三长丝织厂) from 1985 to 1987. From 1983 to 1985, Mr. Cui was a technician at Wujiang Colour Woven Chemical Fibre Factory (吴江市色织化纤厂).

## XU GUOQIANG
Executive Director

Mr. Xu Guoqiang (徐國强), aged 40, was appointed as our executive Director and General Manager of Jiangsu Hengxin on 20 December 2011, and assists Mr. Cui in respect of the business development of our Group. Prior to his appointment, Mr Xu was the Senior Deputy General Manager of Production and Technical of Jiangsu Hengxin and was responsible for planning, implementing and overseeing the production of our products and technical related matters.

Mr. Xu obtained a Bachelor of Business Administration from Shanghai Jiaotong University in 2005 and an EMBA from Sichuan University in 2010. From 1994 to 1999, Mr. Xu was working in Wujiang Miao Du Cable Co., Ltd. as Workshop Supervisor. From 1999 to May 2006, he was working in Jiangsu Hengtong Photoelectric Co. Ltd. (a company listed on the Shanghai Stock Exchange, Stock Code: 600487) and held various positions including Quality Control Supervisor, Quality Control Assistant Manager and Production Manager. Prior to joining Jiangsu Hengxin in August 2010, Mr. Xu was working at Chengdu Hengtong Optic Communications Co. Ltd. as General Manager since 2006.

Mr. Xu has received several awards for his production and technical achievements, including an International Professional Manager Award and nomination as National Enterprise Midlevel Management Talent in 2004.

ZHANG ZHONG
Non-Executive Director

Ms. Zhang Zhong (张钟), aged 58, is our non-executive Director and was appointed on 23 June 2005. Ms. Zhang is one of the founders and directors of Jiangsu Hengxin Technology Co., Ltd. since its establishment in June 2003.

Currently, Ms. Zhang is also the consultant of Sichuan Jiawei Materials Co., Ltd. (四川省佳炜物资有限公司), a company engaged in the sales of metals and construction materials, machinery and electronics equipment, which had no business activities with our Group. From 1988 to 2004, she was the manager of the metals branch at Sichuan Science and Industrial Trade Agricultural Machinery Co. Ltd (四川省科工贸农机公司金属材料分公司) and was responsible for sales and marketing in the company.

Prior to that, between 1982 and 1988, she was the manager of the metals branch at Sichuan Agricultural Machinery Supply and Sales Co. Ltd (四川省农机供销总公司) and was responsible for market development and sales in the company. Between 1972 and 1982, she worked at Sichuan Chain Factory (四川省链条厂).

TAY AH KONG BERNARD
Independent Non-Executive Director

Mr. Tay Ah Kong Bernard, aged 63, was appointed as one of our independent non-executive Directors on 18 January 2007. He is currently the Non-Executive Chairman of Crowe Horwath First Trust LLP, which is a Certified Public Accountants firm and Chairman of the Risk Committee of RHT Capital Pte Ltd (RHT). RHT is an approved SGX (Catalist) Continuing Sponsor's Company. Mr. Tay is an independent director of several public companies listed on the Main Board and Catalist of the Singapore Exchange Securities Trading Limited, including China Hongxing Sports Limited, Oakwell Engineering Limited, China Yongsheng Limited, Ramba Energy Limited and SIIC Environment Holdings Ltd (formerly known as Asia Water Technology Ltd). During the past three years, Mr Tay was also a director of a listed company named Juken Technology Limited.

He is the President of the Automobile Association of Singapore and Chairman of Singapore Road Safety Council. Mr. Tay is also the Vice-President of the Singapore Productivity Association and a Member of Ministry of Home Affairs - Community Involvement Steering Committee. He was appointed, Senior Advisor to the Government of Huzhou City, Zhejiang Province of the People's Republic of China.

Mr. Tay is a recipient of the Service to Education Award and Community Service Medal and was conferred the Bintang Bakti Masyarakat (Public Service Star) and Pingat Bakti Masyarakat (Public Service Medal) by the President of Republic of Singapore.

In addition, he was a Member of the Resource Panel of the Government Parliamentary Committees for Home Affairs and Communications. He had also sat on several committees under the Accounting and Corporate Regulatory Authority which includes the Complaints and Disciplinary Panel - Public Accountants Oversight Committee, Standing Law Review Focus Group and Directors' Duties Study Team. He was also a Member of the Singapore Corporate Awards Judging Panel for the Best Annual Report Award.

Mr. Tay is a Fellow of the Association of Chartered Certified Accountants (U.K.), the Institute of Certified Public Accountants of Singapore, the Taxation Institute of Australia and the Singapore Institute of Directors. He is also a Chartered Accountant of Malaysia.

Mr. Tay has a wide range of experience, from having worked in public accounting firms in the United Kingdom and Singapore, the Inland Revenue Authority of Singapore and companies in commerce, industry and management consulting for a period over 30 years.

### CHEE TECK KWONG PATRICK
PBM, Independent Non-Executive Director

Mr. Chee Teck Kwong Patrick (徐泽光), PBM, aged 58, is our independent non-executive Director and was appointed on 18 January 2007. Mr. Chee holds a Bachelor of Laws (Hons) Degree from the University of Singapore. Mr. Chee was admitted as a Solicitor of the Senior Courts of England and Wales, and he has been an advocate and solicitor of the Supreme Court of the Republic of Singapore since 1980. He is now practising as a senior legal consultant with KhattarWong LLP, and is also a Notary Public and a Commissioner for Oaths in Singapore. He is a member of Singapore Institute of Arbitrators and Singapore Institute of Directors.

He had served several years in the sub-committee of National Crime Prevention Council, Singapore and worked with National Productivity Board, Singapore in developing and seeing the successful launch of some well known franchises in Singapore in the early 1990s.

Mr. Chee is also an honorary advisor to the Hospitality Purchasing Association Singapore and several big clans and trade associations in Singapore. He is the non-executive chairman of CSC Holdings Limited and also an independent director of several public companies listed on the Main Board of the Singapore Exchange Securities Trading Limited, namely China International Holdings Limited, Hai Leck Holdings Limited, Hanwell Holdings Limited (formerly known as PSC Corporation Ltd.), Ramba Energy Limited, Singapore Windsor Holdings Ltd. and Tat Seng Packaging Group Ltd..

Mr. Chee is active in community service and is the Vice Chairman of Teck Ghee Community Club Management Committee, which is the community management unit in electoral constituency of Singapore Prime Minister Lee Hsien Loong. He is also the Organising Chairman of "National Street Soccer League – Lee Hsien Loong's Challenge Trophy". Mr. Chee is the recipient of the National Day Awards 2003 – The Public Service Medal (Pingat Bakti Masayarakat) from the President of Republic of Singapore.

### TAM CHI KWAN MICHAEL
Independent Non-Executive Director

Mr. Tam Chi Kwan Michael (谭志昆), aged 49, is our independent non-executive Director and was appointed on 10 December 2010. Mr. Tam is currently the managing director of TLC CPA Limited, a firm of certified public accountants in Hong Kong and has more than 20 years of experience in tax consulting and auditing. He holds an Honours Diploma in Accountancy from Lingnan University (formerly Lingnan College) in Hong Kong and a Bachelor of Laws (Hons) degree from the University of Wolverhampton in the United Kingdom.

Mr. Tam is a Certified Public Accountant (practising) and a Registered Certified Tax Advisor in Hong Kong. He is a member of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants, the Institute of Chartered Accountants (England and Wales) and the Taxation Institute of Hong Kong. He is currently a non-executive director of Singapore Windsor Holdings Limited, a company listed on SGX-ST.

# KEY MANAGEMENT

## LEOW CHIN BOON
Chief Financial Officer

Mr. Leow Chin Boon, aged 36, joined our Group in June 2007. He is the Chief Financial Officer and is responsible for the finance, legal, tax, compliance and reporting functions of the Group. From 2004 to 2007, Mr. Leow was the Financial Controller of Pharmesis International Ltd, being responsible for finance and operations. Prior to this, Mr. Leow was with Deloitte & Touche Singapore since 1999. Mr. Leow obtained a Bachelor of Commerce (Accounting and Finance) with a minor in Law from the University of Western Australia. Mr. Leow is currently a Certified Practising Accountant of CPA Australia and a non-practising member of the Institute of Certified Public Accountants of Singapore.

## DI HAI (狄海)
Deputy General Manager - Sales and Marketing

Mr. Di Hai (狄海), aged 40, joined our Group in July 2003. He is the deputy general manager of Jiangsu Hengxin Technology Co., Ltd. and is responsible for sales and marketing business of the group. From 2002 to June 2003, Mr. Di worked as the director of the service department and the commerce department of Hengtong Cable. From 1997 to 2001, Mr. Di worked as the manager of the production department and the technical quality department of Hengtong. Mr. Di obtained an associate degree in Public Relations from Shanxi Normal University in 1997.

## SUN YULIANG (孙余良)
Assistant to Deputy General Manager - Production Equipments

Mr. Sun Yuliang (孙余良), aged 41, joined our Group in May 2003. He is the assistant to deputy general manager of Jiangsu Hengxin Technology Co., Ltd. and is responsible for production equipments. From 1999 to 2003, Mr. Sun worked as technical manager of the equipment department of Hengtong Cable. From 1994 to 1999, Mr. Sun worked as the head of the quality control department of Jiangsu Shenying Group (江苏神鹰集团). Mr. Sun obtained Bachelor Degree in Manufacturing Technology of Machine and Equipment from Jiangnan University in 1994.

# CORPORATE INFORMATION

## REGISTERED OFFICE
10 Anson Road #15-07
International Plaza
Singapore 079903

## HEADQUARTERS IN THE PRC
No. 138 Taodu Road
Dingshu Town, Yixing City
Jiangsu Province, The PRC

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN SINGAPORE
7 Temasek Boulevard #04-02B
Suntec Tower One
Singapore 038987

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG REGISTERED UNDER PART XI OF THE HONG KONG COMPANIES ORDINANCE
2703, 27th Floor, The Centre,
99 Queen's Road, Central
Hong Kong

## BOARD OF DIRECTORS
**Executive Directors**
Mr. Cui Genxiang (Chairman)
Mr. Xu Guoqiang

**Non-Executive Director**
Ms. Zhang Zhong

**Independent Non-Executive Directors**
Mr. Tay Ah Kong Bernard
Mr. Chee Teck Kwong Patrick
Mr. Tam Chi Kwan Michael

## AUDIT COMMITTEE
Mr. Tay Ah Kong Bernard (Chairman)
Mr. Chee Teck Kwong Patrick
Mr. Tam Chi Kwan Michael
Ms. Zhang Zhong

## REMUNERATION COMMITTEE
Mr. Chee Teck Kwong Patrick (Chairman)
Mr. Tay Ah Kong Bernard
Ms. Zhang Zhong

## NOMINATING COMMITTEE
Mr. Chee Teck Kwong Patrick (Chairman)
Mr. Tay Ah Kong Bernard
Mr. Cui Genxiang
Ms. Zhang Zhong

## EXECUTIVE RISK COMMITTEE
Mr. Cui Genxiang (Chairman)
Mr. Xu Guoqiang
Mr. Leow Chin Boon

## AUTHORISED REPRESENTATIVES (RULE 3.05 OF LISTING RULES OF SEHK)
Mr. Cui Genxiang
Ms. Wong Wai Han

## JOINT COMPANY SECRETARIES
Ms. Shirley Lim Guat Hua (ACIS)
(Singapore)
Ms. Wong Wai Han (Practising Solicitor)
(Hong Kong)

## COMPLIANCE ADVISER
Cinda International Capital Limited
45th Floor, COSCO Tower
183 Queen's Road Central
Hong Kong

## LEGAL ADVISORS
Edwards Wildman Palmer (Hong Kong)
2703, 27th Floor, The Centre,
99 Queen's Road, Central
Hong Kong

## AUDITORS
Deloitte & Touche LLP
Certified Public Accountants
6 Shenton Way Tower Two
#32-00
Singapore 068809
Partner-in-charge: Chua How Kiat
(Appointed since 24 August 2012)

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE
Boardroom Corporate & Advisory Services
Pte. Ltd.
50 Raffles Place #32-01
Singapore Land Tower
Singapore 048623

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE
Tricor Investor Services Limited
26/F, Tesbury Centre
28 Queen's Road East, Wanchai
Hong Kong

## PRINCIPAL BANKERS
China Construction Bank Corporation,
Yixing Branch
No. 158 Renminzhong Road
Yicheng Town Yixing City
Jiangsu Province, The PRC

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

## STOCK CODE
Singapore Stock Code: I85
Hong Kong Stock Code: 1085

## WEBSITE OF THE COMPANY
www.hengxin.com.sg

# Corporate Governance Report

The Company is committed to setting in place corporate governance practices to provide the structure through which the objectives of protection of shareholders' interests and enhancement of long term shareholder value are met.

As the Company is dual listed on both the Main Board of The Stock Exchange of Hong Kong Limited ("SEHK") and the Main Board of the Singapore Exchange Securities Trading Limited ("SGX-ST"), the Company has adopted, for corporate governance purposes, the code provisions of the Code on Corporate Governance Practices (Appendix 14 of the Rules Governing the Listing of Securities on the SEHK (the "Listing Rules")) ("Hong Kong Code"), in addition to the Singapore Code of Corporate Governance 2005 ("Singapore Code"). In the event of any conflict between the Singapore Code and Hong Kong Code, the Company will comply with the more onerous code provisions. Throughout the financial year ended 31 December 2012 ("FY2012"), the Company has complied with the Hong Kong Code and the Singapore Code.

## (A) BOARD MATTERS

### The Board's Conduct of Affairs

**Principle 1: Every company should be headed by an effective Board to lead and control the company. The Board is collectively responsible for the success of the company. The Board works with the Management to achieve this and the Management remains accountable to the Board.**

The Board comprises two Executive Directors, one Non-executive Director, and three Independent Non-executive Directors, all having the right core competencies and diversity of experience which enable them to effectively contribute to the Company.

The Board's primary role is to protect and enhance long-term shareholder's value. It sets the overall strategy for the Company and its subsidiaries (the "Group") and supervises executive management. To fulfill this role, the Board is responsible for implementing effective controls and the overall corporate governance of the Group including setting its strategic direction, establishing goals for the Management and monitoring the Management performance towards the achievement of these goals.

***Board Processes***

To assist in the execution of its responsibilities, the Board has established a number of Board Committees including a Nominating Committee, a Remuneration Committee, an Executive Risk Committee and an Audit Committee. The effectiveness of each committee is also constantly monitored. The Board has also established a framework for the Management of the Group including a system of internal controls and the establishment of appropriate ethical standards.

Board meetings are conducted regularly on a quarterly basis and ad-hoc meetings are convened whenever they are deemed necessary to address any specific issue of significance that may arise. Some important matters concerning the Group are also put to the Board for its decision by way of written resolutions. A Board meeting may also be conducted by way of tele-conference and video conference.

The agenda for meetings is prepared in consultation with the Executive Chairman. The agenda items include the management report, financial reports, strategic matters, governance, business risk issues and compliance. Executives of the Group are regularly invited to attend Board meetings to provide updates on operational matters.

The Board conducts an annual review of its processes to ensure that it is able to carry out its functions in the most effective manner.

# Corporate Governance Report (cont'd)

In the course of the year under review, as at 31 December 2012, the number of general meetings, Board and Board Committees meetings held and the attendance by each Board member at these meetings are set out as follows:

| Name | General Meetings | | Board | | Audit Committee | | Remuneration Committee | | Nominating Committee | |
|---|---|---|---|---|---|---|---|---|---|---|
| | No. of Meetings Held | No. of Meetings Attended | No. of Meetings Held | No. of Meetings Attended | No. of Meetings Held | No. of Meetings Attended | No. of Meetings Held | No. of Meetings Attended | No. of Meetings Held | No. of Meetings Attended |
| Cui Genxiang | 1 | 1 | 4 | 4 | NA | NA | NA | NA | 1 | 1 |
| Zhang Zhong | 1 | 1 | 4 | 4 | 7 | 7 | 1 | 1 | 1 | 1 |
| Tay Ah Kong Bernard | 1 | 1 | 4 | 4 | 7 | 7 | 1 | 1 | 1 | 1 |
| Chee Teck Kwong Patrick | 1 | 1 | 4 | 4 | 7 | 7 | 1 | 1 | 1 | 1 |
| Tam Chi Kwan Michael | 1 | 1 | 4 | 4 | 7 | 7 | NA | NA | NA | NA |
| Xu Guoqiang | 1 | 1 | 4 | 4 | NA | NA | NA | NA | NA | NA |

*NA: Not applicable*

### *Matters Reserved for Board Approval*

The Board's approval is required for matters such as corporate restructuring, mergers and acquisitions, major investments, material acquisitions and disposals of assets, major corporate policies on key areas of operations, the release of the Group's quarterly results, half-yearly results, full year results, annual report, review of the annual budget, interested person transactions of a material nature, and declaration of interim dividends and proposal of final dividends.

All other matters are delegated to committees whose actions are reported to and monitored by the Board.

### *Training of Directors*

The Directors are responsible for their own training needs. Any newly appointed Director shall receive appropriate induction training and coaching to develop individual skills as required. During the FY2012, the Board has participated in continuous professional development to develop and refresh their knowledge and skills, including the training course provided by the legal advisers and Company Secretary of the Company.

*Board Composition and Balance*

**Principle 2: There should be a strong and independent element on the Board, which is able to exercise objective judgment on corporate affairs independently, in particular, from the Management. No individual or small group of individuals should be allowed to dominate the Board's decision making.**

**The Board comprises the following:-**

| Name of Directors | Designation | Date of first appointment | Date of last re-election | Due for re-election at forthcoming AGM |
|---|---|---|---|---|
| Cui Genxiang | Executive Chairman | 23 June 2005 | 28 April 2011 | 24 April 2013 |
| Zhang Zhong | Non-executive Director | 23 June 2005 | 26 April 2012 | - |
| Tay Ah Kong Bernard | Independent Non-executive Director | 18 January 2007 | 26 April 2012 | - |
| Chee Teck Kwong Patrick | Independent Non-executive Director | 18 January 2007 | 29 April 2010 | 24 April 2013 |
| Tam Chi Kwan Michael | Independent Non-executive Director | 10 December 2010 | 28 April 2011 | - |
| Xu Guoqiang | Executive Director | 20 December 2011 | 26 April 2012 | - |

The criterion of independence is based on the definition given in the Singapore Code. The Board considers an "independent" director as one who has no relationship with the Company, its related companies or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the director's independent judgment of the conduct of the Group's affairs. In addition, the independence of the Company's Independent Non-executive Directors does not fail to meet the guidelines set out in Rule 3.13 of the Listing Rules.

The composition of the Board is determined in accordance with the following principles:-

- the Board should comprise a sufficient number of Directors to fulfill its responsibilities (This number may be increased where it is felt that additional expertise is required in specific areas, or when an outstanding candidate is identified.);

- the Board should comprise a majority of Non-executive Directors, with at least one-third of the Board made up of Independent Non-executive Directors; and

- the Board should have enough directors to serve on various committees of the Board without over-burdening the directors or making it difficult for them to fully discharge their responsibilities.

The Nominating Committee conducts an annual review of director's independence and based on the Singapore Code's criteria for independence, the Nominating Committee is of the view that the three Independent Non-executive Directors, namely Chee Teck Kwong Patrick, Tay Ah Kong Bernard and Tam Chi Kwan Michael are deemed independent.

With three out of six Directors deemed to be independent, the Board is able to exercise independent judgment on corporate affairs and provide the Management with a diverse and objective perspective on issues. Furthermore, the Board will be able to interact and work with the management team through a robust exchange of ideas and views to help shape the Company's strategic direction.

# Corporate Governance Report (cont'd)

The composition of the Board will be reviewed on an annual basis by the Nominating Committee to ensure that the Board has the appropriate size, mix of expertise and experience, and collectively possess the necessary core competencies for effective functioning and informed decision-making. When a vacancy arises under any circumstance, or where it is considered that the Board would benefit from the services of a new director with particular skills, the Nominating Committee, in consultation with the Board, will determine the selection criteria and select candidates with the appropriate expertise and experience for the position. Pursuant to the Articles of Association of the Company, any Director appointed by the Board to fill a casual vacancy shall hold office until the next Annual General Meeting ("AGM") of the Company after his appointment and be subject to re-election at such meeting.

The duties and responsibilities of the Executive Directors are clearly set out in their service agreements and the duties and responsibilities of the Non-executive Directors are clearly set out in their letters of appointment.

Non-executive and independent members of the Board exercise no management functions in the Company or its subsidiaries. Although all the Directors have equal responsibility for the performance of the Group, the role of the Non-executive and Independent Non-executive Directors is particularly important in ensuring that the strategies proposed by the executive management are fully discussed and rigorously examined and take account of the long-term interests, not only of the shareholders, but also of employees, customers, suppliers and the many communities in which the Group conducts business.

The Board considers its Non-executive and Independent Non-executive Directors to be of sufficient calibre and number and their views to be of sufficient weight that no individual or small group can dominate the Board's decision-making processes. The Non-executive and Independent Non-executive Directors have no financial or contractual interests in the Group other than by way of their fees and shareholdings as set out in the Report of the Directors.

The Board is of the view that its current composition of six Directors is appropriate taking into account the scope and nature of the operations of the Company and of the Group.

Other key information on each of the Directors of the Company is set out in pages 22 to 24 of this Annual Report. Their shareholdings in the Company are also disclosed in the Report of the Directors. None of the directors hold shares in the Company's subsidiaries.

**Chairman and Chief Executive Officer**

**Principle 3: There should be a clear division of responsibilities at the top of the company – the working of the Board and the executive responsibility of the company's business – which will ensure a balance of power and authority, such that no one individual represents a considerable concentration of power.**

The two Executive Directors of the Company are responsible for the daily operations of the Company. There is a clear division of responsibilities between the Executive Chairman, Mr Cui Genxiang and the Executive Director, Mr Xu Guoqiang.

Mr Cui Genxiang, the Executive Chairman of the Company, is a controlling shareholder, oversees the business directions and operational decisions of the Company and its subsidiaries and plays a pivotal role in steering the strategic direction and growth of the business, since he has considerable business experience. The Executive Chairman will ensure all Directors are properly briefed on issues arising at Board meetings and will also ensure information flow between the Management and the Board. During the year, the Executive Chairman had a meeting with Non-executive Directors, including the Independent Non-executive Directors, without Executive Directors present.

The Company has no intention to appoint a Chief Executive Officer in the near future.

**Nominating Committee**

**Board Membership**

**Principle 4: There should be a formal and transparent process for the appointment of new directors to the Board. As a principle of good corporate governance, all directors should be required to submit themselves for re-nomination and re-election at regular intervals.**

The Company adopts a formal and transparent process of appointing new directors to the Board and ensures that all directors submit themselves for re-nomination and re-election at regular intervals. The Nominating Committee oversees this aspect of corporate governance, and comprises the following members:-

| | |
|---|---|
| Chee Teck Kwong Patrick | Chairman, Independent Non-executive Director |
| Tay Ah Kong Bernard | Member, Independent Non-executive Director |
| Cui Genxiang | Member, Executive Director |
| Zhang Zhong | Member, Non-executive Director |

The Nominating Committee holds at least one meeting per year. The Nominating Committee has convened one meeting during the FY2012 to review the Director's independence as well as the composition of the Board. The key functions of the Nominating Committee under the Terms of Reference are, *inter alia*:-

(a) to establish procedures for and make recommendations to the Board on all board appointments, including re-nominations, having regard to the director's contribution and performance (e.g. attendance, preparedness, participation and candour);

(b) to determine annually whether or not a director is independent, bearing in mind the circumstances set forth in the Singapore Code and the Listing Rules and any other salient factors;

(c) in respect of a director who has multiple board representations on various companies, to decide whether or not such director is able to and has been adequately carrying out his/her duties as director, having regard to the competing time commitments that are faced when serving on multiple boards; and

(d) to decide how the Board's performance may be evaluated and propose objective performance criteria, as approved by the Board that allows comparison with its industry peers, and address how the Board has enhanced long term shareholders' value.

The Terms of Reference of Nominating Committee are posted on the websites of the Company and SEHK.

The Directors will submit themselves for re-nomination and re-election at regular intervals of at least once every three years. Under the Company's existing Articles of Association, one-third of the Directors for the time being (or if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation at each AGM of the Company. Each Director shall abstain from voting on any resolutions in respect to his or her re-appointment as a Director.

The Directors who have submitted themselves for re-election at the forthcoming AGM of the Company are Mr Cui Genxiang and Mr Chee Teck Kwong Patrick. Their profiles are shown on pages 22 and 24 of the Annual Report.

**Board Performance**

**Principle 5: There should be a formal assessment of the effectiveness of the Board as a whole and the contribution by each director to the effectiveness of the Board.**

The Nominating Committee, in considering the re-appointment of a Director evaluates such Director's contribution and performance, such as his or her attendance at meetings of the Board and Board committees, where applicable, participation, candour and any special contributions.

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

# Corporate Governance Report (cont'd)

The Nominating Committee has formulated evaluation procedures and the performance criteria for the assessment of the Board's performance as a whole. It had conducted a Board performance evaluation for FY2012.

The Nominating Committee has established a process for assessing the effectiveness of the Board as a whole. The performance criteria for the Board evaluation includes an evaluation of the size and composition of the Board, the Board's access to information, accountability, Board processes and Board performance in relation to discharging its principal responsibilities in terms of the financial indicators as set out in the Singapore Code. The factors taken into considerations for the re-nomination of the Directors for the current year are based on the Directors' attendance at meetings held during the year and the contribution made by the Directors at the meetings.

The Board and the Nominating Committee will endeavour to ensure that Directors appointed to the Board possess the experience, knowledge and skills critical to the Group's business, so as to enable the Board to make sound and well-considered decisions.

## Access to Information

**Principle 6: In order to fulfil their responsibilities, Board members should be provided with complete, adequate and timely information prior to Board meetings and on an on-going basis.**

Directors receive regular supply of information from the Management about the Group so that they are equipped to play as full a part as possible in Board meetings. Detailed Board papers are prepared for each meeting of the Board. The Board papers include sufficient information from the Management on financial, business and corporate issues to enable the Directors to be properly briefed on issues to be considered at Board meetings. Information provided include background or explanatory information relating to matters to be brought before the Board, copies of disclosure documents, budgets, forecasts and internal financial statements.

All Directors have unrestricted access to the Company's records and information and receive detailed financial and operational reports from senior management during the year to enable them to carry out their duties. Directors also liaise with senior management as required, and may consult with other employees and seek additional information on request.

All Directors have separate and independent access to the Company Secretaries. The Company Secretaries or their representatives administer, attend and prepare minutes of Board meetings, and assist the Chairman in ensuring that Board procedures are followed and reviewed so that the Board functions effectively, and rules and regulations that are applicable to the Company, including requirements of the Singapore Companies Act, SGX-ST and SEHK are complied with.

The Board has separate and independent access to the Management and the Company Secretaries at all times. Should Directors, whether as a group or individually, need independent professional advice in the furtherance of their duties, the cost of such professional advice will be borne by the Company.

Under the Articles of Association of the Company, the decision to appoint or remove the Company Secretaries can only be taken by the Board as a whole.

## (B) REMUNERATION MATTERS

**Remuneration Committee**

**Procedures for Developing Remuneration Policies**

**Principle 7: There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his/her own remuneration.**

The Remuneration Committee comprises the following members:-

| | |
|---|---|
| Chee Teck Kwong Patrick | Chairman, Independent Non-executive Director |
| Tay Ah Kong Bernard | Member, Independent Non-executive Director |
| Zhang Zhong | Member, Non-executive Director |

The Remuneration Committee holds at least one meeting per year. The key functions of the Remuneration Committee under the Terms of Reference are, *inter alia*:-

(a) to recommend to the Board on the remuneration packages of individual Executive Directors and senior management, and to determine specific remuneration packages for each Executive Director; such recommendations to be submitted for endorsement by the entire Board and should cover all aspects of remuneration, including but not limited to director's fees, salaries, allowances, bonuses, options, and benefits in kind;

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

(c) in respect of any share option schemes, to consider whether Directors should be eligible for benefits under such incentive schemes.

The Terms of Reference of Remuneration Committee are posted on the websites of the Company and SEHK.

The members of the Remuneration Committee shall not participate in any decision concerning their own remuneration. No Director will be involved in determining his or her own remuneration. During the FY2012, the Remuneration Committee has convened one meeting.

**Level and Mix of Remuneration**

**Principle 8: The level of remuneration should be appropriate to attract, retain and motivate the directors needed to run the company successfully but companies should avoid paying more than is necessary for this purpose. A significant proportion of executive directors' remuneration should be structured so as to link rewards to corporate and individual performance.**

In setting remuneration packages, the Company will take into account pay and employment conditions within the same industry and in comparable companies, as well as the Group's relative performance and the performance of individual Directors.

All Non-executive and Independent Non-executive Directors receive directors' fees, in accordance with their contributions, taking into account factors such as effort and time spent and their responsibilities. The directors' fees will be subject to approval at the forthcoming AGM.

Executive Directors do not receive directors' fees. The remuneration for the Company's Executive Directors and key senior executives comprise a basic salary component and a variable component which is the annual bonus, based on the performance of the Group as a whole and their individual performance.

The annual review of the compensation of Directors and senior management will be carried out by the Remuneration Committee to ensure that the remuneration of the Executive Directors and senior management commensurate with their performance, giving due regard to the financial and commercial health and business needs of the Group. The performance of the Executive Directors (together with other senior executives) will be reviewed periodically by the Remuneration Committee and the Board.

# Corporate Governance Report (cont'd)

## Disclosure on Remuneration

**Principle 9: Each company should provide clear disclosure of its remuneration policy, level and mix of remuneration, and the procedure for setting remuneration in the company's annual report. It should provide disclosure in relation to its remuneration policies to enable investors to understand the link between remuneration paid to directors and key executives, and performance.**

The breakdown of remuneration of the Directors for the FY2012 is set out below:-

| Directors | Band | Salary (%) | Bonus (%) | Director's fees (%) | Benefit-in-kind (%) | Total (%) |
|---|---|---|---|---|---|---|
| Cui Genxiang | A | 100 | - | - | - | 100 |
| Zhang Zhong | A | - | - | 100 | - | 100 |
| Chee Teck Kwong Patrick | A | - | - | 100 | - | 100 |
| Tay Ah Kong Bernard | A | - | - | 100 | - | 100 |
| Tam Chi Kwan Michael | A | - | - | 100 | - | 100 |
| Xu Guoqiang | A | 83.6 | 16.4 | - | - | 100 |

Band A - Remuneration package up to S$250,000
Band B - Remuneration package from S$250,000 to S$500,000

The top fi ve key executives of the Group (excluding Executive Chairman in the above table) in each remuneration band are:

| | FY2012 |
|---|---|
| S$250,000 – S$500,000 | 1 |
| Below S$250,000 | 4 |
| Total | 5 |

The names of the top five executives who are not directors of the Company have not been disclosed to maintain confidentiality of staff remuneration matters.

There are currently no employees who are immediate family members of a Director whose remuneration exceeded S$150,000 during FY2012.

Mr. Cui Guoqiang, who is the Assistant to Deputy General Manager, is the nephew of our Executive Chairman, Mr. Cui Genxiang.

Save as disclosed above, no other employee or Director of the Group is related to any substantial shareholder of the Company. None of the executive officers has any relationship with any other executive officer, Director or substantial shareholder of the Company.

### Share Options

The Hengxin Share Option Scheme ("Scheme") was approved by the Company's shareholders at the Company's extraordinary general meeting held on 27 October 2010.

The Scheme is administered by the Remuneration Committee.

No options were granted since the commencement of the Scheme on 27 October 2010 to the end of the FY2012 to the Directors and controlling shareholder of the Company and their associates.

## (C) ACCOUNTABILITY AND AUDIT

### Accountability

**Principle 10: The Board should present a balanced and understandable assessment of the company's performance, position and prospects.**

In presenting the annual financial statements and quarterly announcements to shareholders, it is the aim of the Board to provide the shareholders with a detailed analysis, explanation and assessment of the Group's financial position and prospects. The Management currently provides the Board with management accounts of the Group's performance, position and prospects on a monthly basis.

### Audit Committee

**Principle 11: The Board should establish an Audit Committee with written terms of reference which clearly set out its authority and duties.**

The Audit Committee comprises the following members:-

| | |
|---|---|
| Tay Ah Kong Bernard | Chairman, Independent Non-executive Director |
| Chee Teck Kwong Patrick | Member, Independent Non-executive Director |
| Tam Chi Kwan Michael | Member, Independent Non-executive Director |
| Zhang Zhong | Member, Non-executive Director |

The Board is of the view that the members of the Audit Committee are appropriately qualified in that they have sufficient accounting or related financial management expertise and experience to discharge the Audit Committee's function.

The Audit Committee will assist the Board with regard to discharging its responsibility to safeguard the Company's assets, maintain adequate accounting records, and develop and maintain effective systems of internal controls with an overall objective to ensure that the Management has created and maintained an effective control environment in the Company, and that the Management demonstrates and stimulates the necessary aspect of the Group's internal control structure among all parties.

The Audit Committee will meet at least quarterly to discuss and review the following where applicable:

(a) In connection with the external audit of the financial statements of the Group for the year ended 31 December 2012, the external auditors, Deloitte & Touche LLP have reviewed aspects of books, records, and internal accounting controls of the Group and have not noted any material internal control weakness;

(b) review the quarterly and annual financial statements and balance sheet and profit and loss statements before submission to the Board for approval, focusing in particular, on changes in accounting policies and practices, major risk areas, significant adjustments resulting from the audit, the going concern statement, compliance with accounting standards as well as compliance with any stock exchange and statutory/regulatory requirements;

(c) review the clarity and completeness of disclosures in the financial statements, interim reports, preliminary announcements and related formal statements and press releases;

(d) implement and review the internal controls and procedures (including establishment of internal audit functions ("IA function")) and ensure co-ordination between the external auditors and the Management, assess the independence of the IA function by reviewing the establishment of the IA function and ongoing review of its reporting and remuneration arrangements, reviewing the assistance given by the Management to the auditors, and discuss problems and concerns, if any arising from the interim and final audits, and any matters which the auditors may wish to discuss (in the absence of the Management where necessary);

(e) review and discuss with the external auditors (or such other parties) any suspected fraud or irregularity, or suspected infringement of any relevant laws, rules or regulations, which has or is likely to have a material impact on the Group's operating results or financial position, and the Management's response;

# Corporate Governance Report (cont'd)

(f) consider the appointment or re-appointment of the external auditors and matters relating to resignation or dismissal of the auditors;

(g) review transactions falling within the scope of Chapter 9 of the Listing Manual and Chapters 14 and 14A of the Listing Rules;

(h) undertake such other reviews and projects as may be requested by the Board and will report to the Board its findings from time to time on matters arising and requiring the attention of the Audit Committee; and

(i) generally undertake such other functions and duties as may be required by the Listing Manual and by such amendments made thereto from time to time.

The Terms of Reference of Audit Committee are posted on the websites of the Company and SEHK.

The Audit Committee meets with the Group's external and internal auditors and its executive management to review accounting, auditing and financial reporting matters so as to ensure that an effective control environment is maintained in the Group.

The Audit Committee is primarily responsible for the selection and approval of the internal auditor. The internal auditor's primary line of reporting is to the Chairman of the Audit Committee.

Apart from the responsibilities set out above, the Audit Committee also review, implement and administer the Hengxin Group's Fraud and Whistle-Blowing Policy which set out the provisions by which employees and other persons may, in confidence, raise serious concerns about possible incorrect financial reporting or other matters that could have a large impact on the Company and is authorised to do such acts as are necessary to ensure, inter alia, that (i) independent investigations are carried out in an appropriate and timely manner, (ii) appropriate action is taken to correct the weaknesses in internal controls and policies which had allowed such incidences to occur and to prevent a recurrence and (iii) administrative, disciplinary, civil or other actions that are initiated following the completion of investigations are appropriately balanced and fair.

In addition, all future transactions with related parties shall comply with the requirements of the Listing Manual and Listing Rules. The directors shall abstain from voting in any contract or arrangement, or proposed contract or arrangement in which he has a personal material interest.

The Audit Committee is authorised to investigate any matter within its Terms of Reference, and has full access to the Management and resources which are necessary to enable it to discharge its functions properly. It also has full discretion to invite any Executive Director or executives to attend its meetings.

The Audit Committee met with the external auditors, without the presence of the Management, and reviewed the adequacy of audit arrangement, with emphasis on the scope and quality of their audit, the independence, objectivity and observations of the auditors.

The Company has appointed a suitable auditing firm to meet its audit obligations, having regard to the adequacy of the resources and experience of the auditing firm and the audit engagement partner assigned to the audit. The Company confirms that Rule 712 of the Listing Manual is complied with.

The auditors of the Company's subsidiaries are disclosed in Note 12 to the financial statements in this annual report. The Board and Audit Committee have considered and confirmed that the appointment of different auditors would not compromise the standard and effectiveness of the audit of the Company and the Group. Accordingly, Rule 716 of the Listing Manual is complied with.

The Audit Committee is satisfied with the independence and objectivity of the external auditors during the financial year and has recommended to the Board the re-appointment of Deloitte & Touche LLP ("Deloitte") as external auditors at the forthcoming AGM of the Company.

During the FY2012, the Audit Committee has convened seven meetings.

## Directors' and Auditors' Responsibilities for Financial Statements

The Directors are responsible for the preparation of financial statements for each financial period which give a true and fair view of the state of affairs of the Group. In preparing the financial statements for the FY2012, the Directors have selected appropriate accounting policies and applied them consistently, and have prepared the financial statements on a going concern basis. The responsibilities of the external auditors are set out in the Independent Auditors' Report to the shareholders of the Company on page 54 of the Annual Report.

## Auditors' Remuneration

Deloitte, the external auditors of the Company, were responsible for providing services in connection with the audit of the financial statements of the Group for the FY2012.

For FY2012, the total remuneration in respect of review and audit services provided by Deloitte & Touche LLP, Singapore and Deloitte affiliated firms for the Group amounted to approximately RMB1.4 million and in respect of non-audit services provided by Deloitte amounted to approximately less than RMB0.1 million.

The Audit Committee has undertaken a review of all non-audit services provided by the external auditors and is satisfied that the nature and extent of such services do not affect the independence of the external auditors.

## Internal Controls

**Principle 12: The Board should ensure that the Management maintains a sound system of internal controls to safeguard the shareholders' investments and the company's assets.**

The Board recognises that it is responsible for maintaining a system of internal control processes to safeguard shareholders' investments and the Group's business and assets. The effectiveness of the internal financial control systems and procedures are monitored by the Management.

The Board acknowledges that it is responsible for the overall internal control framework, but recognises that no cost effective internal control system will preclude all errors and irregularities, as a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss.

The Audit Committee has assisted the Board to conduct periodic reviews on the adequacy of the system of internal controls of the Group, which reviews the areas of financial, operational and compliance risks.

1. **Framework of Risk Management ("Risk Management Framework")**

   The Board is responsible for the governance of risk and sets the tone and direction for the Group in the way risks are managed in the Group's businesses. The Board has ultimate responsibility for approving the internal processes of the Group in a manner which addresses stakeholders' expectations and does not expose the Group to an unacceptable level of operational, financial and compliance risks. The Board approves the key management policies and ensures a sound system of risk management and internal controls and monitors performance against them. In addition to determining the approach to risk governance, the Board sets and instills the right risk focused culture throughout the Group for effective risk governance.

   To facilitate the set-up of a strong system of risk management and internal controls, during the financial year, Yang Lee & Associates was appointed in establishing a Risk Management Framework.

   As part of the Risk Management Framework, an Executive Risk Committee comprising the Executive Chairman, an Executive Director and the Chief Financial Officer ("**Executive Risk Committee**") has been set up to assist the Board in its oversight of risk management. The current members comprise the Executive Chairman, Mr Cui Genxiang, the Executive Director, Mr Xu Guoqiang and the Chief Financial Officer, Mr Leow Chin Boon.

# Corporate Governance Report (cont'd)

**(a) Role and Responsibilities of the Executive Risk Committee**

The Executive Risk Committee holds at least two meetings per year. The key functions of the Executive Risk Committee under its Terms of Reference are, *inter alia*:-

(i) advise the Board on the company's overall risk tolerance and strategy;

(ii) oversee and advise the Board on the current risk exposures and future risk strategy of the company;

(iii) review new businesses that the company may plan to undertake;

(iv) review any potential investments that are not within the ordinary course of business of the company;

(v) review reports on any material breaches of risk limits and the adequacy of proposed action; and

(vi) before a decision to proceed is taken by the Board, advise the Board on proposed strategic transactions, focusing in particular on risk aspects and implications for the risk tolerance of the company, and taking independent external advice where appropriate and available.

**(b) Management's Responsibilities in Risk Management**

Management is responsible for designing, implementing and monitoring the risk management and internal controls system in accordance with the policies on the same.

**(c) Annual Review of the Group's Risk Management and Internal Control Systems**

The Board has undertaken an annual assessment on the adequacy and effectiveness of the Group's risk management and internal control systems. The assessment considered issues dealt with in reports reviewed by the Executive Risk Committee, the Board and the Audit Committee during the year together with any additional information necessary to ensure that the Board has taken into account all significant aspects of risks and internal controls for the Group for the financial year ended 31 December 2012.

In obtaining assurance that the Group's risks are managed adequately and effectively, the Board:

(i) had reviewed an overview of the risks which the Group is exposed to, as well as an understanding of what countermeasures and internal controls are in place to manage them; and

(ii) obtained a written confirmation from the Executive Chairman, Executive Director and Chief Financial Officer of the Group that:

- the financial records have been properly maintained and the financial statements give a true and fair view of the Group's operations and finances; and
- the Group's internal control system as part of the Risk Management Framework is adequate.

**2. Opinion on Adequacy of the Group's Internal Controls**

Based on the Group's Risk Management Framework, the internal control policies and procedures established and maintained by the Group, the regular audits, monitoring and reviews performed by the internal and external auditors, and reviews performed and confirmations by Management, the Board with the concurrence of the Audit Committee, is of the opinion that the Group's system of internal controls in place, which addresses the financial, operational and compliance risks, is adequate.

**Internal Audit**

**Principle 13: The company should establish an internal audit function that is independent of the activities it audits.**

The Company had appointed Yang Lee & Associates as the internal auditors to carry out internal audits covering the review of key internal controls in selected areas after considering the key business and financial risks affecting the operations, as advised by the Audit Committee and the Management. The internal auditors have a direct and primary reporting line to the Audit Committee and assist the Board in monitoring and managing risks and internal controls of the Group.

The internal auditors will plan their internal audit schedules in consultation with, but independent of the Management. The audit plan will be submitted to the Audit Committee for approval prior to the commencement of the audit. The Audit Committee will review the activities of the internal auditors on a regular basis, including overseeing and monitoring of the implementation of improvements required on internal control weaknesses identified.

The internal auditors have conducted an annual review in accordance with their audit plan, of the effectiveness of the Company's material internal controls. Material non-compliance or failures in internal controls and recommendations for improvements (if any) will be reported to the Audit Committee.

The Audit Committee has also reviewed the effectiveness and adequacy of the IA function and the Audit Committee is satisfied that the IA function is adequately resourced and has appropriate standing within the Group.

## (D) COMMUNICATION WITH SHAREHOLDERS

**Communication with Shareholders**

**Principle 14: Companies should engage in regular, effective and fair communication with shareholders.**

As per the recommended disclosures set out in paragraph P to Appendix 14 of the Listing Rules on SEHK, the following information would be communicated to shareholders from time to time:

- any significant changes in the Company's Articles of Association;
- indication of important shareholders' dates in the coming financial year; and
- public float capitalisation as at the end of the year.

**Greater Shareholder Participation**

**Principle 15: Companies should encourage greater shareholder participation at AGMs, and allow shareholders the opportunity to communicate their views on various matters affecting the company.**

In line with continuous disclosure obligations of the Company, pursuant to the Listing Manual, the Singapore Companies Act and the Listing Rules, the Board's policy is that shareholders are informed of all major developments that impact the Group. The Board will review the shareholders' communication policy from time to time as appropriate.

Information is disseminated to shareholders on a timely basis. Where there is inadvertent disclosure made to a selected group, the Company will make the same disclosure publicly as soon as practicable. Communication is made through:

- annual reports that are prepared and issued to all shareholders;
- quarterly and half-yearly financial statements containing a summary of the financial information and affairs of the Group for the period;

# Corporate Governance Report (cont'd)

- notices of and explanatory memoranda for annual general meetings and extraordinary general meetings;
- press and analyst briefings for the Group's interim and annual results as well as other briefings, as appropriate;
- press releases on major developments of the Group;
- corporate announcements to the SGX-ST and SEHK; and
- the Group's websites at http://www.hengxin.com.sg at which shareholders can access information on the Group. The website provides, inter alia, corporate announcements, press releases, annual reports, contact details and profiles of the Group.
- Shareholders may refer to the Company's Articles of Association in relation to their rights. The Company's Articles of Association is posted on the websites of the Company and SEHK.
- Shareholders may also direct their questions to the Company by contacting Mr. Leow Chin Boon, Chief Financial Officer at hengxin@listedcompany.com (by email).

In addition, shareholders are encouraged to attend the AGM to ensure a high level of accountability and to stay informed of the Group's strategy and goals. The AGM is the principal forum for dialogue with shareholders.

The notice of the AGM will be despatched to shareholders, together with explanatory notes or a circular on items of special business before the meeting. The Board welcomes questions from shareholders who have an opportunity to raise issues either informally or formally before or at the AGM. The Chairman of the Audit, Remuneration and Nominating Committees and external auditors will normally be available at general meetings to answer questions relating to the work of these committees.

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

All resolutions in general meetings have been voted by poll and the detailed results showing the number of votes cast for and against each resolution and the respective percentages have been communicated to the shareholders accordingly.

### (E) DEALING IN SECURITIES

The Company has adopted its own code of best practices on securities transactions by the Company and its officers with respect to dealings in securities by the Directors and senior management of the Group ("Best Practices Code"). The Best Practices Code is in line with the requirements of the Listing Manual and is no less exacting than the required standard in the "Model Code for Securities Transactions by Directors of Listed Issuers" ("Model Code") as set out in Appendix 10 of the Listing Rules. Having made specific enquiry of all Directors and senior management of the Group, all Directors and senior management of the Group have complied with the required standard set out in the Model Code and the Company's code of conduct regarding securities transactions by Directors and senior management during the FY2012.

Under the Best Practices Code, directors, the management and officers of the Group who have access to price-sensitive, financial or confidential information are not permitted to deal in the Company's securities during the period commencing 30 days before the announcement of Company's quarterly results and 60 days before the announcement of the Company's full year results.

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

The Company issues regular internal memorandums to the Directors and officers of the Group to remind them of the aforementioned prohibition.

### (F) INTERESTED PERSON TRANSACTIONS

Interested person transactions carried out during the financial year which fall under Chapter 9 of the Listing Manual are as follows:

| Name of interested person | Aggregate value of all Interested Person Transactions during the financial year under review (excluding transactions less than S$100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920 of the Listing Manual) RMB'000 | | Aggregate value of all interested person transactions conducted under shareholders' mandate pursuant to Rule 920 of the Listing Manual (excluding transaction less than S$100,000) RMB'000 | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Suzhou Hengli Telecommunications Materials Co., Ltd<br>Purchase of raw materials | 3,581 | 8,730 | N/A | N/A |

The Company does not have any shareholders' mandate for interested person transactions.

Prior to entry by the Group into an interested party transaction, the Audit Committee and the Board will review such a transaction to ensure that the relevant rules under Chapter 9 of the Listing Manual are complied with.

Details of connected transactions for the FY2012 which fall under Chapter 14A of the Listing Rules are set out in the section headed "Continuing Connected Transactions" in this annual report.

### (G) MATERIAL CONTRACTS

There are no material contracts of the Group involving the interests of any Directors or substantial shareholders subsisting at the end of the FY2012.

### (H) USE OF PROCEEDS OF INITIAL PUBLIC OFFERING ("IPO")

The Company launched its IPO in Hong Kong and listed 52,000,000 new ordinary shares on the SEHK on 23 December 2010. The net proceeds from the IPO were approximately HK$95 million. The Directors have the intention to utilise the net proceeds for the following:

- approximately HK$8.6 million or 9.1% of the net proceeds for further expanding the Group's sales network into overseas market;
- approximately HK$41.4 million or 43.6% of the net proceeds for the diversification of the Group's product portfolio to antennas, among which, (i) approximately HK$10.4 million for purchasing of machinery; (ii) approximately HK$8.6 million for acquisition of land and construction of buildings; (iii) approximately HK$16.4 million for research and development; and (iv) approximately HK$6.0 million for sales and marketing;
- approximately HK$27.6 million or 29.1% of the net proceeds for the diversification of the Group's product portfolio to high temperature resistant cables, among which, (i) approximately HK$13.4 million for purchasing of manufacturing equipments; (ii) approximately HK$2.8 million for reconstruction of the Group's warehouse, part of which to be used as production plant; (iii) approximately HK$7.8 million for research and development; and (iv) approximately HK$3.6 million for sales and marketing;
- approximately HK$8.6 million or 9.1% of the net proceeds for enhancing the Group's research and development team; and
- approximately HK$8.6 million or 9.1% of the net proceeds for general working capital of our Group.

# Corporate Governance Report (cont'd)

Pursuant to the announcement made by the Company on 9 October 2012, the Company has resolved to adjust the allocation of the utilization of proceeds due to a change in its operations and business environment. As at 31 December 2012, the Company's balance of unutilised net proceeds stood at approximately RMB38.4 million from the said IPO. The following table details the revised allocation and utilisation of proceeds:

| | IPO Proceeds (Revised Allocation) | | Used | Balance |
|---|---|---|---|---|
| **Intended Use** | **HKD'000** | **Equivalent to RMB'000** | **RMB'000** | **RMB'000** |
| Diversify product portfolio of High Temperature Resistant Cables | 8,350 | 7,130 | 2,220 | 4,910 |
| Diversify product portfolio of Antennas | 41,420 | 35,370 | 28,885 | 6,485 |
| Expansion of sales network into overseas market | 8,645 | 7,382 | 718 | 6,644 |
| Enhance research and development | 8,645 | 7,382 | 3,731 | 3,651 |
| General working capital | 27,940 | 23,859 | 7,204 | 16,655 |
| Total | 95,000 | 81,123 | 42,758 | 38,365 |

# Financial Contents

# Report of the Directors

The directors of Hengxin Technology Ltd. (the "Company") present their report together with the audited consolidated financial statements of the Company and its subsidiaries (collectively, the "Group") and statement of financial position and statement of changes in equity of the Company for the financial year ended 31 December 2012.

## 1 DIRECTORS

The directors of the Company in office at the date of this report are:

| | |
|---|---|
| Cui Genxiang | (Executive Chairman) |
| Xu Guoqiang | (Executive Director) |
| Zhang Zhong | (Non-executive Director) |
| Tay Ah Kong Bernard | (Independent Non-executive Director) |
| Chee Teck Kwong Patrick | (Independent Non-executive Director) |
| Tam Chi Kwan Michael | (Independent Non-executive Director) |

## 2 ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE BENEFITS BY MEANS OF THE ACQUISITION OF SHARES AND DEBENTURES

Neither at the end of the financial year nor at any time during the financial year did there subsist any arrangement whose object is to enable the directors of the Company to acquire benefits by means of the acquisition of shares or debentures in the Company or any other body corporate.

## 3 DIRECTORS' INTERESTS IN SHARES AND DEBENTURES

The directors of the Company holding office at the end of the financial year had no interests in the share capital and debentures of the Company and related corporations as recorded in the register of directors' shareholdings kept by the Company under Section 164 of the Singapore Companies Act except as follows:

| | Shareholdings registered in name of director | | Shareholdings in which a director is deemed to have an interest | |
|---|---|---|---|---|
| | At 1 January 2012 | At 31 December 2012 | At 1 January 2012 | At 31 December 2012 |
| **The Company** | | | | |
| (Ordinary shares) | | | | |
| Cui Genxiang | - | - | 90,294,662 | 90,294,662 |
| Zhang Zhong | - | - | 28,082,525 | 28,082,525 |

By virtue of Section 7 of the Singapore Companies Act, Cui Genxiang is deemed to have an interest in the Company and all the related corporations of the Company.

The directors' interests in the shares of the Company at 21 January 2013, were the same at 31 December 2012.

## 4 DIRECTORS' RECEIPT AND ENTITLEMENT TO CONTRACTUAL BENEFITS

Since the beginning of the financial year, no director has received or become entitled to receive a benefit which is required to be disclosed under Section 201(8) of the Singapore Companies Act, by reason of a contract made by the Company or a related corporation with the director or with a firm of which he is a member, or with a company in which he has a substantial financial interest except for salaries, bonuses and other benefits as disclosed in the financial statements.

**5 SHARE OPTIONS**

(a) The Hengxin Share Option Scheme ("the Share Option Scheme"), as approved at an extraordinary general meeting on 27 October 2010, is administered by the Remuneration Committee which comprises:

Chee Teck Kwong Patrick (Chairman)
Tay Ah Kong Bernard
Zhang Zhong

Under the Share Option Scheme, an option entitles the option holder to subscribe for a specific number of new ordinary shares in the Company. The option has an exercise price* per share determined with reference to the market price of the shares at the time of grant of the option. The consideration for the grant of an option is S$1.00. Options granted with the exercise price set at the market price shall only be exercised after the first anniversary but before the ten anniversary of the date of grant of that option. The shares under option may be exercised in whole or in part on the payment of the relevant exercise price (provided that an option may be exercised in part only in respect of a board lot or any integral multiple thereof). Options granted will lapse when the option holder ceases to be a full-time employee of the Company or any company of the Group subject to certain exceptions at the discretion of the Remuneration Committee.

There were no unissued shares of the Company under options granted pursuant to the Share Option Scheme.

* *exercise price or subscription price shall be at least the highest of:*

*(i) the closing price of the shares as stated in the daily quotation sheet issued by The Stock Exchange of Hong Kong Limited ("SEHK") or the Singapore Exchange Securities Trading Limited ("SGX-ST") (whichever is higher) on the offer date, which must be a business day; and*

*(ii) the average closing price of the shares as stated in the daily quotation sheet issued by the SEHK or the SGX-ST for the five consecutive business days immediately preceding the offer date (whichever is higher).*

(b) During the financial year, no options to take up unissued shares of any subsidiary were granted and there were no shares of any subsidiary issued by virtue of the exercise of an option to take up unissued shares.

(c) At the end of the financial year, there were no unissued shares of any subsidiary under option.

**6 AUDIT COMMITTEE**

The Board has adopted the principles of corporate governance as described in the Code of Corporate Governance formulated by the SGX-ST with regards to the Audit Committee.

The Audit Committee of the Company comprises three Independent Non-executive Directors, Tay Ah Kong Bernard (Chairman), Chee Teck Kwong Patrick and Tam Chi Kwan Michael, and a Non-executive Director, Zhang Zhong.

During the financial year, the Audit Committee has reviewed the following:

(a) the audit plans and results of the internal auditors' examination and evaluation of the Group's systems of internal accounting controls;

(b) the Group's financial and operating results and accounting policies;

(c) the consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company before their submission to the directors of the Company and the external auditors' report on those financial statements;

# Report of the Directors (cont'd)

(d) the quarterly and annual announcements as well as the related press release on the results and financial position of the Company and the Group;

(e) the co-operation and assistance given by the management to the Group's external auditors;

(f) the re-appointment of the external auditors of the Company;

(g) interested person transactions; and

(h) all non-audit services provided by the Group's external auditors.

The Audit Committee has full access to and co-operation of the management and has been given the resources required for it to discharge its functions properly. It also has full discretion to invite any director and executive officer to attend its meetings. The external auditors have unrestricted access to the Audit Committee.

The Audit Committee has recommended to the directors the nomination of Deloitte & Touche LLP for the re-appointment as external auditors of the Company at the forthcoming annual general meeting.

## 7 AUDITORS

The auditors, Deloitte & Touche LLP, have expressed their willingness to accept re-appointment.

## 8 ADDITIONAL INFORMATION

The Directors are pleased to present in the report the following additional information as required under the Companies Ordinance (Chapter 32, the Laws of Hong Kong) and other relevant laws and regulations governed in Hong Kong.

### ADOPTION OF TRADING NAME

Pursuant to a special resolution passed at the extraordinary general meeting of the Company held on 27 October 2010, the Company has adopted "HX Singapore Ltd." as its trading name for carrying on business in Hong Kong.

### PRINCIPAL ACTIVITIES

The Group is principally engaged in the research, design, development and manufacture of telecommunications and technological products, production of radio frequency coaxial cables for mobile communications and mobile communications systems exchange equipment.

### RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2012 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 55 to 95 of this annual report.

No dividends have been recommended for the financial year ended 31 December 2011 and 31 December 2012.

### SUMMARY OF FINANCIAL INFORMATION

A summary of the consolidated results and assets and liabilities of the Group for the last five financial years, is set out on page 2 of this annual report. This summary does not form part of the audited financial statements.

### PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in Note 13 to the financial statements.

### SHARE CAPITAL

Details of the Company's share capital are set out in Note 18 to the financial statements.

### PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association (the "Articles") or the laws of Singapore, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing Shareholders.

### PURCHASE, REDEMPTION OR SALE OF SHARES

Neither the Company, nor its subsidiary purchased, redeemed or sold its equity securities during the financial year.

### CONFIRMATION OF INDEPENDENCE

The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all of the independent non-executive Directors to be independent.

### DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors, Mr Cui Genxiang and Mr Xu Guoqiang, entered into a service contract with the Company for a term of three years commencing on 1 January 2010 and 20 December 2011 respectively, renewable in writing for any successive terms upon the date of expiry of the first three-year period, unless terminated in accordance with the provisions of the service contract by either party giving to the other not less than six months' prior notice in writing at the end of the initial term or at any time thereafter. The service agreement for Mr Cui Genxiang had been renewed for a term of another three years commencing 1 January 2013.

The Company has issued a letter of appointment to each of the non-executive Director and independent non-executive Directors of the Company, Ms Zhang Zhong, Mr Tay Ah Kong Bernard, Mr Chee Teck Kwong Patrick and Mr Tam Chi Kwan Michael, commencing 23 June 2005, 18 January 2007, 18 January 2007 and 10 December 2010 respectively.

Save as disclosed above, none of the Directors has or is proposed to have entered into any service contracts with the Company or any of its subsidiaries which is not determinable by the Company within one year without payment of compensation other than statutory obligations.

No Directors proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

### DIRECTORS' REMUNERATION

Directors' remuneration is subject to approval by the remuneration committee with reference to Directors' duties, responsibilities and performance and the results of the Group. Details of Directors' remuneration are set out in Note 5 of the financial statements.

### DIRECTORS' INTERESTS IN CONTRACTS

Details of the connected transactions and related party transactions are set out in the Corporate Governance Report and Note 5 to the financial statements.

Save for the above, no contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at any time during the year or at the end of the year.

# Report of the Directors (cont'd)

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES AND DEBENTURES

As at 31 December 2012, the interests and short positions of the Directors of the Company in shares and underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the SEHK pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules, were as follows:

Long positions:

| | Number of issued shares in the Company | | | |
|---|---|---|---|---|
| | Personal interests | Corporate interests | Total interests | Percentage of the Company's issued share capital |
| Cui Genxiang [1] | - | 90,294,662 | 90,294,662 | 23.27% |
| Zhang Zhong [2] | - | 28,082,525 | 28,082,525 | 7.24% |

**Notes:**

(1) Mr Cui Genxiang beneficially owns the entire issued share capital of Kingever Enterprises Limited ("Kingever"), and Kingever in turn holds approximately 23.27% of the total issued shares in the Company.

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

There was no change in any of the above-mentioned interests between the end of the financial year of 2012 and 21 January 2013.

Saved as disclosed above, as at 31 December 2012, none of the Directors nor their associates had or deemed to have any interests or short position in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which has been recorded in the register maintained by the Company pursuant to Section 352 of the SFO or which has been notified to the Company and the SEHK pursuant to the Model Code.

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2012, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

| Name | Capacity and nature of interests | Number of ordinary shares held | Percentage of the Company's issued share capital |
|---|---|---|---|
| Kingever Enterprises Limited ("Kingever") (Note (a)) | Registered owner and beneficially owned | 90,294,662 | 23.27% |
| Cui Genxiang (Note (a)) | Deemed interest and interest in controlled company | 90,294,662 | 23.27% |
| Wellahead Holdings Limited ("Wellahead") (Note (b)) | Registered owner and beneficially owned | 28,082,525 | 7.24% |
| Zhang Zhong (Note (b)) | Deemed interest and interest in controlled company | 28,082,525 | 7.24% |

**Notes:**

(a) Kingever is a company incorporated in the British Virgin Islands, and the entire issued share capital of which is beneficially owned by Mr Cui Genxiang.

(b) Wellahead is a company incorporated in the British Virgin Islands, and the entire issued share capital of which is beneficially owned by Ms Zhang Zhong.

Saved as disclosed above, as at 31 December 2012, no person, other than the Directors, whose interests are set out in the section "Directors' interests and chief executive's and short positions in shares and underlying shares and debentures" above, has an interest or short position in the shares or underlying shares of the Company that was required to be recorded.

## COMPLIANCE WITH NON-COMPETITION UNDERTAKING AND MR CUI AND KINGEVER'S INTERESTS IN COMPETING BUSINESSES

Mr Cui Genxiang and Kingever have entered into a deed of non-competition (the "Non-competition Deed") on 30 November 2010 in favor of the Company, pursuant to which Mr Cui and Kingever have undertaken to the Company (for itself and for the benefit of its subsidiaries) that they would not, and would procure that their respective associates (except any members of the Group) would not, during the restricted period set out below, directly or indirectly, either on their own account or in conjunction with or on behalf of any person, firm or company, among other things, carry on, participate or be interested or engaged in or acquire or hold (in each case whether as a shareholder, partner, agent, employee or otherwise) any business which is or may be in competition with the business of any member of our Group from time to time. Each of Mr Cui and Kingever confirms that all relevant terms of the Non-competition Deed have been fully complied with in all material aspect.

During the financial year ended 31 December 2012 and up to the date of this report, none of Mr Cui or Kingever is considered to have interests in businesses which compete or are likely to compete, either directly or indirectly or indirectly, with the business of the Group pursuant to the Listing Rules.

## RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in Notes 19 and 20 to the financial statements.

## DISTRIBUTABLE RESERVES

Profi ts attributable to shareholders, before dividends, of RMB 67,278,000 (2011: RMB 102,249,000) have been transferred to reserves. Other movements in reserves are set out in Note 19 to the financial statements.

## DONATIONS

The Group had made donations amounting RMB 500,000 (2011: RMB 500,000) which is part of a donation commitment to a charity association and payable in equal annual installments over a period of 20 years commencing from 2007.

## SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this annual report.

## MAJOR CUSTOMERS AND SUPPLIERS

In the financial year ended 31 December 2012, sales to the Group's five largest customers accounted for approximately 79.7% of the total sales for the year and sales to the largest customer included therein amounted to approximately 28.2%. Purchases from the Group's five largest suppliers accounted for approximately 46.0% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 14.3%.

# Report of the Directors (cont'd)

None of the Directors or any of their associates or any Shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and suppliers.

ON BEHALF OF THE DIRECTORS

**Cui Genxiang**

**Xu Guoqiang**

12 March 2013

# Statement of Directors

In the opinion of the directors, the consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company as set out on pages 55 to 95 are drawn up so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2012, and of the results, changes in equity and cash flows of the Group and changes in equity of the Company for the financial year then ended and at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts when they fall due.

ON BEHALF OF THE DIRECTORS

**Cui Genxiang**

**Xu Guoqiang**

12 March 2013

# Independent Auditors' Report

## To the Members of Hengxin Technology Ltd

### Report on the Financial Statements

We have audited the financial statements of Hengxin Technology Ltd (the "Company") and its subsidiaries (the "Group") which comprise the statements of financial position of the Group and the Company as at 31 December 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows of the Group and the statement of changes in equity of the Company for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 55 to 95.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Singapore Companies Act (the "Act") and Singapore Financial Reporting Standards and for devising and maintaining a system of internal accounting controls sufficient to provide reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair profit and loss accounts and balance sheets and to maintain accountability of assets.

### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Singapore Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2012 and of the results, changes in equity and cash flows of the Group and changes in equity of the Company for the year ended on that date.

### Report on Other Legal and Regulatory Requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

**Deloitte & Touche LLP**
Public Accountants and
Certified Public Accountants
Singapore

**Chua How Kiat**
Partner
Appointed on 24 August 2012

12 March 2013

# Statements of Financial Position

31 December 2012

| | Note | Group 2012 RMB'000 | Group 2011 RMB'000 | Company 2012 RMB'000 | Company 2011 RMB'000 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Current assets** | | | | | |
| Cash and bank balances | 6 | 265,853 | 323,710 | 22,863 | 63,085 |
| Pledged bank deposits | 6 | 20,170 | 52,883 | - | - |
| Trade receivables | 7 | 618,352 | 734,596 | - | - |
| Other receivables and prepayment | 8 | 24,297 | 28,256 | 5,496 | 10,083 |
| Inventories | 9 | 108,241 | 135,911 | - | - |
| Leasehold land | 11 | 560 | 560 | - | - |
| Total current assets | | 1,037,473 | 1,275,916 | 28,359 | 73,168 |
| **Non-current assets** | | | | | |
| Other receivables and prepayment | 8 | 5,760 | 5,760 | - | - |
| Available-for-sale investments | 10 | 10,000 | 10,000 | - | - |
| Leasehold land | 11 | 18,901 | 19,461 | - | - |
| Subsidiaries | 12 | - | - | 392,386 | 354,793 |
| Property, plant and equipment | 13 | 151,957 | 157,889 | - | 5 |
| Deferred tax assets | 14 | 3,618 | 2,523 | - | - |
| Total non-current assets | | 190,236 | 195,633 | 392,386 | 354,798 |
| **Total assets** | | 1,227,709 | 1,471,549 | 420,745 | 427,966 |
| **LIABILITIES AND EQUITY** | | | | | |
| **Current liabilities** | | | | | |
| Short-term loans | 15 | 41,999 | 230,000 | - | - |
| Trade payables | 16 | 156,293 | 258,489 | - | - |
| Other payables | 17 | 19,074 | 28,719 | 3,663 | 2,126 |
| Income tax payable | | 1,916 | 12,771 | - | - |
| Total current liabilities | | 219,282 | 529,979 | 3,663 | 2,126 |
| **Non-current liability** | | | | | |
| Deferred tax liabilities | 14 | 2,979 | 2,596 | - | - |
| **Capital and reserves** | | | | | |
| Share capital | 18 | 295,000 | 295,000 | 295,000 | 295,000 |
| General reserves | 19 | 134,381 | 122,889 | - | - |
| Special reserve | 20 | (6,017) | (6,017) | - | - |
| Translation reserves | | (1,098) | (294) | - | - |
| Accumulated profits | | 583,182 | 527,396 | 122,082 | 130,840 |
| Total equity | | 1,005,448 | 938,974 | 417,082 | 425,840 |
| **Total liabilities and equity** | | 1,227,709 | 1,471,549 | 420,745 | 427,966 |

*See accompanying notes to financial statements.*

# Consolidated Statement of Comprehensive Income

Financial year ended 31 December 2012

| | Note | Group 2012 RMB'000 | Group 2011 RMB'000 |
|---|---|---|---|
| **Revenue** | 21 | 1,134,343 | 1,419,327 |
| Cost of sales | | (925,952) | (1,157,224) |
| **Gross profit** | | 208,391 | 262,103 |
| Other operating income | 22 | 12,135 | 7,405 |
| Selling and distribution expenses | | (62,899) | (62,522) |
| Administrative expenses | | (38,539) | (41,108) |
| Other operating expenses | 23 | (17,436) | (27,147) |
| Finance costs | 24 | (20,507) | (13,203) |
| **Profit before income tax** | 25 | 81,145 | 125,528 |
| Income tax | 26 | (13,867) | (23,279) |
| **Profit for the year** | | 67,278 | 102,249 |
| Other comprehensive income: | | | |
| Exchange differences on translation | | (804) | (290) |
| **Total comprehensive income for the year** | | 66,474 | 101,959 |
| **Earnings per share (RMB cents)** | | | |
| - basic | 27 | 17.3 | 26.4 |
| - diluted | 27 | 17.3 | 26.4 |

*See accompanying notes to financial statements.*

# Statements of Changes in Equity

Financial year ended 31 December 2012

| | Share capital RMB'000 | General reserves RMB'000 | Special reserves RMB'000 | Translation reserves RMB'000 | Accumulated profits RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| **Group** | | | | | | |
| **Balance at 1 January 2011** | 295,000 | 104,839 | (6,017) | (4) | 458,891 | 852,709 |
| Profit for the year | - | - | - | - | 102,249 | 102,249 |
| Other comprehensive income for the year | - | - | - | (290) | - | (290) |
| Total comprehensive income for the year | - | - | - | (290) | 102,249 | 101,959 |
| Transfer to general reserves | - | 18,050 | - | - | (18,050) | - |
| Dividends (Note 28) | - | - | - | - | (15,694) | (15,694) |
| **Balance at 31 December 2011** | 295,000 | 122,889 | (6,017) | (294) | 527,396 | 938,974 |
| Profit for the year | - | - | - | - | 67,278 | 67,278 |
| Other comprehensive income for the year | - | - | - | (804) | - | (804) |
| Total comprehensive income for the year | - | - | - | (804) | 67,278 | 66,474 |
| Transfer to general reserves | - | 11,492 | - | - | (11,492) | - |
| **Balance at 31 December 2012** | 295,000 | 134,381 | (6,017) | (1,098) | 583,182 | 1,005,448 |

*See accompanying notes to financial statements.*

# Statements of Changes in Equity (cont'd)

Financial year ended 31 December 2012

| | Share capital RMB'000 | Accumulated profits RMB'000 | Total RMB'000 |
|---|---|---|---|
| **Company** | | | |
| **Balance at 1 January 2011** | 295,000 | 131,648 | 426,648 |
| Profit for the year representing total comprehensive income for the year | - | 14,886 | 14,886 |
| Dividends (Note 28) | - | (15,694) | (15,694) |
| **Balance at 31 December 2011** | 295,000 | 130,840 | 425,840 |
| Loss for the year representing total comprehensive income for the year | - | (8,758) | (8,758) |
| **Balance at 31 December 2012** | 295,000 | 122,082 | 417,082 |

*See accompanying notes to financial statements.*

# Consolidated Statement of Cash Flows

Financial year ended 31 December 2012

| | Group | |
|---|---|---|
| | 2012 | 2011 |
| | RMB'000 | RMB'000 |
| **Operating activities** | | |
| Profit before income tax | 81,145 | 125,528 |
| Adjustments for: | | |
| Depreciation of property, plant and equipment | 18,550 | 16,612 |
| Interest expense | 20,507 | 13,203 |
| Net foreign exchange (gain) losses | (1,762) | 4,780 |
| Forfeiture of a customer deposit | - | 988 |
| Loss on disposal of property, plant and equipment | 13 | 702 |
| Amortisation of leasehold land | 560 | 560 |
| Allowance (Reversal) for inventory obsolescence | 438 | (67) |
| Gain on disposal of available-for-sale investments | (178) | (690) |
| Interest income | (4,640) | (3,590) |
| Operating cash flows before working capital changes | 114,633 | 158,026 |
| Inventories | 27,232 | (7,467) |
| Trade receivables | 116,244 | (107,894) |
| Other receivables and prepayments | 3,959 | (15,298) |
| Trade payables | (102,196) | (65,762) |
| Other payables | (9,645) | 3,243 |
| Cash generated from (used in) operations | 150,227 | (35,152) |
| Interest paid | (20,507) | (13,203) |
| Interest received | 4,640 | 3,590 |
| Income tax paid | (25,434) | (16,017) |
| Net cash from (used in) operating activities | 108,926 | (60,782) |
| **Investing activities** | | |
| Acquisition of property, plant and equipment | (12,631) | (34,668) |
| Proceeds on disposal of available-for-sale investments | 45,178 | 2,690 |
| Purchase of available-for-sale investments | (45,000) | (10,000) |
| Proceeds from disposal of property, plant and equipment | - | 443 |
| Net cash used in investing activities | (12,453) | (41,535) |
| **Financing activities** | | |
| Decrease in pledged bank deposits | 32,713 | 9,713 |
| Proceeds from short-term bank loans | 131,999 | 380,000 |
| Repayment of short-term bank loans | (320,000) | (190,000) |
| Dividends paid | - | (15,694) |
| Net cash (used in) from financing activities | (155,288) | 184,019 |
| Net (decrease) increase in cash and cash equivalents | (58,815) | 81,702 |
| Cash and cash balances at beginning of year | 323,710 | 247,078 |
| Effects of foreign exchange rate changes | 958 | (5,070) |
| **Cash and bank balances at end of year (Note 6)** | 265,853 | 323,710 |

*See accompanying notes to financial statements.*

# Notes to Financial Statements

31 December 2012

## 1 GENERAL

The Company (Registration No. 200414927H) is incorporated in the Republic of Singapore with its principal place of business at 7 Temasek Boulevard, #04-02B, Suntec Tower One, Singapore 038987 and registered office at 10 Anson Road #15-07, International Plaza, Singapore 079903. The Company is listed on both the Main Board of the Singapore Exchange Securities Trading Limited and the Stock Exchange of Hong Kong Limited. The financial statements are expressed in Renminbi.

The principal activity of the Company is that of investment holding.

The principal activities of the subsidiaries are disclosed in Note 12 to the financial statements.

As at 31 December 2012, the Group's net current assets and total assets less current liabilities amounted to RMB818,191,000 (2011: RMB745,937,000) and RMB1,008,427,000 (2011: RMB941,570,000) respectively.

The consolidated financial statements of the Group and statement of financial position and statement of changes in equity of the Company for the financial year ended 31 December 2012 were authorised for issue by the Board of Directors on 12 March 2013.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING - The financial statements have been prepared in accordance with the historical cost basis, except as disclosed in the accounting policies below, and are drawn up in accordance with the provisions of the Singapore Companies Act and Singapore Financial Reporting Standards ("FRS") issued by Singapore Accounting Standards Council.

ADOPTION OF NEW AND REVISED FINANCIAL REPORTING STANDARDS - On 1 January 2012, the Group adopted all the new and revised FRSs and Interpretations of FRS ("INT FRS") that are effective from that date and are relevant to its operations. The adoption of these new/revised FRSs and INT FRSs does not result in changes to the Group's and Company's accounting policies and has no material effect on the amounts reported for the current or prior years.

At the date of authorisation of these financial statements, the following new/revised FRSs, INT FRSs and amendments to FRS that are relevant to the Group and the Company were issued but not effective:

- Amendments to FRS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*
- FRS 112 *Disclosure of Interests in Other Entities*
- FRS 113 *Fair Value Measurement*

The management anticipates that the impact of the adoption of the above FRSs, INT FRSs and amendments to FRS in future periods are as follows:

**Amendments to FRS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income***

The amendments will take effect from financial years beginning on or after 1 July 2012, with full retrospective application. Early adoption is permitted.

The amendment on Other Comprehensive Income ("OCI") presentation is to require entities to present separate grouping for OCI items that might be recycled i.e., reclassified to profit or loss (e.g., those arising from cash flow hedging, foreign currency translation) and those items that would not be recycled (e.g. "revaluation gains on property, plant and equipment" under the revaluation model in FRS 16). The tax effects recognised for the OCI items would also be captured in the respective grouping, although there is still a choice to present OCI items before tax or net of tax.

Presentation of OCI and profit and loss items can continue to be presented either in a single statement or in two consecutive statements.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### FRS 112 *Disclosure of Interests in Other Entities*

FRS 112 requires an entity to provide more extensive disclosures regarding the nature of and risks associated with its interest in subsidiaries, associates, joint arrangements and unconsolidated structured entities.

FRS 112 will take effect from financial years beginning on or after 1 January 2014, and the Group is currently estimating extent of additional disclosures needed.

### FRS 113 *Fair Value Measurement*

FRS 113 is a single new Standard that applies to both financial and non-financial items. It replaces the guidance on fair value measurement and related disclosures in other Standards, with the exception of measurement dealt with under FRS 102 *Share-based Payment*, FRS 17 *Leases*, net realisable value in FRS 2 *Inventories* and value-in-use in FRS 36 *Impairment of Assets*.

FRS 113 provides a common fair value definition and hierarchy applicable to the fair value measurement of assets, liabilities, and an entity's own equity instruments within its scope, but does not change the requirements in other Standards regarding which items should be measured or disclosed at fair value.

The disclosure requirements in FRS 113 are more extensive than those required in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under FRS 107 *Financial Instruments: Disclosures* will be extended by FRS 113 to cover all assets and liabilities within its scope.

FRS 113 will be effective prospectively from annual periods beginning on or after 1 January 2013. Comparative information is not required for periods before initial application.

The Group is currently estimating the effects of FRS 113 in the period of initial adoption.

The Management anticipates that the adoption of the other FRSs, INT FRSs and amendments to FRS issued but only effective in future periods will not have a material impact on the financial statements of the Group and of the Company in the period of their initial adoption.

BASIS OF CONSOLIDATION - The consolidated financial statements 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 are included in the consolidated statement of comprehensive income from the effective date of acquisition or 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 on consolidation.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

# Notes to Financial Statements (cont'd)

31 December 2012

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### FRS 113 *Fair Value Measurement* (cont'd)

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for (i.e. reclassified to profit or loss or transferred directly to retained earnings) in the same manner as would be required if the relevant assets or liabilities were disposed of. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under FRS 39 *Financial Instruments: Recognition and Measurement* or, when applicable, the cost on initial recognition of an investment in an associate or jointly controlled entity.

In the Company's financial statements, investment in subsidiary is carried at cost less any impairment in net recoverable value that has been recognised in profit or loss.

BUSINESS COMBINATIONS - Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the acquisition date fair values of assets given, liabilities incurred by the Group to the former owners of the acquiree, and equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments (see below). The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with FRS 39 *Financial Instruments: Recognition and Measurement*, or FRS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

Where a business combination is achieved in stages, the Group's previously held interests in the acquired entity are remeasured to fair value at the acquisition date (i.e. the date the Group attains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under the FRS are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with FRS 12 *Income Taxes* and FRS 19 *Employee Benefits* respectively;

- liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment awards transactions with share-based payment awards transactions of the acquirer in accordance with the method in FRS 102 *Share-based Payment* at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with FRS 105 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

**FRS 113 *Fair Value Measurement* (cont'd)**

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date - and is subject to a maximum of one year from acquisition date.

The policy described above is applied to all business combinations that take place on or after 1 January 2010.

FINANCIAL INSTRUMENTS - Financial assets and financial liabilities are recognised on the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

**Effective interest method**

The effective interest method is a method of calculating the amortised cost of a financial instrument and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument, or where appropriate, a shorter period. Income and expense are recognised on an effective interest basis for debt instruments other than those financial instruments "at fair value through profit or loss".

**Financial assets**

**Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand, demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

**Trade and other receivables**

Trade and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as "trade and other receivables". Trade and other receivables are measured at amortised cost using the effective interest method less impairment. Interest is recognised by applying the effective interest method, except for short-term receivables when the recognition of interest would be immaterial.

**Available-for-sale investments**

Certain shares and debt securities held by the Group are classified as being available for sale and are stated at fair value. Fair value is determined in the manner described in Note 4 to the financial statements. Gains and losses arising from changes in fair value are recognised directly in other comprehensive income with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the other comprehensive income and accumulated in revaluation reserves is reclassified to profit or loss. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive payments is established. The fair value of available-for-sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at reporting date. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in profit or loss, and other changes are recognised in other comprehensive income.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of the reporting period.

# Notes to Financial Statements (cont'd)

31 December 2012

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

**Financial assets (cont'd)**

**Impairment of financial assets**

Financial assets are assessed for indicators of impairment at the end of each 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 investment have been impacted. For available-for-sale equity instruments, a significant or prolonged decline in the fair value of the investment below its costs is considered to be objective evidence of impairment.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, 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 of 180 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of 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 receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss. With the exceptions of available-for-sale equity instruments, if, in a subsequent period, the amount of the 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 the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment had not been recognised.

In respect of available-for-sale equity instruments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any subsequent increase in fair value after an impairment loss is recognised in other comprehensive income.

**Derecognition of financial assets**

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity, if the Group neither transfers nor retains substantially all the risk and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the assets and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

**Financial liabilities and equity instruments**

**Classification as debt or equity**

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

**Equity instruments**

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of direct issue costs.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

**Financial liabilities and equity instruments (cont'd)**

**<u>Financial liabilities</u>**

Trade and other payables are initially measured at fair value, net of transaction costs, and are subsequently measured at amortised cost, using the effective interest method, with interest expense recognised on an effective yield basis.

Interest-bearing bank loans are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Group's accounting policies for borrowing costs.

**<u>Derecognition of financial liabilities</u>**

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expired.

**<u>Embedded derivatives</u>**

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

An embedded derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the hybrid instrument to which the embedded derivative relates is more than 12 months and it is not expected to be realised or settled within 12 months. Other embedded derivatives are presented as current assets or current liabilities.

LEASES - Leases are classified as finance leases whenever 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.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

INVENTORIES - Inventories are stated at the lower of cost and net realisable value. Costs comprise direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

PROPERTY, PLANT AND EQUIPMENT - Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is charged so as to write off the cost of assets less residual value over their estimated useful lives, using the straight-line method, on the following bases:

| | | |
|---|---|---|
| Building | - | 20 years |
| Plant and machinery | - | 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.

The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

# Notes to Financial Statements (cont'd)

31 December 2012

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Fully depreciated assets still in use are retained in the financial statements.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amounts of the asset and is recognised in profit or loss.

IMPAIRMENT OF ASSETS - At the end of each reporting period, the Group reviews the carrying amounts of its 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). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise, they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) 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 (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

PROVISIONS - Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

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.

REVENUE RECOGNITION - Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

**Sale of goods**

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Specifically, revenue from the sale of goods is recognised when the goods are delivered and legal title is passed.

**Interest income**

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 estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

RETIREMENT BENEFIT COSTS - Pursuant to the relevant regulations of the People's Republic of China ("PRC") government, the PRC subsidiary of the Group ("PRC Subsidiary") has participated in central pension schemes ("the Schemes") operated by local municipal government whereby the PRC subsidiary is required to contribute a certain percentage 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 the PRC subsidiary. The only obligation of the PRC subsidiary with respect to the Scheme is to pay the ongoing required contributions under the Schemes mentioned above. Contributions under the Schemes are charged to profit or loss as incurred.

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due. Payments made to state-managed retirement benefit schemes, such as the Singapore Central Provident Fund are dealt with as payments to defined contribution plans where the Group's obligations under the plans are equivalent to those arising in a defined contribution retirement benefit plan.

EMPLOYEE LEAVE ENTITLEMENT - Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period.

GOVERNMENT GRANTS - Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and the grants will be received. Government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

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.

RESEARCH AND DEVELOPMENT EXPENDITURE - Expenditure on research activities is recognised as an expense in the period in which it is incurred.

# Notes to Financial Statements (cont'd)

31 December 2012

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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 assets 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 assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

INCOME TAX - 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 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 not taxable or tax deductible. The Group's liability for current tax is calculated using tax rates (and tax laws) that have been enacted or substantively enacted in countries where the Company and its subsidiaries operate by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which 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 arising on 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.

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

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset realised based on the tax rates (and tax laws) that have been enacted or substantively enacted by at the end of the reporting period. The measurement of deferred tax liabilities and assets reflects 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 assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items credited or debited outside profit or loss (either in other comprehensive income or directly in equity), in which case the tax is also recognised outside profit or loss (either in other comprehensive income or directly in equity, respectively).

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

FOREIGN CURRENCY TRANSACTIONS AND TRANSLATION - 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 consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company are presented in Chinese Renminbi ("RMB"), which is the functional currency of the Company.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency are recorded at the rates of exchange prevailing on the date of the transaction. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the end of the reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on retranslation of monetary items are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in statement of comprehensive income for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in other comprehensive income.

For the purpose of presenting consolidated financial statements of the Group and the statement of financial position and the statement of changes in equity of the Company, the assets and liabilities of the Group's non-PRC foreign operations (including comparatives) are expressed in RMB using exchange rates prevailing on the end of the reporting period. Income and expense items (including comparatives) are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in a separate component of equity. Such translation differences are recognised in statement of comprehensive income in the period in which the foreign operation is disposed.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

RESERVES - 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 Group did not resolve to appropriate any fund to the staff welfare and bonus fund since its establishment.

Appropriation from profit after taxation as reported in the PRC statutory financial statements to the staff welfare and bonus fund is at the discretion of the subsidiary at rates determined by the subsidiary. The amount transferred to the staff welfare and bonus fund in the PRC statutory financial statements has been adjusted in these FRS financial statements as an operating expense as in the opinion of the directors, this fund will be used to pay for staff benefits of the subsidiaries.

CASH AND CASH EQUIVALENTS - Cash and cash equivalents comprise cash on hand, demand deposits and other short-term highly liquid assets that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

# Notes to Financial Statements (cont'd)

31 December 2012

## 3 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

### (i) Critical judgements in applying the Group's accounting policies

The following is the critical judgement, apart from those involving estimations (see below), that Management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Impairment of property, plant and equipment

As described in Note 31 to the financial statements, the Group had constructed RMB27,800,000 (2011: RMB31,600,000) of property, plant and equipment on a piece of land which the Group has not obtained the land use right. Management is of the opinion that no impairment is required and the Group is more likely than not to be able to eventually secure the land use right. In making its judgement, Management considers the opinion of its legal advisor as well as take into account the facts and circumstances surrounding the procession of the land use right.

### (ii) Key sources of estimation uncertainty

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 next financial year, are disclosed below.

Allowances for trade receivables

Trade receivables are carried at amortised cost using the effective interest method, less any identifi ed impairment losses. Appropriate allowances for estimated irrecoverable amounts are recognised in 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 receivables. Allowances are applied to trade 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. The carrying amounts of trade receivables at the end of the reporting period are disclosed in Note 7 to the financial statements.

Allowances for inventory obsolescence

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 realisable value.

The identifi cation 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. The carrying amounts of inventories at the end of the reporting period are disclosed in Note 9 to the financial statements.

Fair value of available-for-sale equity investment and embedded derivative

Determining the fair value of the available-for-sale equity instruments and the embedded derivatives required the use of valuation methods. The valuation methods require the use of estimates such as projected future cash flows, weighted average cost of capital, expected dividend yield, etc. The carrying amount of the available-for-sale equity instruments and relevant disclosures about the embedded derivatives are disclosed in Note 10.

Useful lives of property, plant and equipment

The Group reviews the estimated useful lives of property, plant and equipment at the end of each reporting period. During the financial year, management is satisfied that there is no change in the estimated useful lives of the property, plant and equipment from prior year. The carrying amounts of property, plant and equipment at the end of the reporting period are disclosed in Note 13 to the financial statements.

## 3 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (cont'd)

### (ii) Key sources of estimation uncertainty (cont'd)

Impairment of property, plant and equipment and prepaid lease payments

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. The carrying amounts of property, plant and equipment and leasehold land at the end of the reporting period are disclosed in Notes 13 and 11 to the financial statements respectively.

## 4 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT

### (a) Capital risk management policies and objectives

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance, and to ensure that all externally imposed capital requirements are complied with.

The capital structure of the Group consists of debt, which includes the bank borrowings and equity attributable to equity holders of the Company, comprising paid up capital, accumulated profits and other reserves.

The Group's management reviews the capital structure on an on-going basis. As a 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 redemption 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 term loans less cash and cash equivalents at the end of the reporting period.

The Group's overall strategy remains unchanged from prior year. As at the end of the reporting period, the Group is in compliance with all capital requirements on its external borrowings.

The gearing ratio at the end of the reporting period is as follows:

| | Group | |
|---|---|---|
| | 2012<br>RMB'000 | 2011<br>RMB'000 |
| Net cash borrowings | (223,854) | (93,710) |
| Total equity | 1,005,448 | 938,974 |
| Net debt to equity ratio (%) | (22.26) | (9.98) |

# Notes to Financial Statements (cont'd)

31 December 2012

## 4 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (cont'd)

### (b) Categories of financial instruments

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

| | Group 2012 RMB'000 | Group 2011 RMB'000 |
|---|---|---|
| **Group** | | |
| ***Financial assets*** | | |
| Loans and receivables (including cash and cash equivalents) | 912,877 | 1,118,538 |
| Available-for-sale financial assets | 10,000 | 10,000 |
| ***Financial liabilities*** | | |
| Borrowings and payables, at amortised cost | 217,366 | 517,208 |
| **Company** | | |
| ***Financial assets*** | | |
| Loans and receivables (including cash and cash equivalents) | 28,355 | 73,165 |
| ***Financial liabilities*** | | |
| Payables at amortised cost | 3,663 | 2,126 |

### (c) Financial risk management policies and objectives

The Group's major financial instruments include trade and other receivables, trade and other payables, available-for-sale financial assets, 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.

*(i) Market risk management*

The Group's activities are exposed primarily to the financial risks of changes in foreign currency exchange rates and interest rates. Management monitors risks associated with changes in foreign currency exchanges rates and interest rates and will consider appropriate measures should the need arises.

There has been no significant change to the Group's exposure to market risk or the manner in which it manages and measures the risk.

*(ii) 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 ("US$"), Singapore dollars ("S$") and Euro dollars ("Euro"), which are currencies other than the functional currency of the relevant group entities and expose the Group to foreign currency risk.

## 4 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (cont'd)

### (c) Financial risk management policies and objectives (cont'd)

*(ii) Foreign currency risk management* (cont'd)

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:

| | Group | | | | Company | | | |
|---|---|---|---|---|---|---|---|---|
| | Assets | | Liabilities | | Assets | | Liabilities | |
| | 2012 RMB'000 | 2011 RMB'000 | 2012 RMB'000 | 2011 RMB'000 | 2012 RMB'000 | 2011 RMB'000 | 2012 RMB'000 | 2011 RMB'000 |
| US$ | 1,154 | 38,675 | 22,216 | 135 | 927 | 10,884 | - | - |
| S$ | 22,065 | 62,258 | 3,663 | 2,202 | 22,065 | 62,258 | 3,663 | 2,116 |
| HK$ | 25 | 26 | - | - | 25 | 26 | - | - |
| Euro | 500 | 323 | 37 | - | - | - | - | - |

The Group has set up 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*

The following table details the sensitivity to a 10% increase and decrease in the Renminbi ("RMB") against the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currencies rates. A positive (negative) number below indicates an increase (decrease) in profit where RMB strengthens 10% against the relevant currency. For a 10% weakening of the RMB against the relevant currency, there would be an equal and opposite impact on the profit for the year.

| | US$ impact | | S$ impact | | HK$ impact | | Euro impact | |
|---|---|---|---|---|---|---|---|---|
| | 2012 RMB'000 | 2011 RMB'000 | 2012 RMB'000 | 2011 RMB'000 | 2012 RMB'000 | 2011 RMB'000 | 2012 RMB'000 | 2011 RMB'000 |
| **Profit or loss** | | | | | | | | |
| Group | (2,106) | (3,854) | (1,840) | (6,006) | (3) | (3) | (46) | - |
| Company | (93) | (1,088) | (1,840) | (6,014) | (3) | (3) | (32) | - |

The Group's sensitivity to foreign exchange rate changes has decreased (2011: increased) during the current period mainly due to a decrease (2011: increase) in monetary assets denominated in foreign currency during the current period.

*(iii) Interest rate risk management*

The Group's interest rate risk relates primarily to its fixed-rate bank borrowings. The Group's cash flow interest rate risk relates primarily to their fixed 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.

No sensitivity analysis is performed as the Group does not expect any material impact on profit or loss from fluctuations on interest rates.

# Notes to Financial Statements (cont'd)

31 December 2012

**4 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (cont'd)**

**(c) Financial risk management policies and objectives (cont'd)**

*(iv) 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, advance payments to suppliers, 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 86% (2011: 80%) of the carrying amounts of trade receivables as at 31 December 2012. Most of these customers have long standing relationship with the Group and are mainly of sound credit quality. 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 credit risk in relation to the Group's cash and bank balances, and pledged bank deposits is not significant as the corresponding banks are reputable banking institutions in the PRC, Singapore and India.

The maximum exposure to credit risk in the event that the counterparties fail to perform their obligations as at the end of the reporting period in relation to each class of recognised financial assets is the carrying amounts of those assets as stated in the statements of financial position.

Further details of credit risks on trade and other receivables are disclosed in Notes 7 and 8 to the financial statements respectively.

*(v) 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, if any.

Undrawn facilities are disclosed in Note 15 to the financial statements.

## 4 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (cont'd)

### (c) Financial risk management policies and objectives (cont'd)

*(v) Liquidity risk management* (cont'd)

*Liquidity and interest risk analyses*

Non-derivative financial assets

The following table details the expected maturity for non-derivative financial assets excluding available-for-sale fi nancial assets. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the Group and the Company anticipates that the cash flow will occur in a different period. The adjustment column represents the possible future cash flows attributable to the instrument included in the maturity analysis which are not included in the carrying amount of the financial asset on the statement of financial position.

| | Weighted average effective interest rate % | On demand or less than 1 year RMB'000 | Adjustment RMB'000 | Total carrying amount RMB'000 |
|---|---|---|---|---|
| **Group** | | | | |
| **2012** | | | | |
| Trade receivables | - | 618,352 | - | 618,352 |
| Other receivables | - | 8,502 | - | 8,502 |
| Fixed deposits | 8.65 | 13,913 | (1,108) | 12,805 |
| Cash and bank balances | 1.09 | 255,806 | (2,758) | 253,048 |
| Pledged bank deposits | 3.00 | 20,775 | (605) | 20,170 |
| Total | | 917,348 | (4,471) | 912,877 |
| **2011** | | | | |
| Trade receivables | - | 734,596 | - | 734,596 |
| Other receivables | - | 7,349 | - | 7,349 |
| Fixed deposits | 2.12 | 30,593 | (634) | 29,959 |
| Cash and bank balances | 1.10 | 296,982 | (3,231) | 293,751 |
| Pledged bank deposits | 2.88 | 54,406 | (1,523) | 52,883 |
| Total | | 1,123,926 | (5,388) | 1,118,538 |
| **Company** | | | | |
| **2012** | | | | |
| Other receivables | - | 5,492 | - | 5,492 |
| Cash and bank balances | 0.15 | 22,591 | (34) | 22,557 |
| Fixed deposits | 0.05 | 306 | * | 306 |
| Total | | 28,389 | (34) | 28,355 |
| **2011** | | | | |
| Other receivables | - | 10,080 | - | 10,080 |
| Cash and bank balances | 0.15 | 33,739 | (51) | 33,688 |
| Fixed deposits | 2.02 | 29,991 | (594) | 29,397 |
| Total | | 73,810 | (645) | 73,165 |

* *Amount less than RMB1,000.*

# Notes to Financial Statements (cont'd)

31 December 2012

## 4 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (cont'd)

### (c) Financial risk management policies and objectives (cont'd)

*(v) Liquidity risk management* (cont'd)

Non-derivative financial liabilities

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 and the Company 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 | Between 1 to 3 months | Between 3 months to 1 year | Total undiscounted cash flows | Carrying amount |
|---|---|---|---|---|---|---|
| | % | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Group** | | | | | | |
| **2012** | | | | | | |
| Trade and other payables | - | 87,777 | 15,055 | 72,535 | 175,367 | 175,367 |
| Short-term bank loans | 4.11 | 42,054 | - | - | 42,054 | 41,999 |
| Total | | 129,831 | 15,055 | 72,535 | 217,421 | 217,366 |
| **2011** | | | | | | |
| Trade and other payables | - | 79,226 | 145,095 | 62,887 | 287,208 | 287,208 |
| Short-term bank loans | 6.53 | - | 23,253 | 217,732 | 240,985 | 230,000 |
| Total | | 79,226 | 168,348 | 280,619 | 528,193 | 517,208 |
| **Company** | | | | | | |
| **2012** | | | | | | |
| Other payables | - | 3,663 | - | - | 3,663 | 3,663 |
| **2011** | | | | | | |
| Other payables | - | 2,126 | - | - | 2,126 | 2,126 |

*(vi) Fair value of financial assets and financial liabilities*

The fair value of financial assets and financial liabilities are determined as follows:

- The fair value of financial assets and financial liabilities with standard terms and conditions and traded on 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 are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input.

## 4 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (cont'd)

### (c) Financial risk management policies and objectives (cont'd)

*(vi) Fair value of financial assets and financial liabilities* (cont'd)

The Group classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

(a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);

(b) 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 2); and

(c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

Financial instruments measured at fair value

| | Level 1 RMB'000 | Level 2 RMB'000 | Level 3 RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **2012** | | | | |
| Financial Assets | | | | |
| Available-for-sale equity instruments | - | - | 10,000 | 10,000 |
| Embedded derivatives* | - | - | * | * |
| | - | - | 10,000 | 10,000 |

* *The fair value of embedded derivatives has been determined to be immaterial by management. Please see further disclosures in Note 10.*

Significant assumptions in determining fair value of financial assets and liabilities

**Unquoted equity shares – available-for-sale**

Fair value is estimated using the discounted cash flow model, which includes some assumption that are not supportable by observable market prices or rates. In determining fair value, earnings growth factor between 10% to 50% and a weighted average cost of capital of 19% is used. Changes in these assumptions are not expected to be significant to total assets of the Group.

**Unquoted embedded derivatives**

Fair value is estimated using the Black-Scholes Option Pricing Model, which includes some assumptions which are not supportable by observable market prices or rates. In determining fair value, an estimated exercise prices, dividend yield and volatility of share prices are used. Changes in these assumptions are not expected to be significant to total assets of the Group.

There is no transfer between levels during the financial year.

The Management consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

## 5 RELATED PARTY TRANSACTIONS

Some of the Group's transactions and arrangements are with related parties and the effect of these on the bases determined between the parties is reflected in the financial statements. The balances are unsecured, interest-free and repayable on demand unless otherwise stated.

# Notes to Financial Statements (cont'd)

31 December 2012

## 5 RELATED PARTY TRANSACTIONS (cont'd)

***Significant related party transactions***

| | Group | |
|---|---|---|
| | 2012 RMB'000 | 2011 RMB'000 |
| With Suzhou Hengli Telecommunications Materials Co., Ltd | | |
| Purchase of raw materials | 3,581 | 8,730 |

*Note: Suzhou Hengli Telecommunication Materials Co., Ltd is a subsidiary of Hengtong Group Co., Ltd, a company controlled by a sibling of the Executive Chairman of the Company. The Executive Chairman of the Company is also a substantial shareholder of the Company.*

***Compensation of directors and key management personnel***

The remuneration of directors and other members of key management during the year were as follows:

| | Group | |
|---|---|---|
| | 2012 RMB'000 | 2011 RMB'000 |
| Remuneration to directors and key management personnel: | | |
| Short term benefits | 4,671 | 7,716 |
| Retirement benefits scheme contributions | 73 | 91 |
| Total | 4,744 | 7,807 |

| | Group | |
|---|---|---|
| | 2012 RMB'000 | 2011 RMB'000 |
| (a) Details of the directors' remuneration are as follows: | | |
| Directors' fees | 1,616 | 1,666 |
| Other emoluments: | | |
| Salaries, allowances and benefits in kind[1] | 1,637 | 1,485 |
| Performance related bonuses | 202 | 1,121 |
| Pension scheme contributions | - | 34 |
| Total | 3,455 | 4,306 |

[1] *The Executive Chairman, Cui Genxiang is also a director of the Company and his remuneration is disclosed above.*

(i) Independent Non-executive Directors

The fees paid to independent non-executive Directors were as follows:

| | 2012 RMB'000 | 2011 RMB'000 |
|---|---|---|
| Tay Ah Kong Bernard | 581 | 591 |
| Chee Teck Kwong Patrick | 531 | 540 |
| Tam Chee Kwan Michael | 252 | 278 |
| Total | 1,364 | 1,409 |

(ii) Non-executive Director

The fee paid to a non-executive director, Zhang Zhong, was RMB252,000 (2011: RMB257,000).

## 5 RELATED PARTY TRANSACTIONS (cont'd)

***Compensation of directors and key management personnel*** (cont'd)

(iii) Executive Directors

The benefits paid to executive directors were as follows:

| | Salaries, allowances and benefits in kind RMB'000 | Performance related bonuses RMB'000 | Pension contribution scheme RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **2012** | | | | |
| Cui Genxiang | 606 | - | - | 606 |
| Xu Guoqiang [#2] | 1,032 | 202 | - | 1,234 |
| Total | 1,638 | 202 | - | 1,840 |
| **2011** | | | | |
| Cui Genxiang | 617 | 255 | - | 872 |
| Song Haiyan[#1] | 862 | 847 | 34 | 1,743 |
| Xu Guoqiang[#2] | 6 | 19 | - | 25 |
| Total | 1,485 | 1,121 | 34 | 2,640 |

[#1] *Resigned on 20 December 2011*

[#2] *Appointed on 20 December 2011*

There were no arrangements under which any directors waived or agreed to waive any remuneration for the financial year ended 31 December 2012 and 2011.

No remuneration was paid by the Group to any directors as an inducement for join or upon join the Group or as compensation for loss of office.

## 6 CASH AND BANK BALANCES/PLEDGED BANK DEPOSITS

| | Group | | Company | |
|---|---|---|---|---|
| | 2012 RMB'000 | 2011 RMB'000 | 2012 RMB'000 | 2011 RMB'000 |
| Cash at bank | 253,048 | 293,751 | 22,557 | 33,688 |
| Fixed deposits | 12,805 | 29,959 | 306 | 29,397 |
| Cash and bank balances | 265,853 | 323,710 | 22,863 | 63,085 |
| Pledged bank deposits | 20,170 | 52,883 | - | - |
| Total | 286,023 | 376,593 | 22,863 | 63,085 |

Bank deposits are pledged in relation to:

| | | | | |
|---|---|---|---|---|
| Notes payables (Note 16) | 4,697 | 23,074 | - | - |
| Other banking facilities | 15,473 | 29,809 | - | - |
| Total pledged bank deposits | 20,170 | 52,883 | - | - |

Certain of the pledged bank deposits bear interest at an average effective interest rates at 2.996% (2011: 2.884%) per annum and for a tenure of approximately 3 months (2011: 3 months).

The Group's and the Company's fixed deposit bear average effective interest rates ranging from 0.05% to 8.65% (2011: 2.02% to 2.12%) per annum and for a tenure of not more than one year.

# Notes to Financial Statements (cont'd)

31 December 2012

## 6 CASH AND BANK BALANCES/PLEDGED BANK DEPOSITS (cont'd)

The above balances that are not denominated in the functional currencies of the respective entities are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2012 RMB'000 | 2011 RMB'000 | 2012 RMB'000 | 2011 RMB'000 |
| Singapore dollars | 21,911 | 62,130 | 21,911 | 62,130 |
| United States dollars | 1,154 | 29,074 | 927 | 929 |
| Euro dollars | 500 | - | - | - |
| Hong Kong dollars | 25 | 26 | 25 | 26 |

## 7 TRADE RECEIVABLES

| | Group | |
|---|---|---|
| | 2012 RMB'000 | 2011 RMB'000 |
| Outside parties | 581,661 | 666,807 |
| Less: Allowance for doubtful debts | (15,762) | (15,762) |
| Net | 565,899 | 651,045 |
| Notes receivables | 52,453 | 83,551 |
| Total | 618,352 | 734,596 |

The average credit period on sales of goods is 180 days (2011: 180 days) after delivery. The Group has provided fully for certain receivables over 2 years because historical experience is such that receivables are generally not recoverable. Trade receivables between 1 to 2 years are provided for based on estimated irrecoverable amounts from the sale of goods, determined by reference to past default experience.

Before accepting any new customer, the Group assesses the potential customers' credit quality and defines credit limits by customer. Limits and credit quality attributed to customers are reviewed periodically. At 31 December 2012, approximately 86% (2011: 80%) of gross trade receivables were related to China Unicom Group of companies, China Mobile Group of companies and three other major customers of the Group. Approximately 99% (2011: 99%) of trade receivables are attributable to customers in the PRC. There are no other customers who represent more than 5% of the total balance of trade receivables.

Included in the Group's trade receivable balance are debtors with a carrying amount of RMB183,114,000 (2011: RMB144,543,000) which are past due at the reporting date for which the Group has not provided for impairment loss as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances. The aging for trade receivables which are past due and not impaired is between 181 days to 2 years.

The table below is an analysis of trade receivables net of allowance for doubtful debts presented based on the invoice dates, which approximates the respective revenue recognition dates, at the end of the reporting period, is as follows:

| | Group | |
|---|---|---|
| | 2012 RMB'000 | 2011 RMB'000 |
| Ageing of trade receivables which are not impaired: | | |
| 0 to 180 days | 435,238 | 590,053 |
| 181 to 360 days | 148,025 | 131,544 |
| 1 to 2 years | 35,089 | 12,999 |
| Total | 618,352 | 734,596 |

## 7 TRADE RECEIVABLES (cont'd)

In determining the recoverability of a trade receivable the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. Accordingly, the Management believe that there is no further allowance required in excess of the allowance for doubtful debts.

The above balances that are not denominated in the functional currencies of the respective entities are as follows:

| | Group | |
|---|---|---|
| | 2012 RMB'000 | 2011 RMB'000 |
| United States dollars | - | 4,259 |
| Euro dollars | - | 323 |

## 8 OTHER RECEIVABLES AND PREPAYMENTS

| | Group | | Company | |
|---|---|---|---|---|
| | 2012 RMB'000 | 2011 RMB'000 | 2012 RMB'000 | 2011 RMB'000 |
| Advance payment to suppliers | 14,076 | 16,612 | - | - |
| Deposit paid for acquisition of land use rights | 5,760 | 5,760 | - | - |
| Refundable deposits | 4,527 | 4,129 | 150 | 125 |
| Tax recoverables | 1,246 | 3,988 | - | - |
| Advances to staff | 3,733 | 3,164 | - | - |
| Prepayments | 473 | 307 | 4 | 3 |
| Due from subsidiary (Note 12) | - | - | 5,342 | 9,955 |
| Others | 242 | 56 | - | - |
| Total | 30,057 | 34,016 | 5,496 | 10,083 |
| Presentation in Statements of Financial Position: | | | | |
| Current asset | 24,297 | 28,256 | 5,496 | 10,083 |
| Non-current asset | 5,760 | 5,760 | - | - |
| Total | 30,057 | 34,016 | 5,496 | 10,083 |

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

The above balances that are not denominated in the functional currencies of the respective entities are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2012 RMB'000 | 2011 RMB'000 | 2012 RMB'000 | 2011 RMB'000 |
| United States dollars | - | - | 5,342 | 9,955 |
| Singapore dollars | 154 | 128 | 154 | 128 |

# Notes to Financial Statements (cont'd)

31 December 2012

## 9 INVENTORIES

| | Group | |
|---|---|---|
| | **2012** | **2011** |
| | **RMB'000** | **RMB'000** |
| Raw materials | 29,143 | 20,381 |
| Work-in-progress | 12,364 | 7,064 |
| Finished goods | 68,132 | 109,426 |
| | 109,639 | 136,871 |
| Less: Allowance for inventory obsolescence | (1,398) | (960) |
| Net | 108,241 | 135,911 |
| Movement in the above allowance: | | |
| At beginning of year | 960 | 1,027 |
| Charge | 452 | 283 |
| Reversed | (14) | (350) |
| At end of year | 1,398 | 960 |

The cost of inventories recognised as an expense includes RMB452,000 (2011: RMB283,000) in respect of write-down of inventory to a net realisable value, and has been reduced by RMB14,000 (2011: RMB350,000) in respect of the reversal of such write-downs. Previous write-downs were reversed as the inventories were sold above their carrying amounts.

## 10 AVAILABLE-FOR-SALE INVESTMENTS

| | Group | |
|---|---|---|
| | **2012** | **2011** |
| | **RMB'000** | **RMB'000** |
| Non-current asset | | |
| Unquoted equity securities, at fair value | 10,000 | 10,000 |

The unquoted securities relate to an equity investment in a private company in the People's Republic of China. Included in the investment agreement are the following conditions:

(i) The investee company is to attain RMB 10.5 million net profit for the financial year ended 31 December 2012, with deviation allowed up to 30%. Net profit with deviation more than 30% will result in certain shareholders compensating the Group at 10% of the amount of profit not achieved based on its share of investment – in shares of the investee company or in cash; and

(ii) If the shares of the investee company is not publicly traded by 31 December 2015, the Group has the option to sell back the total equity investment of RMB10,000,000 to the owners of the investee company with a 6% annual interest.

For condition (i), Management has assessed and determined that the investee company has met the conditions with no compensation due to the Group.

For condition (ii), it has been determined to be an embedded derivative which is required to be fair valued through profit or loss in accordance with FRS 39. Based on a third party independent valuation as at 31 December 2012,

(i) the fair value of the equity investment is approximately RMB12,100,000; and

(ii) the value of the options have been determined to be an asset with value of approximately RMB2,900,000.

Management is of the opinion that the changes to the fair value of the equity investment of RMB2,100,000 and the fair value of the embedded derivatives of RMB2,900,000 are not material and therefore the unquoted equity securities are recorded at a fair value which approximates the cost of investment.

## 11 LEASEHOLD LAND

| | Group 2012 RMB'000 | Group 2011 RMB'000 |
|---|---|---|
| **Cost** | | |
| At beginning and at end of the year | 24,376 | 24,376 |
| | | |
| **Accumulated amortisation** | | |
| At beginning of the year | 4,355 | 3,795 |
| Amortisation | 560 | 560 |
| At end of the year | 4,915 | 4,355 |
| | | |
| **Carrying amount** | 19,461 | 20,021 |

Presentation in Statements of Financial Position:

| | Group 2012 RMB'000 | Group 2011 RMB'000 |
|---|---|---|
| Current asset | 560 | 560 |
| Non-current asset | 18,901 | 19,461 |
| Total | 19,461 | 20,021 |

The amount represents land use rights located in the mainland People's Republic of China ("PRC") and is amortised on a straight line basis over 42 to 48 years. The amortisation period is in line with the operating period stipulated in the business licence of the subsidiary.

## 12 SUBSIDIARIES

| | Company 2012 RMB'000 | Company 2011 RMB'000 |
|---|---|---|
| Unquoted shares, at cost | 367,385 | 354,793 |
| Due from subsidiary | 25,001 | - |
| Total | 392,386 | 354,793 |

| Name of subsidiary | Place of business and incorporation/ establishment | Principal activities | Effective equity interest and voting power 2012 % | Effective equity interest and voting power 2011 % |
|---|---|---|---|---|
| Jiangsu Hengxin Technology Co., Ltd[1] | People's Republic of China | 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 | 100 | 100 |
| Hengxin Technology (India) Pvt Ltd | India | Marketing and trading of the Group's products to the Indian telecommunication operators | 100 | 100 |

[1] *Wholly owned foreign enterprise (WOFE) registered under PRC law.*

# Notes to Financial Statements (cont'd)

31 December 2012

## 12 SUBSIDIARIES (cont'd)

The PRC subsidiary is audited by Deloitte Touche Tohmatsu Certified Public Accountants LLP, Nanjing Branch for consolidation purposes. The principal place of business of its subsidiary is No. 138, Taodu Road, Dingshu Town, Yixing City, Jiangsu Province, PRC.

The India subsidiary is audited by Deloitte & Touche LLP, Singapore for consolidation purposes. The principal place of business of its subsidiary is in 91B Aggrawal Trade Centre, Plot No.62, Sector 11, CBD Belapur, Navi Mumbai, 400614, India.

During the financial year, the Company transferred a total of RMB31,306,000 (equivalent to US$5,000,000) (2011: RMB32,809,000 (equivalent to US$5,000,000)) to PRC subsidiary of which RMB6,305,000 (2011: Nil) has been capitalised by the PRC subsidiary. The remaining amount of RMB25,001,000 (2011: Nil) is expected to be capitalised after the end of the reporting period. During the financial year, the Company increased its investment in the India subsidiary through the capitalisation of amount receivables from the subsidiary of RMB6,287,000 (equivalent to US$1,000,000) (2011: Nil).

The balances with subsidiaries are unsecured, interest free and repayable on demand unless stated otherwise.

## 13 PROPERTY, PLANT AND EQUIPMENT

| | Building RMB'000 | Plant and machinery RMB'000 | Office equipment RMB'000 | Motor vehicles RMB'000 | Construction-in-progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| **Group** | | | | | | |
| **Cost** | | | | | | |
| At 1 January 2011 | 42,527 | 144,321 | 6,899 | 4,975 | 8,689 | 207,411 |
| Exchange realignment | - | (5) | (26) | (5) | 5 | (31) |
| Additions | 27,929 | 1,139 | 1,073 | 292 | 4,235 | 34,668 |
| Transfers | - | 2,334 | 3,838 | - | (6,172) | - |
| Disposals | - | (3,737) | (130) | (201) | - | (4,068) |
| At 31 December 2011 | 70,456 | 144,052 | 11,654 | 5,061 | 6,757 | 237,980 |
| Exchange realignment | - | (1) | (6) | - | - | (7) |
| Additions | - | 11,423 | 679 | - | 529 | 12,631 |
| Transfers | (2,459) | - | 4,301 | - | (1,842) | - |
| Disposals | - | - | (135) | - | - | (135) |
| At 31 December 2012 | 67,997 | 155,474 | 16,493 | 5,061 | 5,444 | 250,469 |
| **Accumulated depreciation** | | | | | | |
| At 1 January 2011 | 7,670 | 51,705 | 4,065 | 2,993 | - | 66,433 |
| Exchange realignment | - | (3) | (17) | (11) | - | (31) |
| Depreciation | 2,127 | 12,966 | 884 | 635 | - | 16,612 |
| Disposals | - | (2,634) | (117) | (172) | - | (2,923) |
| At 31 December 2011 | 9,797 | 62,034 | 4,815 | 3,445 | - | 80,091 |
| Exchange realignment | - | (1) | (7) | - | - | (8) |
| Depreciation | 2,711 | 13,437 | 1,936 | 466 | - | 18,550 |
| Disposals | - | - | (121) | - | - | (121) |
| At 31 December 2012 | 12,508 | 75,470 | 6,623 | 3,911 | - | 98,512 |
| **Carrying amount** | | | | | | |
| At 31 December 2011 | 60,659 | 82,018 | 6,839 | 1,616 | 6,757 | 157,889 |
| At 31 December 2012 | 55,489 | 80,004 | 9,870 | 1,150 | 5,444 | 151,957 |

## 13 PROPERTY, PLANT AND EQUIPMENT (cont'd)

| | Office equipment RMB'000 |
|---|---|
| **Company** | |
| **Cost** | |
| At 1 January 2011, 31 December 2011 and 31 December 2012 | 29 |
| **Accumulated depreciation** | |
| At 1 January 2011 | 14 |
| Depreciation | 10 |
| At 31 December 2011 | 24 |
| Depreciation | 5 |
| At 31 December 2012 | 29 |
| **Carrying amount** | |
| At 31 December 2011 | 5 |
| At 31 December 2012 | - |

## 14 DEFERRED TAX ASSETS (LIABILITIES)

### (a) Deferred tax asset

The following are the deferred tax assets recognised by the Group and the movements thereon during the current year:

| | Unrealised exchange loss RMB'000 | Allowance for doubtful receivables RMB'000 | Allowance for inventory obsolescence RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **Group** | | | | |
| At 1 January 2011 | - | 2,364 | 154 | 2,518 |
| Credit to profit or loss | - | - | 5 | 5 |
| At 31 December 2011 | - | 2,364 | 159 | 2,523 |
| Credit to profit or loss | 1,045 | - | 50 | 1,095 |
| At 31 December 2012 | 1,045 | 2,364 | 209 | 3,618 |

| | Group 2012 RMB'000 | Group 2011 RMB'000 |
|---|---|---|
| **(b) Deferred tax liabilities** | | |
| At beginning of year | 2,596 | 1,998 |
| Charge to profit or loss | 383 | 598 |
| At end of year | 2,979 | 2,596 |

The deferred tax liabilities relate to undistributed reserves of the PRC subsidiary.

# Notes to Financial Statements (cont'd)

31 December 2012

## 15 SHORT-TERM LOANS

| | Group | |
|---|---|---|
| | 2012 | 2011 |
| | RMB'000 | RMB'000 |
| Bank loan – unsecured (Note a) | 20,000 | 50,000 |
| Bank loan – unsecured (Note b) | - | 30,000 |
| Bank loan – unsecured (Note c) | - | 150,000 |
| Bank loan – unsecured (Note d) | 21,999 | - |
| Total | 41,999 | 230,000 |

**Note:**

(a) As at 31 December 2012, the unsecured bank loan of the Group amounting to RMB20,000,000 (2011: RMB50,000,000) bears fixed interest at 5.60% (2011: 6.71%) per annum.

(b) As at 31 December 2011, the unsecured bank loan of the Group amounting to RMB30,000,000 bears fixed interest at 6.10% per annum. The loan was repaid during the year.

(c) As at 31 December 2011, the unsecured bank loan of the Group amounting to RMB150,000,000 bears fixed interest at 6.56% per annum. The loan was repaid during the year.

(d) As at 31 December 2012, the unsecured bank loan of the Group amounting to RMB21,999,000 (2011: RMBNil) bears fixed interest at 2.74% (2011: Nil) per annum.

At 31 December 2012, the Group had available RMB655,907,000 (2011: RMB1,031,244,000) of unutilised committed borrowing facilities for which all conditions precedent had been met.

The above balances that are not denominated in the functional currencies of the respective entities are as follows:

| | Group | |
|---|---|---|
| | 2012 | 2011 |
| | RMB'000 | RMB'000 |
| United States dollars | 21,999 | - |

## 16 TRADE PAYABLES

| | Group | |
|---|---|---|
| | 2012 | 2011 |
| | RMB'000 | RMB'000 |
| Outside parties | 93,422 | 82,819 |
| Notes payable | 62,871 | 175,670 |
| Total | 156,293 | 258,489 |

The notes payable to banks amounting to approximately RMB62,871,000 (2011: RMB175,670,000) are secured on the Group's bank deposits amounting to RMB4,697,000 (2011: RMB23,074,000).

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:

| | Group | |
|---|---|---|
| | 2012 | 2011 |
| | RMB'000 | RMB'000 |
| Ageing based on invoice date: | | |
| 0 to 90 days | 84,370 | 126,475 |
| 91 to 180 days | 67,931 | 111,687 |
| 181 to 360 days | 2,621 | 19,953 |
| Over 360 days | 1,371 | 374 |
| Total | 156,293 | 258,489 |

## 16 TRADE PAYABLES (cont'd)

The above balances that are not denominated in the functional currency of the respective entities are as follows:

| | Group 2012 RMB'000 | Group 2011 RMB'000 |
|---|---|---|
| United States dollars | 217 | 135 |
| Euro | 37 | - |
| Singapore dollars | - | 38 |

## 17 OTHER PAYABLES

| | Group | | Company | |
|---|---|---|---|---|
| | 2012 RMB'000 | 2011 RMB'000 | 2012 RMB'000 | 2011 RMB'000 |
| Accrued operating expenses | 4,084 | 2,083 | 3,594 | 2,083 |
| Other payables | 14,990 | 26,636 | 69 | 43 |
| Total | 19,074 | 28,719 | 3,663 | 2,126 |

The above balances that are not denominated in the functional currency of the respective entities are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2012 RMB'000 | 2011 RMB'000 | 2012 RMB'000 | 2011 RMB'000 |
| Singapore dollars | 3,663 | 2,126 | 3,663 | 2,126 |

## 18 SHARE CAPITAL

| | Group and Company | | | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| | Number of ordinary shares ('000) | | S$'000 | S$'000 |
| Issued and paid-up: | | | | |
| At beginning and end of year | 388,000 | 388,000 | 58,342 | 58,342 |
| Equivalent to approximately (RMB'000) | | | 295,000 | 295,000 |

Fully paid ordinary shares, which have no par value, carry one vote per share and carry a right to dividends as and when declared by the Company.

## 19 GENERAL RESERVES

| | Group 2012 RMB'000 | Group 2011 RMB'000 |
|---|---|---|
| **Statutory surplus reserve fund:** | | |
| At beginning of year | 122,889 | 104,839 |
| Transfer from accumulated profits | 11,492 | 18,050 |
| At end of year | 134,381 | 122,889 |

# Notes to Financial Statements (cont'd)

31 December 2012

## 20 SPECIAL RESERVE

The special reserve represents the difference between the acquisition cost and carrying amount of net assets of the PRC subsidiary arising from the acquisition of PRC subsidiary in 2004.

## 21 REVENUE

| | Group | |
|---|---|---|
| | **2012** | **2011** |
| | **RMB'000** | **RMB'000** |
| Sales of goods: | | |
| Radio frequency coaxial cables | 875,414 | 1,194,923 |
| Telecommunication equipment and accessories | 252,675 | 224,404 |
| Others | 6,254 | - |
| Total | 1,134,343 | 1,419,327 |

## 22 OTHER OPERATING INCOME

| | Group | |
|---|---|---|
| | **2012** | **2011** |
| | **RMB'000** | **RMB'000** |
| Interest income | 4,640 | 3,590 |
| Compensation claims received | 565 | 1,086 |
| Forfeiture of a customer deposit | - | 988 |
| Foreign exchange gains | 2,292 | - |
| Government grants | 4,411 | 994 |
| Government grants – Jobs credit scheme | - | 26 |
| Gain on disposal of available-for-sale investments | 178 | 690 |
| Others | 49 | 31 |
| Total | 12,135 | 7,405 |

## 23 OTHER OPERATING EXPENSES

| | Group | |
|---|---|---|
| | **2012** | **2011** |
| | **RMB'000** | **RMB'000** |
| Research and development expenses | 16,790 | 14,119 |
| Net foreign exchange loss | - | 11,825 |
| Donation | 501 | 500 |
| Loss on disposal of property, plant and equipment | 14 | 702 |
| Others | 131 | 1 |
| Total | 17,436 | 27,147 |

## 24 FINANCE COSTS

| | Group | |
|---|---|---|
| | **2012** | **2011** |
| | **RMB'000** | **RMB'000** |
| Interest expense on bank loans | 20,507 | 13,203 |

## 25 PROFIT BEFORE INCOME TAX

This is determined after charging (crediting) the following:

| | Group | |
|---|---|---|
| | 2012 RMB'000 | 2011 RMB'000 |
| Allowance (Reversal) for inventory obsolescence | 438 | (67) |
| Amortisation of leasehold land | 560 | 560 |
| Audit and related service fees paid: | | |
| - to the auditors of the Company | 515 | 425 |
| - to the other auditors | 903 | 842 |
| Cost of inventories recognised as an expense | 925,514 | 1,157,291 |
| Cost of defined contribution plans | 3,069 | 3,834 |
| Depreciation of property, plant and equipment | 18,550 | 16,612 |
| Directors' remuneration | | |
| - directors of Company | 1,840 | 2,640 |
| - directors of the subsidiaries | 381 | 1,176 |
| Directors' fees - directors of the Company | 1,616 | 1,666 |
| Employee benefits expense | 47,739 | 47,174 |
| Net foreign exchange (gains) losses | (2,292) | 11,825 |
| Loss on disposal of property, plant and equipment | 13 | 702 |
| Non-audit fees paid: | | |
| - to auditors of the Company | 100 | 82 |
| - to the other auditors | 398 | 168 |
| Gain on disposal of available-for-sale investment | (178) | (690) |
| Research and development expenses* | 16,790 | 14,119 |

* *included in other operating expenses*

Pursuant to the relevant regulations of the PRC government, the PRC subsidiary has participated in central pension schemes ("the Schemes") operated by local municipal government whereby the subsidiary 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 the subsidiary. The only obligation of the subsidiary 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.

As at 31 December 2012, the contributions due in respect of the year that had not been paid over to the schemes were approximately RMB363,000 (2011: RMB388,000). The amounts were paid subsequent to the end of the reporting period.

**Five employees who received the highest remuneration**

Five employees who received the highest remuneration in the Group for the year included 1 director (2011: 2 directors). Details of the remuneration paid to the director are set out in Note 5 to the financial statements.

Details of the remuneration paid to the 4 non-director employees (2011: 3) who received the highest remuneration in the Group for the year were as follows:

| | 2012 RMB'000 | 2011 RMB'000 |
|---|---|---|
| Salaries, allowances and benefits in kind | 1,751 | 1,420 |
| Performance related bonuses | 773 | 1,724 |
| Pension scheme contributions | 71 | 52 |
| Total | 2,595 | 3,196 |

*Note: One of the non-director employees was appointed as a Director of the Company on 20 December 2011.*

# Notes to Financial Statements (cont'd)

31 December 2012

## 25 PROFIT BEFORE INCOME TAX (cont'd)

No amount is paid to any of the five highest paid employees (including the director) during the year as an inducement to join or upon joining the Company.

The number of non-director employees whose remuneration fell within the following bands were as follows:

| | Number of employees 2012 | 2011 |
|---|---|---|
| RMB1,500,001 to RMB2,000,000 | - | 1 |
| RMB1,000,001 to RMB1,500,000 | 1 | - |
| RMB Nil to RMB1,000,000 | 3 | 2 |
| Total | 4 | 3 |

## 26 INCOME TAX

| | Group | |
|---|---|---|
| | 2012 RMB'000 | 2011 RMB'000 |
| Current | 14,256 | 22,589 |
| Underprovision of current tax in prior years | 323 | 97 |
| Deferred tax (credit) expense (Note 14) | (712) | 593 |
| Net | 13,867 | 23,279 |

The reconciliation of the tax expense and the product of profit before income tax multiplied by the statutory tax rate are as follows:

| | Group | |
|---|---|---|
| | 2012 RMB'000 | 2011 RMB'000 |
| Profit before income tax | 81,145 | 125,528 |
| Tax at PRC statutory tax rate of 25% | 20,286 | 31,382 |
| Tax effect of expenses not deductible | 4,739 | 8,089 |
| Effect of PRC Enterprise Income Tax exemption and concessions | (11,481) | (16,289) |
| Underprovision of current tax in prior years | 323 | 97 |
| Effective tax expense | 13,867 | 23,279 |

**The Company**

The Company has no taxable income during the financial year ended 31 December 2012 and 2011. The statutory income tax rate applicable to the Company is 17.0% (2011: 17.0%).

**Jiangsu Hengxin Technology Co., Ltd**

The subsidiary, a wholly foreign-owned enterprise ("WFOE"), established in the city of the coastal open economic zone, and is subjected to a PRC corporate tax rate of 25%. In 2008, the subsidiary has been given the High-Tech Enterprise Award status and the applicable effective tax rate will be 15% based on PRC Enterprise Income Tax laws and for the three financial years starting from 31 December 2008. In 2011, the subsidiary renewed the status to enjoy a further three financial years starting from 31 December 2011.

The effective tax rate for the subsidiary is 15.0% (2011: 15.0%).

**Hengxin Technology (India) Pvt Ltd**

The subsidiary is subjected to a statutory tax rate of 30.9% for taxable income below INR 10 million and 32.4% for taxable income above INR 10 million.

## 27 EARNINGS PER SHARE

The calculations of earnings per share are based on the profits and numbers of shares shown below.

| | Group | |
|---|---|---|
| | 2012<br>RMB'000 | 2011<br>RMB'000 |
| Profit attributable to shareholders of the Company (RMB'000) | 67,278 | 102,249 |
| Weighted average number of shares ('000) | 388,000 | 388,000 |
| Earnings per share (RMB cents) – Basic | 17.3 | 26.4 |

In the current financial year, as there are no dilutive potential ordinary shares issued and/or granted, the fully diluted earnings per share is the same as the basic earnings per share.

## 28 DIVIDENDS

For the financial year ended 31 December 2011, a final tax-exempt dividend of S$0.0077 per ordinary share totalling S$2,988,000 (equivalent to RMB15,694,000) was paid to shareholders in respect of the financial year ended 31 December 2010. No dividend has been paid or proposed for the current financial year.

## 29 OPERATING LEASE ARRANGEMENTS

| | Group | |
|---|---|---|
| | 2012<br>RMB'000 | 2011<br>RMB'000 |
| Minimum lease payments under operating leases recognised as an expense in the year | 975 | 1,190 |

At the end of the reporting period, the Group and Company have outstanding commitments under non-cancellable operating leases, which fall due as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2012<br>RMB'000 | 2011<br>RMB'000 | 2012<br>RMB'000 | 2011<br>RMB'000 |
| Within one year | 961 | 680 | 600 | 521 |
| In the second to fifth years inclusive | 1,177 | 174 | 835 | 174 |
| Total | 2,138 | 854 | 1,435 | 695 |

Operating lease payments represent rentals payable by the Group and Company for certain of its office and workshop properties. Leases are negotiated for an average of 1 to 3 years (2011: 1 to 3 years).

## 30 SEGMENT INFORMATION

The Group determines its operating segments based on internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance.

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

# Notes to Financial Statements (cont'd)

31 December 2012

## 30 SEGMENT INFORMATION (cont'd)

For management purposes, the Group is organised into three core product lines, radio frequency coaxial cables, telecommunication equipment and accessories and others. These products are the basis on which the Group reports its primary segment information.

The accounting policies of the operating segments are the same as the Group's accounting policies describe in Note 2 to the financial statements. Segment results represent the profits earned by each segment without allocation of central administration costs, independent directors' fees, interest income, foreign exchange gains and losses and finance costs at corporate level.

Segment information about the Group's operating segments are presented below:

| | Radio frequency coaxial cables RMB'000 | Telecommunication equipment and accessories RMB'000 | Others RMB'000 | Unallocated RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **Segment revenues and results** | | | | | |
| **2012** | | | | | |
| **Revenue** | 875,414 | 252,675 | 6,254 | - | 1,134,343 |
| **Segment results** | | | | | |
| Segment profit | 76,217 | 22,001 | 1,375 | (9,430) | 90,163 |
| Interest income | 3,214 | 754 | - | 672 | 4,640 |
| Other income | | | - | - | 7,495 |
| Other expenses* | | | | | (646) |
| Finance costs | (16,037) | (4,470) | | | (20,507) |
| Profit before income tax | | | | | 81,145 |
| Income tax | | | | | (13,867) |
| Profit for the year | | | | | 67,278 |
| **2011** | | | | | |
| **Revenue** | 1,194,923 | 224,404 | - | - | 1,419,327 |
| **Segment results** | | | | | |
| Segment profit | 130,632 | 24,677 | - | (10,955) | 144,354 |
| Interest income | 2,954 | 554 | - | 82 | 3,590 |
| Other income | | | | | 3,815 |
| Other expenses* | | | | | (13,028) |
| Finance costs | (11,117) | (2,086) | - | - | (13,203) |
| Profit before income tax | | | | | 125,528 |
| Income tax | | | | | (23,279) |
| Profit for the year | | | | | 102,249 |

* *excluding research and development expenses*

## 30 SEGMENT INFORMATION (cont'd)

Segment assets represent cash and bank balances, trade receivables, other receivables and prepayment, inventories, available-for-sale investments, leasehold land, property, plant and equipment, and deferred tax assets, which are attributable to each operating segments. Segment liabilities represent short-term loans, trade payables, other payables, income tax payable, and deferred tax liabilities, which are attributable to each operating segments.

| | Radio frequency coaxial cables RMB'000 | Telecommunication equipment and accessories RMB'000 | Others RMB'000 | Unallocated RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **Segment of Net Assets** | | | | | |
| **2012** | | | | | |
| **Assets:** | | | | | |
| Segment assets | 925,282 | 267,092 | 12,318 | - | 1,204,692 |
| Unallocated assets | | | | 23,017 | 23,017 |
| Total assets | | | | | 1,227,709 |
| **Liabilities:** | | | | | |
| Segment liabilities | 167,294 | 48,291 | 3,013 | - | 218,598 |
| Unallocated liabilities | | | | 3,663 | 3,663 |
| Total liabilities | | | | | 222,261 |
| **2011** | | | | | |
| **Assets:** | | | | | |
| Segment assets | 1,174,067 | 220,327 | 3,982 | - | 1,398,376 |
| Unallocated assets | | | | 73,173 | 73,173 |
| Total assets | | | | | 1,471,549 |
| **Liabilities:** | | | | | |
| Segment liabilities | 447,043 | 83,406 | - | - | 530,449 |
| Unallocated liabilities | | | | 2,126 | 2,126 |
| Total liabilities | | | | | 532,575 |

Unallocated corporate assets mainly represent cash and bank balances, other receivables and prepayment and property, plant and equipment at corporate level.

Unallocated corporate liabilities represent other payable at corporate level.

| | Radio frequency coaxial cables RMB'000 | Telecommunication equipment and accessories RMB'000 | Others RMB'000 | Unallocated RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **Other segment information** | | | | | |
| **2012** | | | | | |
| Capital expenditure | 2,552 | 740 | 9,339 | - | 12,631 |
| Depreciation expense | 13,601 | 3,941 | 1,003 | 5 | 18,550 |
| Amortisation of leasehold land | 434 | 126 | - | - | 560 |
| Inventory obsolescence allowance | 340 | 98 | - | - | 438 |

# Notes to Financial Statements (cont'd)

31 December 2012

## 30 SEGMENT INFORMATION (cont'd)

| | Radio frequency coaxial cables RMB'000 | Telecommunication equipment and accessories RMB'000 | Others RMB'000 | Unallocated RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **Other segment information (cont'd)** | | | | | |
| **2011** | | | | | |
| Capital expenditure | 26,300 | 4,935 | 3,433 | - | 34,668 |
| Depreciation expense | 13,980 | 2,623 | - | 9 | 16,612 |
| Amortisation of leasehold land | 472 | 88 | - | - | 560 |
| Inventory obsolescence allowance | (53) | (14) | - | - | (67) |

***Geographical segment***

The geographical regions of the customers of the Group principally comprise the People Republic of China, India and others.

The Group's revenue from external customers and information about its non-current segment assets by geographical location are detailed below:

| | Revenue from external customer | | Non-current assets* | |
|---|---|---|---|---|
| | 2012 RMB'000 | 2011 RMB'000 | 2012 RMB'000 | 2011 RMB'000 |
| People's Republic of China | 1,050,741 | 1,287,874 | 176,612 | 183,065 |
| India | 57,482 | 121,795 | 6 | 45 |
| Others | 26,120 | 9,658 | - | - |
| Total | 1,134,343 | 1,419,327 | 176,618 | 183,110 |

* *excluding available-for-sale investment and deferred tax assets*

***Information about major customers***

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

| | 2012 RMB'000 | 2011 RMB'000 |
|---|---|---|
| Customer A[1] | 320,660 | 448,438 |
| Customer B[1] | 285,958 | 210,512 |
| Customer C[1] | 180,936 | 209,055 |
| Customer D[1, 2] | - | 114,953 |
| Total | 787,553 | 982,958 |

[1] *Revenue from radio frequency coaxial cables.*

[2] *Revenue from Customer D is less than 10% of the Group's revenue in 2012.*

## 31 COMMITMENTS

| | Group | | Company | |
|---|---|---|---|---|
| | 2012<br>RMB'000 | 2011<br>RMB'000 | 2012<br>RMB'000 | 2011<br>RMB'000 |
| Contracted but not provided for: | | | | |
| Property, plant and equipment | 1,120 | 6,258 | - | - |
| Donation commitment | 7,000 | 7,500 | - | - |
| Total | 8,120 | 13,758 | - | - |

Included in building in Note 13 to the financial statements was approximately RMB27,800,000 (2011: RMB31,600,000) 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. At the end of the reporting period, the management remains committed to secure the No. 5 Land.

The PRC subsidiary has committed to donate RMB500,000 per annum from 2007, for a period of 20 years, to a charitable organisation in the PRC.

## 32 EVENT AFTER THE END OF THE REPORTING PERIOD

Subsequent to the end of the reporting period, the amount due from a subsidiary of RMB25,001,000 (2011 : RMB Nil) to the Company was capitalised by the PRC subsidiary on 4 January 2013.

## 33 RECONCILIATION BETWEEN SFRSs AND INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

For the year ended 31 December 2012 and 2011, there were no material differences between the consolidated financial statements of the Group prepared under SFRSs and IFRSs.

# Statistics of Shareholdings

As at 1 March 2013

| | | |
|---|---|---|
| Class of shares | : | Ordinary shares |
| No. of shares (excluding treasury shares) | : | 388,000,000 |
| Voting rights | : | One vote per share |

As at 1 March 2013, the Company did not hold any treasury shares.

## DISTRIBUTION OF SHAREHOLDINGS

| Size of Shareholdings | No. of Shareholders | % | No. of Shares | % |
|---|---|---|---|---|
| 1 – 999 | 5 | 0.38 | 1,033 | 0.00 |
| 1,000 – 10,000 | 549 | 41.65 | 3,728,000 | 0.96 |
| 10,001 – 1,000,000 | 753 | 57.13 | 44,222,780 | 11.40 |
| 1,000,001 and above | 11 | 0.84 | 340,048,187 | 87.64 |
| **Total** | 1,318 | 100.00 | 388,000,000 | 100.00 |

## TWENTY LARGEST SHAREHOLDERS

| | Name | No. of Shares | % |
|---|---|---|---|
| 1 | HKSCC NOMINEES LIMITED | 283,111,187 | 72.97 |
| 2 | CITIBANK NOMINEES SINGAPORE PTE LTD | 35,483,000 | 9.15 |
| 3 | CHUA BENG CHENG | 6,955,000 | 1.79 |
| 4 | OCBC SECURITIES PRIVATE LTD | 3,231,000 | 0.83 |
| 5 | UOB KAY HIAN PTE LTD | 2,258,000 | 0.58 |
| 6 | SOH BENG HUAT | 1,828,000 | 0.47 |
| 7 | DBS VICKERS SECURITIES (S) PTE LTD | 1,672,000 | 0.43 |
| 8 | DBS NOMINEES PTE LTD | 1,512,000 | 0.39 |
| 9 | DB NOMINEES (S) PTE LTD | 1,488,000 | 0.38 |
| 10 | CIMB SECURITIES (SINGAPORE) PTE LTD | 1,449,000 | 0.37 |
| 11 | MAYBANK NOMINEES (S) PTE LTD | 1,061,000 | 0.27 |
| 12 | HENG TOCK HIN | 880,000 | 0.23 |
| 13 | UNITED OVERSEAS BANK NOMINEES PTE LTD | 732,000 | 0.19 |
| 14 | CHIANG LIEW CHIN | 700,000 | 0.18 |
| 15 | SOH ENG TAI | 693,000 | 0.18 |
| 16 | OCBC NOMINEES SINGAPORE PTE LTD | 653,000 | 0.17 |
| 17 | NG SOK MENG EVELYN | 639,000 | 0.16 |
| 18 | XU JIN | 590,000 | 0.15 |
| 19 | LEE WOAN CHIOU | 500,000 | 0.13 |
| 20 | TSIANG SHU FANG @ CHIANG SHIH FANG | 500,000 | 0.13 |
| | **TOTAL** | 345,935,187 | 89.15 |

## SUBSTANTIAL SHAREHOLDERS AS AT 1 MARCH 2013

(As recorded in the Register of Substantial Shareholders)

| | Direct Interest | % | Deemed Interest | % |
|---|---|---|---|---|
| Kingever Enterprises Limited | 90,294,662 | 23.27 | - | - |
| Wellahead Holdings Limited | 28,082,525 | 7.24 | - | - |
| Cui Genxiang | - | - | 90,294,662[1] | 23.27 |
| Zhang Zhong | - | - | 28,082,525[2] | 7.24 |

***Notes:***

*(1) Cui Genxiang is deemed to be interested in the shares held by Kingever Enterprises Limited by virtue of his 100% ownership in Kingever Enterprises Limited.*

*(2) Zhang Zhong is deemed to be interested in the shares held by Wellahead Holdings Limited by virtue of her 100% ownership in Wellahead Holdings Limited.*

## PUBLIC FLOAT

As at 1 March 2013, approximately 69.49% of the Company's shares are held in the hands of public. Accordingly, the Company has complied with Rule 723 of the Listing Manual of the SGX-ST and Rule 8.08 of the Listing Rules of SEHK.

# Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Hengxin Technology Ltd. ("the Company") will be held at Jurong Country Club, Albizia Room (Level 2), 9 Science Centre Road, Singapore 609078 on Wednesday, 24 April 2013 at 9:00 a.m. for the following purposes:

**AS ORDINARY BUSINESS**

1. To receive and adopt the Directors' Report and the Audited Financial Statements of the Company and the Group for the year ended 31 December 2012 together with the Auditors' Report thereon. **(Resolution 1)**

2. To re-elect the following Directors of the Company retiring pursuant to the Article 89 of the Articles of Association of the Company:

   Mr Cui Genxiang **(Resolution 2)**
   Mr Chee Teck Kwong Patrick **(Resolution 3)**
   ***[See Explanatory Note (i)]***

3. To approve the payment of Directors' fees of S$320,000 for the financial year ending 31 December 2013 (2012: S$320,000). **(Resolution 4)**

4. To re-appoint Messrs Deloitte & Touche LLP as the Auditors of the Company and to authorise the Directors of the Company to fix their remuneration. **(Resolution 5)**

5. To transact any other ordinary business which may be properly transacted at an Annual General Meeting.

**AS SPECIAL BUSINESS**

To consider and if thought fit, to pass the following resolutions as Ordinary Resolutions, with or without any modifications:

6. **Authority to issue shares in the capital of the Company pursuant to Section 161 of the Singapore Companies Act, Cap. 50 and Rule 806 of the Listing Manual of the Singapore Exchange Securities Trading Limited.**

   That pursuant to Section 161 of the Singapore Companies Act, Cap. 50 and Rule 806 of the Listing Manual of the Singapore Exchange Securities Trading Limited, the Directors of the Company be authorised and empowered to:

   (a) (i) issue shares in the Company ("shares") whether by way of rights, bonus or otherwise; and/or

   (ii) make or grant offers, agreements or options (collectively, "Instruments") that might or would require shares to be issued, including but not limited to the creation and issue of (as well as adjustments to) options, warrants, debentures or other instruments convertible into shares, at any time and upon such terms and conditions and for such purposes and to such persons as the Directors of the Company may in their absolute discretion deem fit; and

   (b) (notwithstanding the authority conferred by this Resolution may have ceased to be in force) issue shares in pursuance of any Instrument made or granted by the Directors of the Company while this Resolution was in force,

   (the "Share Issue Mandate")

provided that:

(1) the aggregate number of shares (including shares to be issued in pursuance of the Instruments, made or granted pursuant to this Resolution) and Instruments to be issued pursuant to this Resolution shall not exceed fifty per centum (50%) of the total number of issued shares (excluding treasury shares) in the capital of the Company (as calculated in accordance with sub-paragraph (2) below), of which the aggregate number of shares and Instruments to be issued other than on a pro rata basis to existing shareholders of the Company shall not exceed twenty per centum (20%) of the total number of issued shares (excluding treasury shares) in the capital of the Company (as calculated in accordance with sub-paragraph (2) below);

(2) (subject to such calculation as may be prescribed by the Singapore Exchange Securities Trading Limited) for the purpose of determining the aggregate number of shares and Instruments that may be issued under sub-paragraph (1) above, the percentage of issued shares and Instruments shall be based on the number of issued shares (excluding treasury shares) in the capital of the Company at the time of the passing of this Resolution, after adjusting for:

    (a) new shares arising from the conversion or exercise of the Instruments or any convertible securities;
    (b) new shares arising from exercising share options or vesting of share awards outstanding and subsisting at the time of the passing of this Resolution; and
    (c) any subsequent consolidation or subdivision of shares;

(3) in exercising the Share Issue Mandate conferred by this Resolution, the Company shall comply with the provisions of the Listing Manual of the Singapore Exchange Securities Trading Limited for the time being in force (unless such compliance has been waived by the Singapore Exchange Securities Trading Limited) and the Articles of Association of the Company; and

(4) unless revoked or varied by the Company in a general meeting, the Share Issue Mandate shall continue in force (i) until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is earlier or (ii) in the case of shares to be issued in pursuance of the Instruments, made or granted pursuant to this Resolution, until the issuance of such shares in accordance with the terms of the Instruments, whichever is earlier.
***[See Explanatory Note (ii)]*** **(Resolution 6)**

# Notice of Annual General Meeting (cont'd)

7. **Renewal of Share Purchase Mandate**

   That for the purposes of Sections 76C and 76E of the Singapore Companies Act, Cap. 50, the Directors of the Company be and are hereby authorised to make purchases or otherwise acquire issued shares in the capital of the Company from time to time (whether by way of market purchases or off-market purchases on an equal access scheme) of up to ten per centum (10%) of the total number of issued shares (excluding treasury shares) in the capital of the Company (as ascertained as at the date of Annual General Meeting of the Company) at the price of up to but not exceeding the Maximum Price as defined in paragraph 1.3.4 of the Company's Letter to Shareholders dated 20 March 2013 (the "Letter"), in accordance with the "Authority and Limits of the Share Purchase Mandate" set out in the Letter, and this mandate shall, unless revoked or varied by the Company in general meeting, continue in force until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is earlier.

   ***[See Explanatory Note (iii)]*** **(Resolution 7)**

8. **Authority to issue shares under the Hengxin Share Option Scheme**

   That pursuant to Section 161 of the Singapore Companies Act, Cap. 50, the Directors of the Company be authorised and empowered to offer and grant options ("Options") under the Hengxin Share Option Scheme ("the Scheme") and to allot and issue from time to time such number of shares in the capital of the Company as may be required to be transferred or issued pursuant to the exercise of the Options granted by the Company under the Scheme, whether granted during the subsistence of this authority or otherwise, provided always that the aggregate number of additional ordinary shares to be issued pursuant to the Scheme shall not exceed fifteen per centum (15%) of the total number of issued shares (excluding treasury shares) in the capital of the Company from time to time and that such authority shall, unless revoked or varied by the Company in a general meeting, continue in force until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is earlier.

   ***[See Explanatory Note (iv)]*** **(Resolution 8)**

By Order of the Board

**Shirley Lim Guat Hua**
Company Secretary
Singapore, 20 March 2013

**Explanatory Notes:**

(i) Mr Chee Teck Kwong Patrick will, upon re-election as a Director of the Company, remains as a member of the Audit Committee, Chairman of the Remuneration Committee and Nominating Committee and he will be considered independent.

(ii) The Ordinary Resolution 6 above, if passed, will empower the Directors of the Company from the date of this Meeting until the date of the next Annual General Meeting of the Company, or the date by which the next Annual General Meeting of the Company is required by law to be held or such authority is varied or revoked by the Company in a general meeting, whichever is the earlier, to issue shares, make or grant instruments convertible into shares and to issue shares pursuant to such instruments, up to a number not exceeding, in total, 50% of the total number of issued shares (excluding treasury shares) in the capital of the Company, of which up to 20% may be issued other than on a pro-rata basis to existing shareholders of the Company.

For determining the aggregate number of shares that may be issued, the percentage of issued shares in the capital of the Company will be calculated based on the total number of issued shares (excluding treasury shares) in the capital of the Company at the time this Ordinary Resolution is passed after adjusting for new shares arising from the conversion or exercise of the Instruments or any convertible securities, the exercise of share options or the vesting of share awards outstanding or subsisting at the time when this Ordinary Resolution is passed and any subsequent consolidation or subdivision of shares.

(iii) The Ordinary Resolution 7 above, if passed, will empower the Directors of the Company from the date of the above Meeting until the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is the earlier, to repurchase ordinary shares of the Company by way of market purchases or off-market purchases of up to ten per centum (10%) of the total number of issued shares (excluding treasury shares) in the capital of the Company at the Maximum Price as defined in paragraph 1.3.4 of the Company's Letter. The rationale for, the authority and limitation on, the sources of funds to be used for the purchase or acquisition including the amount of financing and the financial effects of the purchase or acquisition of ordinary shares by the Company pursuant to the Share Purchase Mandate on the audited consolidated financial accounts of the Group for the financial year ended 31 December 2012 are set out in greater detail in the Letter.

(iv) The Ordinary Resolution 8 above, if passed, will empower the Directors of the Company from the date of the above Meeting until the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held or such authority is varied or revoked by the Company in a general meeting, whichever is the earlier, to issue shares in the Company pursuant to the exercise of options granted or to be granted under the Scheme up to a number not exceeding in total (for the entire duration of the Scheme) fifteen per centum (15%) of the issued shares in the capital of the Company from time to time.

**IMPORTANT:** **Notwithstanding the passing of the Ordinary Resolution Nos. 6, 7 and 8, the Company shall from time to time comply with the relevant requirements under the Hong Kong Listing Rules in relation to issuance of securities, repurchase of shares and issuance of shares under share option scheme.**

**Notes:**

1. A Member entitled to attend and vote at the Annual General Meeting (the "Meeting") is entitled to appoint more than one proxy to attend and vote in his/her stead. A proxy need not be a Member of the Company. Where a Member appoints more than one proxy, the Member shall specify the proportion of his shares to be represented by each such proxy, failing which the nomination shall be deemed to be alternative.

2. The instrument appointing a proxy must be deposited at the Principal Share Registrar of the Company, Boardroom Corporate & Advisory Services Pte. Ltd. at 50 Raffles Place, Singapore Land Tower #32-01, Singapore 048623 (for Singapore Shareholders), or at the office of the Company's Branch Share Registrar, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong (for Hong Kong Shareholders), not less than forty-eight (48) hours before the time appointed for holding the Meeting.

3. If the member is a corporation, the instrument appointing a proxy must be executed under seal or the hand of its duly authorized officer or attorney.

# Notice of Annual General Meeting (cont'd)

4. A depositor whose name appears in the Depository Register (as defined in Section 130A of the Singapore Companies Act) of the Company and who is unable to attend personally but wishes to appoint a nominee to attend and vote on his behalf, or if such depositor is a corporation, should complete the depositor proxy form under seal or the hand of its duly authorized officer or attorney and lodge the same at the office of the Company's Singapore Principal Share Registrar, Boardroom Corporate & Advisory Services Pte. Ltd. at 50 Raffles Place, Singapore Land Tower #32-01, Singapore 048623, not later than 48 hours before the time appointed for the Meeting.

5. The Principal Share Registrar and Branch Share Registrar of the Company will be closed from 17 April 2013 to 24 April 2013 (both days, inclusive), during which period no transfer of Shares will be effected. In order to qualify for attending the Meeting, all transfers accompanied by the relevant share certificates and transfer forms must be lodged with the Principal Share Registrar of the Company, Boardroom Corporate & Advisory Services Pte. Ltd. at 50 Raffles Place, Singapore Land Tower #32-01, Singapore 048623 (for Singapore Shareholders), or at the office of the Company's Branch Share Registrar, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong (for Hong Kong Shareholders) not later than 4:30 p.m. on 16 April 2013.

Dear Shareholders,

To facilitate your attendance at our Annual General Meeting (AGM) on 24 April 2013, at Jurong Country Club, 9 Science Centre Rd, Singapore 609078 at 9.00 a.m., transport arrangement has been made available for your convenience.

We have chartered a bus to ferry you from the Jurong East MRT Station (proceed to the private bus pick-up point next to Jurong East MRT Station) to our AGM venue.

Please note that the bus will arrive at the above pick-up location at 8.20 a.m. and leave at 8.30 a.m. sharp.

Transport will also be provided back to the Jurong East MRT Station after the end of the meeting.

**Hengxin Technology Ltd.**

HENGXIN TECHNOLOGY
亨鑫科技

Registration No.: 200414927H

10 Anson Road #15-07
International Plaza
Singapore 079903
Tel: (65) 6226 2555 Fax : (65) 6221 9265

No. 138 Taodu Road
Dingshu Town, Yixing City,
Jiangsu Province, The PRC, Postal Code 214 222
Tel: (86) 510 87491482 Fax : (86) 510 87491427

www.hengxin.com.sg