

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT OF HENGXIN TECHNOLOGY LTD.

Hengxin Technology Ltd. (the “Company” and together with its subsidiaries, the “Group” or “we”) recognises the importance of sustainability in creating long-term values for all of our stakeholders. We manage the business with caution and are committed to providing premier products and services for our customers. By keeping close contact with all stakeholders, including shareholders, customers, employees, suppliers, creditors, regulators and the public, we strive to strike a balance of differing views and interests of all parties concerned to allow the Group and the community to achieve a clear and long-term direction.

The Group hereby presents the environmental, social and governance (the “ESG”) report for the period from 1 January 2016 to 31 December 2016 (the “Reporting Period”). This report mainly covers two major operating subsidiaries of the Company, namely, Jiangsu Hengxin Technology Co., Ltd. and Jiangsu Hengxin Wireless Technology Co., Ltd.

The senior management (the “Management”) has confirmed to the board of directors of the Company (the “Board”) the effectiveness of the ESG risk management and internal control systems for the financial year ended 31 December 2016.

ENVIRONMENTAL

The Group is committed to environmental protection by minimising the environmental impact of its business activities. It supports natural and environmental protection programs and has been in strict compliance with environmental laws, regulations and policies of the government. Currently, the Group occupies a total area of approximately 122,827 square metres, among which approximately 18,144 square metres or approximately 14.7% consist of green landscaping. In 2006, the Company was named Jiangsu Province Environmentally Friendly Enterprise by the Environmental Protection Department of Jiangsu Province. Meanwhile, Jiangsu Hengxin Technology Co., Ltd., a major operating subsidiary of the Group, consistently passed the certification of ISO14001:2004 environmental management system since 2007.

Emissions

The Group has set forth strict control regulations in relation to, amongst others, operating equipment in workshops, vehicle exhaust, operations of outsourcing units in the Company, regular clearing of other wastes. For example, the Group has entered into the *Transportation Agreement* with its transportation suppliers and has promulgated the *Solid Waste Control Procedures* and the *Pollutant Emission Control Procedures* internally to monitor and regulate pollutant emissions and waste disposal. For instance, all vehicles of the Group must use unleaded gasoline. Filters are installed in waste water discharge ports to reduce sewage discharge; the canteens use non-phosphorus detergents and grease trap, fume purification and other equipments have been installed, while a qualified third party is commissioned to clean up the equipment regularly; refrigerators, freezers and central air conditioners all employ fluorine-free equipment. All these control measures are implemented throughout the manufacturing plant. At the same time, the Group has also installed special purification equipment to treat domestic sewage and exhaust gas discharged by high-temperature workshops.

In addition, the Group commissions relevant municipal environmental protection departments and Jiangsu Levei Testing Co., Ltd. to monitor the factory premises and its surrounding environment each year.

The following table lists out the gases and waste discharged by the Group during the Reporting Period:

Emission Type	Emissions	Volume Per Production Unit (Tons)			
		Volume (tons)	RF Cable (per km)	Accessories (per unit)	Others (per unit)
Gas emissions	Isoparaffin	11.54	N/A	N/A	0.9 kg
	Alcohol compounds	8.98	N/A	N/A	0.7 kg
Hazardous waste	Waste oil	0.14	0.001 kg	N/A	N/A
Non-hazardous waste	Waste oil rags	0.22	0.0016 kg	N/A	N/A
	Ribbon	0.002	N/A	0.00001 kg	N/A
	Waste solvent box	2	0.014 kg	N/A	N/A
	Toner cartridges	0.014	0.0001 kg	N/A	N/A
	Scrap copper (bronze, brass), scrap aluminium, and waste plastic	0.8	N/A	0.004 kg	N/A
	Waste plastic film, waste cartons, and waste paper	80.96	0.5724 kg	N/A	N/A
	Waste wooden frame	60	0.4243 kg	N/A	N/A
	Waste sawdust, and waste wood blocks	20.4	0.1443 kg	N/A	N/A
	Household waste	73	0.5162 kg	N/A	N/A

The following table lists out the measures adopted by the Group to reduce gas emissions and results achieved during the Reporting Period:

Emission Type	Emissions	Reduction Measures	Achievements
Gas emissions	Isoparaffin	1. To improve the extrusion process and to reduce the consumption of isoparaffin.	The actual consumption of isoparaffin decreased from 1 kg/km to 0.9 kg/km.
		2. Upon installation of the exhaust gas treatment device, it condenses the gaseous isoparaffin into liquid through water cooling. The liquid material is given to third parties for recycling.	No gaseous isoparaffin was discharged into the atmosphere.
	Alcohol compounds	1. To improve the sealing of the solvent tank and to reduce volatilisation.	The actual consumption of alcohol compounds decreased from 0.8 kg/km to 0.7 kg/km.
		2. To enhance the process of drying for immersed cables to reduce actual consumption.	

The following table sets out the Group's methods of treating hazardous and non-hazardous wastes, measures of reducing waste generation, and results achieved during the Reporting Period:

Emission Type	Emissions	Treatment Methods	Reduction Measures	Achievements
Hazardous waste	Waste oil	Hand over to qualified third parties for centralised disposal.	Dry paint is used to replace cooling oil for machine tools, and used materials are recycled.	Consumption decreased by approximately 10%.
Non-hazardous waste	Waste oil rags	Hand over to local third-party sanitation service companies for disposal.	Reduce gas and liquid leakage.	Consumption decreased by approximately 15%.
	Ribbon Waste solvent box Toner cartridges	Sort out and recycle by category under ledgers, and hand over to qualified solid waste treatment companies for disposal and recycling.	<ol style="list-style-type: none"> On top of existing ribbons, two small ribbons are added specifically for label printing to reduce the usage of ribbons and cartridges. The templates are unified for printing labels of connectors, arresters and jumpers to reduce the usage of ribbons and cartridges. 	Consumption decreased by approximately 8%, saving around RMB27,000.
	Scrap copper (bronze, brass), scrap aluminium, and waste plastic	Hand over to waste recycling personnel for recycling.	Improve the utilisation rate of materials and use hot extrusion pieces for production.	Consumption decreased by approximately 50%.
	Waste plastic film, waste cartons, and waste paper	Hand over to waste recycling personnel for recycling.	N/A	Waste volume decreased.
	Waste wooden frame	Hand over to local farmers for recycling.	N/A	Waste volume decreased.
	Waste sawdust, and waste wood blocks	Hand over to local farmers for recycling.	N/A	Waste volume decreased.
	Household waste	Hand over to local third-party sanitation service companies for disposal.	N/A	Waste volume decreased.

By implementing projects including the change of chassis without stopping in the coaxial workshops and improving the utilisation rate of raw materials, the Group identifies waste items in its production and business processes and then mitigates or eliminates the waste through project-based control. The Group has reduced the number of runs and scrap materials, thereby reducing the amount of waste generated.

To alleviate the environmental pollution caused by solid waste, the Group specifies a storage location for dangerous waste and general waste by category, sorts them out centrally, and then transfers them to a qualified institution for disposal. The treatment methods are as follows.

The on-duty workers place waste oil rags, waste oil, waste solvent boxes, waste chemical containers, and other dangerous waste generated during the production process to the dangerous waste collection location. The Group has entered into the *Dangerous Waste Disposal Agreement* with Yixing Lingxia Solid Waste Treatment Co., Ltd., a qualified institution, which will handle the waste uniformly. At present, the dangerous waste generated by the Group in the course of production includes the following:

1. As at 31 December 2016, the Group recycled approximately 98 tons of waste wood.
2. As at 31 December 2016, the Group disposed approximately 73 tons of household waste.

Category of waste	Type	Storage Location	Treatment Methods
Dangerous waste	Waste batteries, waste fluorescent lamps, waste bulbs, waste oil rags, and waste oil	Dangerous waste collection point	Hand over to qualified third parties for centralised disposal.
	Waste electronic devices		
	Cartridges and ribbons		
	Waste paint barrels and waste spray paint bottles		
	Waste chemical solvent boxes		
	Waste saponification solution		
General waste	Scrap copper (bronze, brass), scrap aluminium, and waste plastics	Scrap warehouse	Hand over to waste recycling personnel for recycling.
	Waste plastic film, waste cartons, and waste paper	Sundry warehouse	Hand over to waste recycling personnel for recycling.
	Waste wooden frames	Sundry warehouse	Hand over to local farmers for recycling.
	Household waste	Sundry warehouse	Hand over to local third-party sanitation service companies for disposal.
	Waste sawdust, and waste wood blocks	Woodworking room	Hand over to local farmers for recycling.

Use of Resources

The Group prescribes specific provisions on the conservation of electricity, raw materials, water resources and paper, educates employees to save resources, and monitors the consumption of energy and resources.

The Company has passed the audit of OHSAS 18000 certification. We effectively monitor and manage the utilisation of and formulate the assessment systems for the utilisation rate of water, electricity and raw materials.

The following table lists out the Group's consumption of resources by category during the Reporting Period:

Category of Resources	Unit	Consumption	Consumption Per Production Unit			Remarks
			RF Cable (per km)	Accessories (per unit)	Antenna (per unit)	
Electricity	kWh	9,950,000	60	20	5	—
Liquefied petroleum gas	Cubic metre	16,920	N/A	N/A	N/A	It is mainly used for canteens of the Group. The average monthly consumption was approximately 1,410 m ³ in 2016, approximately 340 m ³ less than 2015.
Gasoline	Litre	67,200	N/A	N/A	N/A	It is mainly used by administrative and business vehicles of the Group. The average monthly consumption was approximately 5,600 litres in 2016, approximately 59 litres less than 2015.
Water	Ton	41,012	0.29	0.05	0.05	The Group uses water supplied by Yixing Water Group, and there is no issue in the search for suitable sources.
Wood	Ton	7,740	0.156	N/A	N/A	—
Cartons	Ton	1,260	0.001	0.0002	0.005	—
Office paper	Ton	5.45	N/A	N/A	N/A	—
Other packaging materials (such as plastic packaging film)	Ton	138	0.0008	N/A	N/A	—

The following table lists out the efficiency plan for the use of resources and the results achieved during the Reporting Period:

Category of Resources	Efficiency Plans	Achievements
Electricity	Frequency conversion control technology is adopted for production equipment.	Approximately 50% of power can be saved, which is approximately 4 million kWh each year.
	Advanced energy-saving lamps are used for lighting.	Approximately 60% of lighting power can be saved, which is approximately 53,000 kWh each year.
	The frequency conversion split control is adopted for the central air conditioning system of office buildings.	Approximately 40,000 kWh can be saved each year.
	All lights are turned off when there is no one in the workplace.	Approximately 5,000 kWh is saved each year.
	Reasonable use of air conditioners is based on weather conditions.	Approximately 10,000 kWh is saved each year.
Liquefied petroleum gas	Quantity of staff meals are reasonably prepared to reduce the use of liquefied petroleum gas.	Approximately 300 m ³ of liquefied petroleum gas is saved each year.
Gasoline	Staff travels, such as using public transport and shared corporate vehicles, etc., are reasonably arranged.	Approximately 700 litres of gasoline is saved each year.
Water	Industrial water is recycled.	Approximately 1 million tons of water resources is saved each year.
	Factory-wide water conservation is promoted, water-saving signs are posted at all water access points, and regular inspection is conducted to timely repair water leakages.	Approximately 50,000 tons of water resources is saved each year.
Wood and cartons	Packaging is improved through technical means, such as using plywood and wood chip trays to replace solid wood, and hence the use of wood resources and waste is reduced.	Approximately 20 tons of wood is saved each year.
Office paper	To reduce paper printing, electronic reports are delivered and files are shared via the Company's internal email system.	Approximately 100,000 sheets of A4 paper is saved each year.
	Except for official documents, double-sided printing is used for documents circulated within the Company to the extent possible.	
	Paper that has been printed on one side is used to draft documents and make notes and internal memos.	
Food and beverage ingredients	The "Empty Plate Operation" is introduced to encourage employees to reduce food wastage.	Since the introduction of the "Empty Plate Operation" in September 2014, approximately 25 kg of ingredients has been saved each day on average, equivalent to approximately RMB150 per day.

Impacts of operational activities on the environment and natural resources and measures taken by the Group to manage the impacts

The production, operation and services of the Group will have a significant impact on the environment and natural resources. The Group sorts out, collects, stores, moves and handles hazardous substances of raw materials for antennas, cables and other products in accordance with the national and industrial standards, and monitors them in an all-round manner, to effectively avoid damages caused by the products to the environment. The Group has set in place engineering departments and teams to continuously track the sold products, learn about the engineering application of the products, assist in solving various problems that occur during the construction process, and deal with different social concerns in a timely manner.

Environmental protection, health and safety are the starting point for the Group to carry out corporate social responsibility (“CSR”). We strictly abide by the relevant national laws and regulations over the course of various activities, identify potential threats and then take control measures. In addition, the Group regularly publicises its performances in terms of environmental protection, occupational health and safety, and CSR. To continuously improve the efficiency of resource utilisation and value creation, we strengthen the CSR awareness throughout the Company, actively practice energy conservation, and vigorously promote lean management.



“Empty Plate Operation” introduced by the Group.

The Group convenes a cost analysis meeting every month to review and analyse the costs and material consumption of each department and determine if there are any irregularities. We encourage all of our employees to spot potential wastefulness or non-compliance operations, so that we can constantly improve to reduce waste generated by our operations.

EMPLOYMENT

Employees are important assets of the Company. We value loyal and diligent employees, and are committed to providing equal opportunities for all employees without any discrimination against any employee due to their race, gender, age and other factors. We oppose any forms of forced labour and strive to provide a safe and healthy working environment for all employees.

In the event that the Company proposes to terminate the labour contract unilaterally, we make monetary compensations pursuant to the *Labour Law of the People’s Republic of China*, the *Labour Contract Law of the People’s Republic of China*, and *Regulations of Jiangsu Province on Collective Contracts*. In addition, we have promulgated several internal management measures, including *Administrative Rules of Jiangsu Hengxin Technology Co., Ltd. on Recruitment*, *Administrative Rules of Jiangsu Hengxin Technology Co., Ltd. on Remuneration System*, *Administrative Rules of Jiangsu Hengxin Technology Co., Ltd. on the Rating of Post Grades (Levels) and Technical Levels*, *Administrative Rules of Jiangsu Hengxin Technology Co., Ltd. on Attendance*, *Administrative Rules*

of Jiangsu Hengxin Technology Co., Ltd. on Talent Cultivation and Development, Administrative Rules of Jiangsu Hengxin Technology Co., Ltd. on Resignation, and Administrative Rules of Jiangsu Hengxin Technology Co., Ltd. on Welfare, etc. All these internal management measures are intended to clarify administrative matters in relation to terms of recruitment, remuneration, working hours and holidays, other benefits, welfare, and resignation, and offer equal opportunities for talent development.

1. The trade union regularly leads and organises the signing of the *Regulations on the Protection of Female Employees* with female employees, to create a healthy working environment for female employees and guarantee their rights during pregnancy and maternity leave.
2. We actively accept the supervision of the city-wide labour union and labour law supervision program organised by Yixing Trade Union, including inspection of the conclusion and performance of labour contracts and collective contracts, salary payment, implementation of working hours and the rest and leave system, contribution of social security, formulation, revision and enforcement of labour rules and regulations, implementation of labour safety and health management regulations and special protection regulations for female employees, potential labour relation contradictions, resolution of labour disputes, and implementation of the workers' congress system, etc.

Remuneration and Dismissal

1. Remuneration: In order to establish a scientific and reasonable remuneration and welfare system and standardise the Group's remuneration management, we have formulated the *Administrative Rules of Jiangsu Hengxin Technology Co., Ltd. on Remuneration System* and the *Administrative Rules of Jiangsu Hengxin Technology Co., Ltd. on the Rating of Post Grades (Levels) and Technical Levels*, both of which are applicable to all of our employees. Posts of the same nature (posts are divided into six categories including management, marketing, professional, technical, operations, and general affairs) shall adopt the same payroll model while posts of different natures adopt different payroll models. Meanwhile, posts that have similar value requirements are grouped into the same grade, and employees at the same grade are divided into different levels based on their skills, work experience, educational background, etc. New recruits have a basic post grade when joining Jiangsu Hengxin Technology Co., Ltd. and then advance according to its grade (level) and technical level assessment system.
2. Article 39 of the *Labour Contract Law of the People's Republic of China* prescribes six scenarios, under which an employer may terminate the labour contract. Therefore, if an employee violates the prescribed provisions, the company may propose to terminate the labour contract. Pursuant to the provisions of the labour contract entered into with the employee, in the event that the employee engages in any action that constitutes a serious breach of the company's rules and regulations as stipulated in the labour contract, upon discussion of the trade union and workers' congress, the company may propose to terminate the labour contract with the employee.
3. The trade union convenes conferences yearly and signs the *Collective Wage Agreement* with employees thereon, explaining the proposed wage system to be implemented. In addition, the trade union signs the *Regulations on the Protection of Female Employees* with female employees, and properly arranges the post and working hours of female employees based on their physical conditions and their rights entitled under the *Labour Contract Law of the People's Republic of China*.

4. At the beginning of each year, the company seeks opinions of employees on the prevailing *Administrative Rules on Performance Points* and *Administrative Rules on Employee Reward and Punishment*. The trade union organises employee representatives and managers to promote and publicise the proposed relevant systems to be implemented, which will be officially released and enacted upon completion of the publicity period when no objection is raised.

Recruitment

The Group abides by the relevant provisions of the *Labour Law of the People's Republic of China*, the *Employment Promotion Law of the People's Republic of China* and the *Special Collective Contract for the Protection of Enterprise Female Employees* and the principles of “fairness, impartiality, and openness” during recruitment. As part of the recruitment process, the interview team (generally consisting of the head of the human resources department, the direct supervisor, and the head of the department to which the post belongs) evaluates the candidates and reports the recruitment result to the department head and management team for review and approval. The recruitment result will take effect after their review and approval. For female candidates, the Group strictly complies with the *Regulations on the Scope of Prohibited Labour for Female Employees* promulgated by the Ministry of Labour and reasonably arranges their postings. Currently, the majority of female employees work in office, product assembly and auxiliary production departments.

Promotion

As one of the important development strategies of the Group, we strive to “attract, retain, cultivate and utilise talents” and are committed to creating a sound environment for all kinds of talents to stand out and tap their greatest potential. The Group applies the concept of “merit-based appointment” to the employment mechanism and implements a series of employment systems such as the job competition system and the duty performance reporting and assessment system, thus effectively selecting the best employees under the mechanism of “promoting the able, demoting the mediocre, and dismissing the incompetent” and creating a platform for talents to showcase their capabilities.

Working Hours and Holidays

Pursuant to the *Labour Law of the People's Republic of China* and the *Regulations of Jiangsu Province on Salary Payment*, the corporate representatives and the employee representatives conclude the *Company Collective Contract*, *Special Collective Contract on Labour Safety and Health*, *Special Collective Contract on the Protection of Female Employees*, *Special Collective Contract on Wages*, and *Special Collective Contract on Working Hours* through negotiations, clarifying remuneration, working hours, holidays and leaves, social security, welfare and other relevant matters.

Talent Cultivation and Equal Opportunities

In order to enhance the professional skills, management proficiency and comprehensive quality of employees at all levels, the Group has formulated the *Guiding Opinions of Jiangsu Hengxin Technology Co., Ltd. on Talent Cultivation and Development*, *Guiding Opinions on the Cultivation of Backup Officers*, *Technical Talent Cultivation Program*, *Reserve Talent Cultivation Program*, *International Talent Cultivation Program*, and *Administrative Rules of Jiangsu Hengxin Technology Co., Ltd. on Mentorship*, with a view to building systematic projects for employee development. Based on the requirements of each post, we carry out employee training and assessment on a “theoretically should-know”, “practically should-be” and “talent echelon construction” basis. In particular, for college graduates introduced each year, we provide them with equal opportunities and strive to train them into compound talents and put them in roles that can best represent their values.

Based on their performances, fair and standardised interviews, and the selection and assessment mechanism, we select the top-notch talents and allocate them to appropriate posts based on the two-way selection process.

Employee Diversity

Our employees are divided into six categories (management, marketing, professional, technical, operations, and general affairs). The management category consists of managers at the deputy director and above level, and the marketing category includes employees engaged in sales at home and abroad; the professional category is composed of employees from human resources, administrative management, planning management, business management, supply management, production support, job information, and financial management posts, etc, and the technical category covers technical engineers engaging in technical process, production technology, technology research and development, quality engineering, mechanical engineering, and electrical engineering, etc; the operations category consists of frontline production workers, and the general affairs category includes logistics staff and drivers of the company.

We pay attention to talent cultivation through cross-specialisation and focus on the development of four teams (technical, backup, reserve, and overseas talent teams) that are aligned to the future development of the Group. In order to build a diversified talent pool, we have developed the *Guiding Opinions of Jiangsu Hengxin Technology Co., Ltd. on Talent Cultivation and Development* and cultivation programs for the “four teams”, and implement a training system with a focus on job rotation supplemented by agency in duty.

Anti-discrimination

We provide equal employment opportunities and fair job treatments without discrimination, and oppose any form of discrimination in the workplace, regardless of gender, race, marriage, biological, surname, geography, and religious belief, to protect workers’ right of equal opportunities to employment. We have a clear recruitment system, and prohibit any discriminatory terms in the recruitment descriptions or any express or implied discriminatory provisions in the conditions of employment. We eliminate any form of identity discrimination and regard anti-discrimination as part of our social responsibility. In addition, we uphold the principle of equal pay for equal work and ensure that women enjoy the same rights as men in terms of labour remuneration, benefits and welfare.

Other Benefits and Welfare

The Group adopts a scientific and reasonable salary and welfare system and manages staff salary and welfare in a standardised manner. To attract and retain talents and promote the sustainability of the Group, we promulgated the *Administrative Rules of Jiangsu Hengxin Technology Co., Ltd. on Remuneration System*. At the same time, we are particularly concerned about employee benefits and welfare beyond salary and remuneration. In addition to social security, there are also benefits given to employees from time to time, during warm summer days, mid-autumn festival, senior allowances and at the end of the year.

The following table shows the staff headcount of the Group by types of employment, age, and location at the end of the Reporting Period:

Type of Employment	Age group				Total Headcount
	<30	30–39	40–49	≥50	
Long-term	564	267	121	14	966
Temporary	N/A	N/A	N/A	N/A	N/A

Note: The Group had signed labour contracts with all employees and contributes social security in favour of them in accordance with laws and regulations. No temporary employees were hired.

Location	China	Others	Total
Headcount	957	9	966

The following table shows the turnover rate of the Group by age and location during the Reporting Period:

Age group	Number of Turnover		Total
	China	Others	
<30	102	—	102
30–39	23	—	23
40–49	5	—	5
≥50	—	—	0
Total	<u>130</u>	<u>—</u>	<u>130</u>

HEALTH AND SAFETY

Employee Health and Safety

We are committed to a healthy and safe working environment for all employees. The Group passed the OHSAS18001 occupational health and safety system in 2004, and a third-party occupational health verification centre inspects the workshops yearly to ensure the safety and health of employees. Meanwhile, we arrange pre-employment physical checkup for new employees, and arrange occupational health checkup and welfare-based physical checkup for incumbent employees each year. In addition, managers of workshops are also trained with medical emergency skills and each workshop is equipped with a medical kit. Employees engaged in special operations are asked to receive training at the designated training institutions and can engage in the operations only after obtaining the qualification certificate. During the Reporting Period, the Group has promoted a factory-wide safety culture and organised trainings and activities such as transportation safety and the Health and Safety Cup, etc.

During the Reporting Period, the Group had no work-related deaths, records of working day losses due to work-related injuries, or records of violations of employee safety laws and regulations.

DEVELOPMENT AND TRAINING

Employee Development and Training

The Group aims to introduce a healthy atmosphere of cultivating, selecting and using talents, and provides a career development path suitable for personal growth and abilities of each employee. To promote sustainable human resources development, the Group has created a mentor training program and implements dynamic management for reserve talents. In the past few years, there are employees of the Group being elected as Municipal Model Worker and “March 8th” Red-banner Pacesetter each year.

The Group has also set in place an “internal trainer” system and formulated the *Notice on External and Internal Training Arrangement*, to standardise the learning system and lay a solid foundation for standardising training management, encouraging employee growth and delivering shared knowledge. Meanwhile, the Group actively organises a variety of activities including operational skills training, special training, and outreach training, providing skill learning through activities, promoting the overall competence of employees, and strengthening the corporate comprehensive competitiveness of the Group.

The following table lists out the training hours for employees of the Group by job category during the Reporting Period:

Category	Senior Management	Mid-level Management	Junior Level	Professional and					Total
				Technical	Administrative	Marketing	Production	Others	
Headcounts	13	23	40	75	45	138	580	52	966
Training Hours	139	3,119	2,352	5,824	2,541	8,081	17,659	4,656	44,348
Average Training Hours (approx.)	11	148	58	77	59	59	30	89	66
Staff Training Percentage	100%	91%	100%	100%	96%	98%	100%	96%	100%

Labour Standards

Pursuant to provisions of the *Labour Law of the People’s Republic of China*, the *Labour Contract Law of the People’s Republic of China*, the *Regulations of Jiangsu Province on Collective Contracts* and the *Special Collective Contract for the Protection of Enterprise Female Employees*, the Group only hires employees aged 18 full years and above. The *Administrative Rules of Jiangsu Hengxin Technology Co., Ltd. on Recruitment* also expressly prohibit the employment of those that are under 18. This minimum age requirement is specified in the recruitment information of the Group published on all recruitment channels. We also inform the candidates of this requirement during interviews and employment procedures, and double check the identity information of the candidates within the scope as permitted by national laws and regulations.

The *Administrative Rules of Jiangsu Hengxin Technology Co., Ltd. on Attendance* prescribes that all departments of the company shall exercise strict control and review overtime hours. To improve the work efficiency and fully utilise normal working hours, in the event that overtime is unavoidable due to task demands, an overtime application must be submitted and approved in advance.

SUPPLY CHAIN MANAGEMENT

Customer Management

For our major clients (such as the three major telecom operators in China), we participate in their centralised bidding organised by the headquarters every one or two years. The successful bidders are usually rated based on price, technology and overall strength, and then quota allocation of the procurement is based on ranking. The higher the bidder's rank, the more allocation it will receive. Subsequently, we will sign a framework agreement with the headquarters of the telecom operator, and then sign sales orders and contracts and settle accounts with the customer's provincial subsidiaries that are responsible for provincial procurement (based on centralised bidding price and quota).

As for larger institutional customers (such as telecom operators, equipment manufacturers and system integrators), we conduct internal assessments periodically to ensure that the Group can continue to serve as their certified supplier. The scope of supplier certification assessment covers, including but not limited to, factory inspection, sample testing, quality verification, and service quality. To constantly improve our products, our marketing and procurement personnel understand and gain insight into the market and product trends through close contact with customers as well as through bidding and industry information.

Supplier Management

We select suppliers through a bidding process based on a number of factors, such as the ability to maintain stability of quality of products, pricing, on-time delivery, financial conditions, and service levels, etc. We have set in place the supplier entry criteria to select suppliers. The supplier certification and assessment includes their credit background, relevant certificates or permits, production capacity, equipment and product quality, etc. We will conduct on-site inspection over the suppliers that meet the relevant requirements, and test their samples. Only suppliers that pass all these procedures are enlisted as qualified suppliers of the Group.

For the procurement of major bulk materials, we invite bidding from time to time, with the proportion of the procurement through bidding accounting for approximately 95% in total procurement. The Group sets up a bid invitation team consisting of heads of the related departments and the General Manager, which will comprehensively evaluate the proposals of suppliers and determine the successful bidders by considering a variety of factors, including bidding price and product quality, etc. For suppliers that have cooperated with the Group in the past, their delivery punctuality, level of services and other factors are also taken into consideration. In general, if the overall strength of qualified suppliers is equal or similar, the supplier with a lower bidding price will be selected and win the largest share. We assess our suppliers fairly and justly by material categories quarterly, half-yearly or yearly, and the performance assessment results serve as an important basis for subsequent bid invitation and bid evaluation. In addition, we select certain major suppliers by inspecting and auditing their factories based on actual conditions each year, for the purposes of checking and verifying the supply of raw materials and their on-site management and control.

All major suppliers are required to carry out standardised operations in accordance with the requirements of our customers, such as environmental, occupational health and safety and other aspects. Therefore, we also require our suppliers to undertake their CSR and comply with labour laws and other relevant laws and regulations. During bid invitations, the Group requires suppliers to sign the *Supplier Social Responsibility Proposal* to ensure that the relevant corporate policies of the suppliers are aligned with the policies of the Group.

The Group maintains a stable relationship with its suppliers, and has never encountered any significant problems with regard to the supply of raw materials to meet its production needs. In addition, the Group does not rely on any specific supplier to provide raw materials, as other suppliers may provide such raw materials at any time.

PRODUCT LIABILITY

One of the Company's important tasks is to ensure customer satisfaction towards our products and services. We strictly abide by all applicable laws and regulations, uphold integrity, and operate our business according to the law. In addition, all of our employees are required to comply with the Employee Codes of Conduct and the applicable laws and regulations.

Health and Safety

All materials used by the Group meet the requirements under the Restriction of Hazardous Substances Directive, which limit the use of certain hazardous substances in electronic and electrical devices. We also require our raw material suppliers to provide appropriate supporting documents and conduct regular reviews. No customers have lodged any negative feedback about our products due to health and safety reasons.

Remedies

The Group has established a project service department to deal with all kinds of issues reported by customers and responds to customer demands round the clock. A report will be submitted while we will continuously resolve the customer's problem. In the event that a batch of unqualified products is no longer within the control of the Group (such as when the product has been delivered or ownership has been transferred, etc), we will initiate the recall process immediately. In this regard, we have promulgated the *Regulations on Product Recall Control and Management* to control and monitor the product recall process.

Intellectual Property

Intellectual property rights play a very important role in our business. Given that China pays increasing attention to intellectual property rights, the Group actively applies for patents and protects our own intellectual property rights. To drive innovation, we have established a reward system for various innovations and patents based on their level of innovation and the contribution value of the Group, and reward their creators accordingly.

We have been certified as an intellectual property management demonstration unit, and enforces the GB/T29240-2013 *Enterprise Intellectual Property Management* to actively promote intellectual property works of the Group. We have set up an intellectual property management unit consisting of specific employees with appropriate knowledge, skills and experience to deal with matters in relation to product advertising, labeling and privacy. In addition, we have also established a sound working mechanism and a systematic, standardised, and normalised system for intellectual property management, and regularly organise intellectual property education and training in accordance with the regulatory requirements of the *Regulations of Jiangsu Province on Enterprise Intellectual Property Management* to ensure the further standardisation of intellectual property management.

With the standards in place, the Group strives to transform patent technologies into standards and apply them widely, so as to accelerate the conversion of intellectual property rights into productivity and improve the core competitiveness of the Group.

The Group promulgated the *Administrative Rules of Branding, Market Planning and External Publicity Targets* and the *Administrative Rules of Dynamic Information Reporting* as its propaganda policies. In cooperating with professional advertising media and new media, the Group has expanded its scope and depth of publicity, to constantly enhance its overall brand image and boost its visibility and influence in the industry, domestic and overseas markets as well as social areas.

ANTI-CORRUPTION

The Group attaches great importance to doing business in a manner that conforms to ethical standards and complies with all applicable laws and regulations, and prohibits any inappropriate payment of money in exchange for commercial interests. The Group formulated the *Rules of Jiangsu Hengxin Technology Co., Ltd. on Integrity Credit Risk Management* in 2016 to strengthen management and control over the integrity credit risks of employees, suppliers and customers, avoid and mitigate risks of losses incurred by the Group due to the dishonest actions of employees, suppliers or customers, while auditing, verifying, using and managing the integrity credit risk information in an orderly manner. As a result, damages from external integrity credit risks can be prevented. The Group strictly prohibits any form of bribery or other improper payment of money in the course of business operations. These provisions are applicable to all business activities, regardless of whether the person involved is a government official or from the business community. However, such payments should not be confused with reasonable and limited expenditures for gifts, rewards and other legitimate activities directly related to the businesses of the Group. At the same time, the Group has developed anti-bribery and anti-corruption policies in accordance with the *Anti-Unfair Competition Law of the People's Republic of China* and other relevant laws and regulations, which set out the codes of conduct that must be complied with by all employees. Stakeholders may report illegal or potential illegal activities to the Board through the relevant channels established by the Group in a confidential manner.

COMMUNITY INVESTMENT

Community Involvement

The Group has always incorporated social responsibility into its overall development by actively participating in charitable donations, partnerships or mobilising employees to involve in community activities, so as to bring tangible changes to the community. The Group has made donations to assist underprivileged students and supported children in poor areas, and organised voluntary blood donations and other public welfare activities. For example, the Group has committed to donate RMB500,000 to Yixing Charity Committee yearly for 20 years starting from 2007, and regularly donates materials to children of migrant workers and students with financial difficulties. Each year, the Group provides RMB200,000 to Dingshu Secondary School to support poverty-stricken students. The Group also donated RMB46,000 to the Ya'an earthquake-stricken area in 2013 and RMB50,500 to the Funing earthquake-stricken area in 2016. Each year, the trade union of the Group visits the fire department and offers solicitude and engages in other targeted charitable activities such as helping out workers with difficulties and running the “social mother” student assistance program. The Group continues to give back to the community amidst its growth and development.



On 28 January 2016, Mr. Zhu Songlin (the chairman of the trade union) visited Yixing fire-fighting brigade on behalf of the Company, offering our solicitude, strengthening our relationship with fire-fighting officers, and presenting food items to the brigade.



On 28 May 2016, female employees of the Group participated in the “Social Mother” program to express their care for impoverished students in Dingshu Town.



On 1 August 2016, Mr. Di Hai (Deputy Party Secretary) visited Yixing fire-fighting officers on behalf of the Company and presented the officers with beverages, food items and other gifts.



On 28 June 2016, the Company organised the “Hengxin Employees Show Care Amid Ruthless Natural Disasters”, Campaign to mobilise employees to donate to Yancheng and Funing earthquake-stricken areas.

Care for Employees

The Group has carried out a variety of activities to enrich the lifestyle of our employees, enhance their sense of belonging and team cohesion, and form a cultural atmosphere of solidarity and mutual assistance. This can boost employees’ work efficiency while strengthening the core competitiveness of the Group.

Our staff quarters are equipped with sports facilities, reading facilities and other amenities to provide our employees with a comfortable and pleasant living environment.



The Company encourages our employees to participate in various activities for striking a work life balance.



Best Employees of the Month.