CONNECTED FUTURE

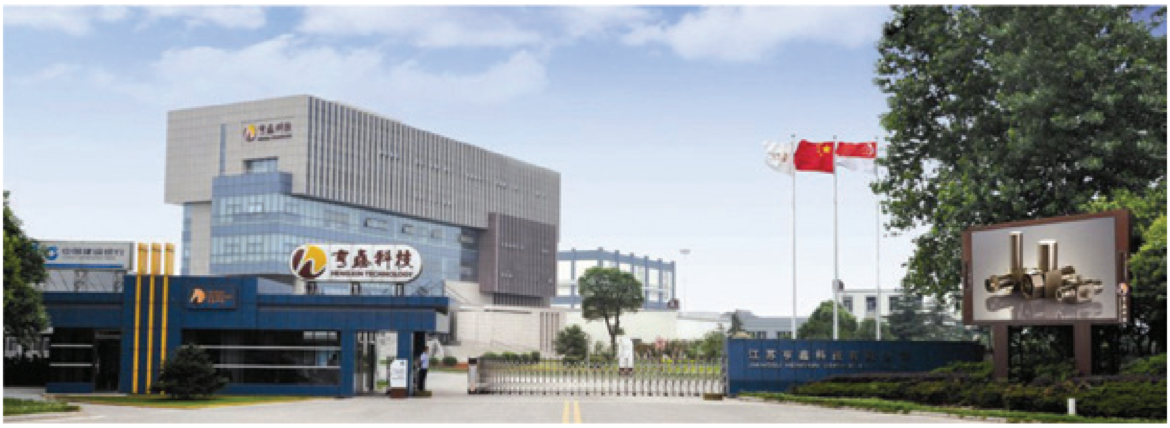
HENGXIN TECHNOLOGY LTD

ANNUAL REPORT 2017

Hong Kong 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 People's Republic of China (the "PRC").

Based in Yixing city in Jiangsu Province in the PRC, the Company now have an aggregate annual production capacity of approximately 168,000 kilometres for RF coaxial cables for mobile communications, 7,860,000 pieces for accessories and 120,000 kilometres for antennas.

The Group 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, as well as major telecommunications equipment manufacturers in the PRC. Outside the PRC, our products are also exported to the international markets within the Asian continent and beyond. We continue to establish our foothold in the local Indian telecommunication operators through our wholly-owned subsidiary in India 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 Company is listed on the Main Board of The Stock Exchange of Hong Kong Limited ("**SEHK**"). The Company has completed the withdrawal from its secondary listing on the Main Board of the Singapore Exchange Securities Trading Limited ("**SGX-ST**") on 5 February 2018.

PRODUCT PORTFOLIO

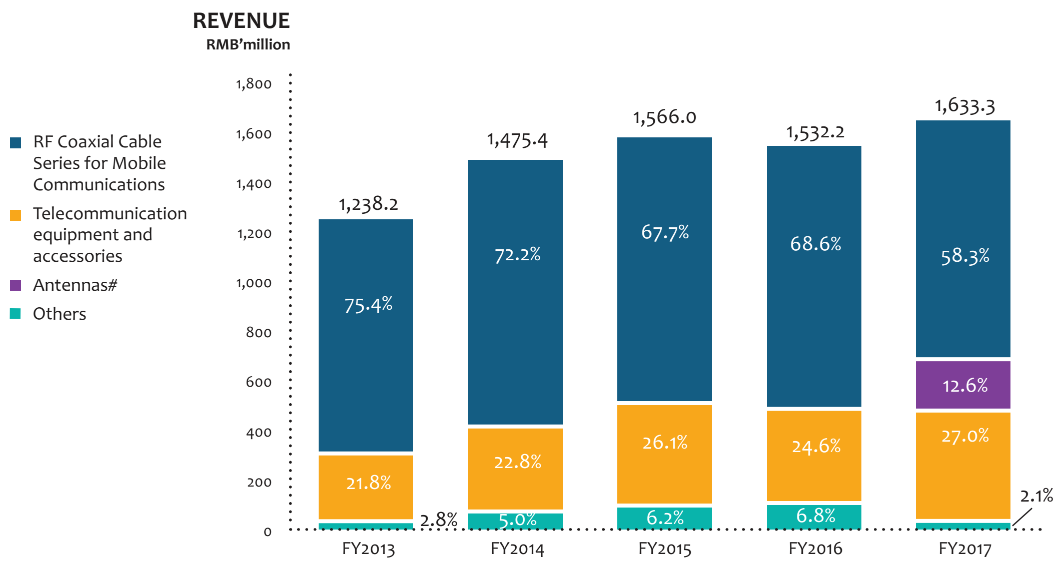
RF coaxial cable series for mobile communications ("**RF Coaxial Cables**")	Telecommunications equipment and accessories ("**Accessories**")	Antennas ("**Antennas**")	Others
• Transmission of high-frequency signals between antenna and base station equipment in outdoor base station wireless signal coverage 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	• Transmission of signals within microwave communications systems, radio broadcast wireless systems and air/sea radar systems • Accessories such as connectors and jumper cables for wireless signal coverage systems equipment within base stations	• Antennas adopted by telecom operators for use in signal transmission for wireless communications	• High temperature resistant cables which are used as part of the raw material components for antennas • Antenna testing services

Five-Year Financial Summary

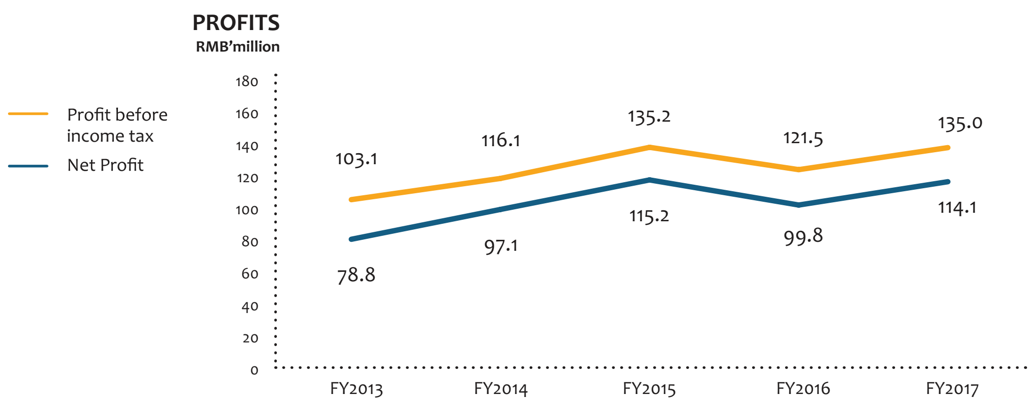
A summary of the consolidated results and assets and liabilities of the Group for the last five financial years, as extracted from the published audited financial statements is set out below.

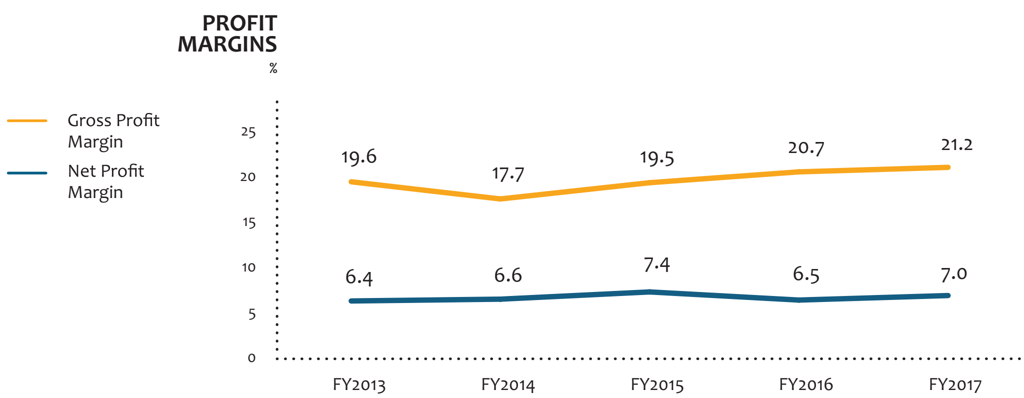
	Year ended 31 December				
	2013	2014	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
RESULTS					
REVENUE	1,238,209	1,475,410	1,565,984	1,532,161	1,633,327
Cost of sales	(996,042)	(1,213,829)	(1,259,965)	(1,215,379)	(1,286,701)
Gross profit	242,167	261,581	306,019	316,782	346,626
Other income	6,624	11,758	20,573	25,798	22,552
Selling and distribution expenses	(67,950)	(74,877)	(87,693)	(108,328)	(101,228)
Administrative expenses	(39,859)	(37,626)	(44,399)	(53,116)	(58,012)
Other operating expenses	(33,628)	(40,083)	(52,328)	(53,262)	(66,698)
Finance costs	(4,241)	(4,657)	(7,001)	(1,479)	(62)
Share of losses of an associate, net of tax	—	—	—	(4,936)	(8,152)
Profit before income tax	103,113	116,096	135,171	121,459	135,026
Income tax expense	(24,306)	(19,009)	(19,993)	(21,617)	(20,969)
NET PROFIT	78,807	97,087	115,178	99,842	114,057
ASSETS AND LIABILITIES					
TOTAL ASSETS	1,433,607	1,555,755	1,565,297	1,627,830	1,731,356
TOTAL LIABILITIES	(349,574)	(382,274)	(277,122)	(231,871)	(250,411)
NET ASSETS	1,084,033	1,173,481	1,288,175	1,395,959	1,480,945

Financial Highlights

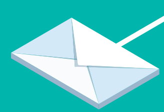


Antennas has been separately classified as a reportable segment for FY2017, as it has met the quantitative threshold for determining reportable segments during FY2017. Before that, revenue relating to Antennas was included in the product category others.





RESEARCH AND DEVELOPMENT



Financial Ratios and Performance

FINANCIAL PERFORMANCE	UNIT	FY2013	FY2014	FY2015	FY2016	FY2017
Revenue	RMB'000	1,238,209	1,475,410	1,565,984	1,532,161	1,633,327
Gross profit margin	%	19.6	17.7	19.5	20.7	21.2
Profit before income tax	RMB'000	103,113	116,096	135,171	121,459	135,026
Income tax expense	RMB'000	24,306	19,009	19,993	21,617	20,969
Net profit	RMB'000	78,807	97,087	115,178	99,842	114,057

FINANCIAL POSITION	UNIT	FY2013	FY2014	FY2015	FY2016	FY2017
Net assets	RMB'000	1,084,033	1,173,481	1,288,175	1,395,959	1,480,945

FINANCIAL RATIOS	NOTE	UNIT	FY2013	FY2014	FY2015	FY2016	FY2017
Earnings per share		RMB	0.203	0.250	0.297	0.257	0.294
Net asset per share as at the end of the year		RMB	2.79	3.02	3.32	3.60	3.82
Return on total equity		%	7.3	8.3	8.9	7.2	7.7
Net debt/equity ratio	a	%	(18.02)	(22.52)	(37.92)	(37.77)	(30.06)
Interest cover ratio	b	times	25.3	25.9	20.3	83.1	2,178.8
Current ratio	c	times	3.7	3.6	5.0	6.1	6.2
Trade receivables turnover		days	193	164	140	128	139
Inventory turnover		days	53	50	39	43	54

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

Four trends continued into 2017 in aspects of the internal and external operating environments of the Company:

1. From a macroeconomic perspective, similar to 2016, China's GDP growth remained at a moderate pace, ranging from 6.5% to 7%. Growth of above-scale industry value-add also continued to hover at a low level;

2. Continuing the trend of the previous year, growth rate in capital investment of fixed assets within China's telecommunications industry, which is closely connected to our Company's principal businesses, decreased slightly;

3. With the structural divergence process in China's telecommunications industry still ongoing, optical communication products experienced a supply shortage, whereas demand for coaxial cables dwindled continuously, with the dominance of optic fibres over copper cables aggravated; and

4. The Company continued to explore the road of product structural optimisation and upgrade, which we embarked on in recent years. Through the unrelenting efforts of our committed staff, the Company relied on its continuous investments in research and development (“**R&D**”) and intimate understanding of customer requirements to ensure competitive technological advantages as well as continued improvement in product quality and exploration of new markets. This also strengthened and expanded the Company's brand influences and boosted up sales revenue, gross profit margin, net profit and other operating indicators in spite of an unfavourable environment.

We have achieved revenue of approximately RMB1,633.3 million and net profit of approximately RMB114.1 million for 2017. It is notable that revenue from RF Coaxial Cables, the principal product of the Company, reached approximately RMB952.6 million, despite a decrease of approximately RMB98.0 million or 9.3% from the preceding year. The corresponding proportion of revenue

Chairman's Message (cont'd)

and gross profit both slightly decreased compared to last year, whereas proportion of revenue and gross profit from the Group's key products crucial to its new business transformation, antennas and leaky cables, both recorded growth. The Group also managed to record an increase in overall gross profit margin from 20.7% of the previous year to approximately 21.2%.

PRODUCTION

1. RF Coaxial Cables remained the principal product of the Company. As the trend of adoption of optic fibres over copper cables continued, the demand of RF Coaxial Cables was sluggish amid intensifying competition. Meanwhile, copper prices witnessed a larger increase in 2017 than last year. The centralised pricing of RF Coaxial Cables offered by the 3 major telecom operators of the PRC and copper price are linked through a mechanism under which an adjustment of the RF Coaxial Cable price would only be triggered upon a certain level of copper price fluctuation. Consequently, the cyclical time lag in price adjustment, compounded with any increase in copper price to the extend not triggering an adjustment of the RF Coaxial Cable price, would create cost pressure to the Group. In response to this, the Group has a team focusing on studying, tracking and forecasting the trend of copper prices, which forms the basis of the newly commenced copper and aluminium hedging business following the approval of the Board of the Company and determines the point of copper procurement. Meanwhile, the Company continued to adhere to an approach of lean production, comprising smart production information system and management, enabling various automation processes such as a centralised material feeding system to save labour costs, reduce energy consumption, improve craftsmanship, protect the environment and boost production efficiency. Through the adoption of new materials and production innovation, the Group has lifted its material utilisation rate and lowered its defect rate.

2. As the main direction of the structural optimisation and industrial upgrade of the Company, the Company endeavoured to speed up the launch of new antenna products:

   A. In response to the critical demand for indoor 4G coverage of telecom operators, the Company launched indoor signal coverage solutions, including ultra-thin indoor ceiling antenna, indoor antenna, ultra-thin wall mount antenna, billboard antenna, etc.;

   B. In response to the emerging demand for the Internet of things (the "**IoT**") from various industries and conditions, the Company launched a mobile NB-IoT solution, which is applicable to plaza, vehicle pavement, high-rising building, residential community, high-speed rail and airport, sports venue, etc.;

Chairman's Message (cont'd)

C. To prepare for the upcoming 5G era, the Company launched smart antenna and 4-port electrically adjustable antenna; and

D. The Company fully utilised its competitive edge in coaxial cable soldering in the research and development for HFC wrinkles brass high temperature cable assembly. For high-end overseas customers, water-proof and peck-proof assembly products and high intermodulation, quick installation assembly products have been launched to achieve differentiation of the Company's products and high-end development.

SALES

Given the intensified market competition with the gradual dominance of optic fibre over copper cables, gross profit margin of RF Coaxial Cables continued to be under intense pressure. In general, the Company recorded significant growth of sales for its telecommunication equipment and accessories, antennas and leaky cables during 2017, except that sales of RF Coaxial Cables was lower when compared to the corresponding period of last year.

As one of the essential pillars for its business transformation, the Company achieved an encouraging result for the leaky cables business in 2017. With the Company's technical advantage of leaky cables and favourable environment for development of rail transit industry, the sales of leaky cables in 2017 increased by approximately 66.6% from last year. Currently, the Company has a large market share for the leaky cables business and ranked top bidder in terms of market share for three consecutive years, basically covering all the rail-link cities in China. In light of continuous development of construction of city rail transit in China, there is higher requirement on reliable coverage of wireless communication signal. With investment in research and development and expansion for the product series of leaky coaxial cables and related auxiliary materials, the Company has maintained the development of leaky cables tailored for traditional rail transit system and police service system while enhancing effort to promote the leaky cables for rail transit communication signals. As such, the Company was the appointed supplier of rail transit communication projects including Shanghai Metro Line 13, Zhengzhou Metro Line 5, Xuzhou Metro Line 2, Chengdu Metro Line 10, Nanning Metro Line 4 and Hangzhou Metro Line 6. In 2017, the Company's tender amount of leaky cables construction project of rail transit signal was approximately RMB39.81 million, representing an increase of 109% compared with the corresponding period of 2016. The antennas business, another crucial pillar for the Company's business transformation, also made remarkable progress by growing sales of approximately 167.7% in 2017. Attributable to the enhanced efforts in marketing of antennas, the Company secured all bidding exercises of major operators and ranked top in terms of tender amount in 800M/2G LTE station antenna project of China Telecom, decorative antenna project of China Telecom, Express Rail Link antenna project of China Mobile, NB-IoT (Single Band) antenna project of China Mobile, NB-IoT (Dual Band) antenna project of China Mobile. The sales of antennas basically cover 30

Chairman's Message (cont'd)

provinces, municipals and autonomous regions across the country. The Company actively participated in provincial antenna bidding exercise and the successful tenders in 2017 included LTE800M re-farming project of Chongqing Telecom 2017, indoor and community building of shot-light decorative antennas project of Guangdong Mobile 2017, tender project of broad band multiport/six-port antenna products for mobile station of China Unicom Tianjin Branch 2017, and special antenna project of China Mobile Jilin Branch 2017–2018.

High temperature resistant products, which are the planned products for the year, have also been growing and evolving, from sales of a single cable variant to a high temperature cable and high temperature resistant cable component module and test modules. Sales customers mainly targeted antenna companies, equipment manufacturers and various instruments companies. In 2017, we managed to establish business relationships with a number of antenna and equipment companies in the PRC for the mass supply of high temperature resistant cable series products, achieving aggregate sales orders amounting to approximately RMB 33.87 million.

On the overseas front, with leaping development in the new 4G and 5G technologies, demands for RF products from various regions have declined remarkably. In order to tackle challenges in the market, the overseas segment focused on new products and market development and achieved significant breakthroughs in Vietnam and Russia, recording rapid year-on-year growth in sales. Meanwhile, we actively developed the new jumper cable business (namely, AISG control cables, 4310 jumper cables and water-resistant jumper cables) with various major equipment suppliers and operators. In May 2017, we successfully operated the jumper cable factory in India and reduced the delivery time in the territories by 50%, thereby further enhanced satisfaction of overseas customers.

RESEARCH AND DEVELOPMENT

2017 was the year when the Group stepped up its pace in business transformation amidst the gradual adoption of optic fibre over copper cables. With the objective of achieving a full-fledged manufacturing for the integrated antenna and wireless system, the Group has been accommodating for the industrial landscape in coming years with the core 5G and mobile NB-IoT and intensified its R&D works and cooperation with other institutes with encouraging results:

1. In response to the wide applications of 5G with high personalisation demands, the Company has developed and launched two products, namely HXN9015D-EU 3.5GHz TDD Smart Antenna and HXN6518D-EU 3.5GHz 4-port Electrically Adjustable Antenna, which are suited for 5G and IoT system applications characterised by low energy consumption, high connectivity, low delay and high reliability;

2. To reduce system complexity, enhance system reliability, reduce section size of antenna and reduce weight, the Company has also committed into several technical R&D in relation to energy source integrated large scale antenna;

3. To reserve roof resource, reduce tower rental costs, satisfy the demand from different bands of the Internet and demand for Internet upgrade and evolution, the Company has, building on the R&D of dual frequency and multi-frequency electrically adjustable antenna, further expanded the bands to all frequency, thereby producing an all-frequency 8-port electrically adjustable antenna (698~960MHz/1,695~2,690MHz) to satisfy the frequency demand from over 90% domestic and international customers;

4. To cater for the wide applications of the IoT in various situations and industries, the Company developed and launched mobile NB-IoT solutions to address the characteristics of the IoT in terms of multi-frequency, low energy consumption and long useful life; and

5. Leaky cables, used in underground railway and tunnels, faces the problem of sophisticated inspection, long maintenance period and intensive human resource and capital input. In this regard, the Company has developed a creative leaky cable online inspection system through extensive experimental studies. The system enables the real-time online inspection of multiple leak cables and comprehensive inspection of operation status and perimeters of leaky cables. It also allows for integrated management of inspection data, intelligent analysis and processing of inspection results

Chairman's Message (cont'd)

with easy control, high accuracy, high reliability and automatic adjustment, thereby significantly enhancing customers' inspection efficiency. In particular, the system is suited for the inspection of multiple leaky cable chains, such as underground railway stations.

EFFECTS OF MAJOR EVENTS

Now we are getting ever more closer to the 5G era, and the IoT is set to bring sweeping changes to about every aspect of people's living. As the newly developed technologies as well as the newly created enormous market demand will somewhat enable a level field for all players in initially expanding into the sector and competing for market share, success will therefore be determined by how good their ability is in capturing opportunities that may have arisen to them. In this regard, and on the basis of the core (i.e. the 5G and mobile narrowband IoT) of our industry chain scheme, the Company has conducted research and development on and launched solutions for the 9 leading systems, covering 5G, mobile narrowband IoT, indoor signals coverage, urban rail transit, electronic speed control, energy splitting of optoelectronics, water-proof solutions, high temperature-resisting components configuration, and testing services. Such measures have invariably strengthened our resilience in corporate development and is instrumental for us to swiftly gain a strategic foothold in this sector, thereby expanding our future market range. Undeniably it may take more time for 5G and mobile narrowband IoT to realise their full potential and wide-ranging applications, and more promotion effort and further improvement processes may still be needed for some solutions, thus the impact on the Company's operating performance has yet been fully reflected. Additionally, the Company will also be materially affected by the investment strategies of telecom operators under the current business environment.

OUTLOOK

Under the background of dominance of optic fibre over copper cables, development of 5G and mobile Narrowband IOT, the only and fundamental way for the Company to achieve further development is to continue accelerating structural optimisation and industry upgrade. For 2018, in addition to strengthening the traditional feeder wire market, the Company will speed up new product development and enhance marketing efforts. It will also push forward the process of optimisation of product structure while maintaining gross product growth, so as to improve its competitive edge in the market. For the feeder wire market, the Company will actively explore overseas and domestic high-end markets as well as build up technological reserves in aspects of high-frequency PCB materials, blind mate connectors, insulation devices, etc., in preparation for the arrival of the 5G communication era. In respect of high temperature cable and assembly product projects, we will make use of water-proof solutions and high-temperature assembly solutions to cater for various harsh application environment of the IoT and facilitate the sales model of low loss cable and cable + assembly to boost the market share of this kind of products. With regard to antenna, while the development and mass production of the antenna series for mobile NB-IoT projects are completed, we will facilitate the development of base station antenna for future and overseas customers and conduct R&D of multi-modulation and standard antenna, multi-frequency and ultra-wideband antenna and multi-beam antenna, with the aim of establishing unique advantages of the Company in the field of antenna. In terms of leaky cable, we will actively promote the online inspection system for leaky cable to boost the sales of leaky cable. For the development of unmanned underground railway, we will develop products such as leaky cable for unmanned operation and broadband leaky cable and conduct pre-research for products like waveguide leaky cable and leaky cable for LTE low frequency.

Moreover, following the successful delisting of the Company from the Singapore security market, the Company will improve its contact and communication with investors and actively look for new opportunities of investment and development in order to bring better returns to the Shareholders.

WORDS OF APPRECIATION

On behalf of the board (the "**Board**") of directors (the "**Directors**") of the Company, I would like to take this opportunity to thank our staff for their hard work and dedication to the Group. I also express my heartfelt appreciation to our valued shareholders, bankers, customers and suppliers for your continued support.

Management Discussion and Analysis

Revenue

The Group's revenue for the financial year ended 31 December 2017 ("**FY2017**" or the "**Reporting Period**") increased by approximately RMB101.2 million, or approximately 6.6% from approximately RMB1,532.2 million in the previous financial year ended 31 December 2016 ("**FY2016**") to approximately RMB1,633.3 million in FY2017.

RF Coaxial Cables

Revenue generated from the segment of RF Coaxial Cables decreased by approximately RMB98.0 million or approximately 9.3% from approximately RMB1,050.6 million in FY2016 to approximately RMB952.6 million in FY2017.

Included in the segment revenue of RF Coaxial Cables are the revenue from leaky cables of approximately RMB93.7 million for FY2017, representing an increase of approximately RMB37.5 million or 66.6% from approximately RMB56.2 million in FY2016. Leaky cables are special coaxial cables commonly used for the tunnels and underground mobile communication in mass transit railways and thus normally have higher gross profit margins than other RF Coaxial Cables products.

Telecommunication equipment and accessories

Revenue generated from the segment of telecommunication equipment and accessories increased by approximately RMB65.4 million or approximately 17.4% from approximately RMB376.3 million in FY2016 to approximately RMB441.7 million in FY2017.

Antennas

Antennas has been separately classified as a reportable segment for FY2017, as it has met the quantitative threshold for determining reportable segments during FY2017. Revenue generated from antennas during FY2017 was approximately RMB205.5 million and the revenue of Antennas during FY2016 included in the other segment was approximately RMB76.7 million, representing an increase of approximately 167.9%.

Others (HTRC and antennas testing services)

Revenue generated in this segment increased by approximately RMB5.0 million or approximately 17.5% from approximately RMB28.6 million during FY2016 (after excluding the revenue from Antennas of approximately RMB76.7 million as included in the others segment) to approximately RMB33.6 million during FY2017, of which the increase was mainly attributable to the increase in sales of HTRC during FY2017.

Gross profit margin

The Group achieved an overall gross profit margin of approximately 21.2% during FY2017 compared to approximately 20.7% during FY2016, representing an increase of 0.5 percentage point year-on-year. The higher than average gross profit margin for the product line of leaky cables in FY2017 of 24.3% has lifted the overall gross profit margin of the Group. Despite facing intense market competition, gross profit margin of RF Coaxial Cables has managed to increase by 1.7 percentage point from FY2016's 15.5% to 17.2% in FY2017. The Group will continue to monitor production efficiencies to ensure optimal raw materials and labour utilisation, stringent selection of suppliers in tender biddings to keep costs to a minimum, coupled with efficient use of various resources to keep up with price pressure resulting from keen competition.

Other income

Other income decreased by approximately RMB3.2 million or approximately 12.5% from approximately RMB25.8 million in FY2016 to approximately RMB22.6 million in FY2017. The decrease primarily arose from the following factors:

(i) decrease in interest income earned;

(ii) decrease in rental income earned from the lease of the Group's testing facilities;

(iii) increase in government grants received; and

(iv) the change from net foreign exchange gains in FY2016 to net foreign exchange losses in FY2017.

Selling and distribution expenses

Selling and distribution expenses decreased by approximately RMB7.1 million or approximately 6.6% from approximately RMB108.3 million in FY2016 to approximately RMB101.2 million in FY2017 due to the decrease in salary expenses as a result of the decrease in headcount of the Group and tightened marketing efforts during FY2017.

Administrative expenses

Administrative expenses increased by approximately RMB4.9 million or approximately 9.2% from approximately RMB53.1 million in FY2016 to approximately RMB58.0 million in FY2017. This is due to:

(i) a general increase in salary costs during the Reporting Period;

(ii) a general increase in office administration expenses; and

(iii) a reversal of allowance for doubtful trade receivables in FY2017 instead of the additional allowance for doubtful trade receivables in FY2016.

Management Discussion and Analysis (cont'd)

Other operating expenses

Other operating expenses increased by approximately RMB13.4 million or approximately 25.1% from approximately RMB53.3 million in FY2016 to approximately RMB66.7 million in FY2017. The increase is due to the moderate increase in research and development ("**R&D**") expenses incurred from continuing R&D activities undertaken for the modifications and improvements to the Group's products and the net foreign exchange losses of approximately RMB10.1 million incurred in FY2017.

Share of losses of an associate

During the FY2016, Jiangsu Hengxin Technology Co., Ltd. ("**Hengxin (Jiangsu)**"), a wholly-owned subsidiary of the Company, acquired 24% equity interest in Mianyang Xintong Industrial Co., Ltd.* (綿陽鑫通實業有限公司, "**Mianyang Xintong**"). The amount of approximately RMB8.2 million represents the Group's proportionate share of the losses incurred by Mianyang Xintong (after tax) recognised during FY2017.

Finance costs

Finance costs decreased by approximately RMB1.4 million or approximately 93.3% from approximately RMB1.5 million in FY2016 to approximately RMB0.1 million in FY2017 as the Group has repaid its interest bearing borrowings during the Reporting Period.

Profit before income tax

Profit before income tax increased by approximately RMB13.5 million or approximately 11.1% from approximately RMB121.5 million in FY2016 to approximately RMB135.0 million in FY2017.

Income tax expense

The Group's main subsidiary, Hengxin (Jiangsu), has been subject to an incentive tax rate of 15% as it has been awarded as a high-tech enterprise in the PRC since 2008. It had been awarded the same status for a further three years commencing on 7 December 2017.

Income tax expense decreased by approximately RMB0.6 million or approximately 2.8% from approximately RMB21.6 million in FY2016 to approximately RMB21.0 million in FY2017, mainly due to the movement in deferred taxes during the Reporting Period.

Net profit

In view of the above, net profit attributable to equity holders of the Company increased approximately RMB14.3 million or approximately 14.3% from approximately RMB99.8 million in FY2016 compared to approximately RMB114.1 million in FY2017.

STATEMENT OF FINANCIAL POSITION

Material fluctuations of balance sheet items are explained below:

Pledged bank deposits

Pledged bank deposits increased by approximately RMB20.8 million or approximately 346.7% from approximately RMB6.0 million as at 31 December 2016 to approximately RMB26.8 million as at 31 December 2017, mainly due to the security deposits of approximately RMB15.8 million relating to the commodity future contracts entered for hedging the purchase of raw materials during the last quarter of FY2017.

Trade receivables

Trade receivables increased by approximately RMB190.1 million or approximately 36.9% from approximately RMB515.0 million as at 31 December 2016 to approximately RMB705.1 million as at 31 December 2017.

Average trade receivables turnover days were 139 days as at 31 December 2017 compared to 128 days as at 31 December 2016. The slight increase in trade receivables turnover by approximately 11 days was due to the increase of sales in December 2017 of approximately 13% compared to that of December 2016, hence increasing the turnover days. Although the collection of trade receivables from certain customers of the Group had been stretched longer as some adopted the payment by bank bills of exchange which had a longer period of maturity, the Group focused on other collections to mitigate the longer turnover effects by certain customers as mentioned above.

Nonetheless, most of the trade receivables balances were recent sales which were within the average credit period given to the Group's customers. As at 31 December 2017, approximately 86.16% of the trade receivables and bills receivable were within the credit period given as compared with that of approximately 91.15% as at 31 December 2016.

For amounts due more than six months and longer, they mainly pertain to final payment (upon project completion) owed by the three main PRC telecom operators. These outstanding balances relate to projects undertaken by these operators which had longer project completion dates than as initially anticipated. These operators have been the Group's long-time customers and the Group has been receiving regular payments from them. In addition, the majority of these outstanding balances pertain to one of the main telecom operators in the PRC. In view of the Group's long-standing dealings with them and the regular receipts of payments from these customers, the Group does not foresee any issue in the collection of these receivables.

The Group will continue to endeavour in its collection efforts on the outstanding balances.

Management Discussion and Analysis (cont'd)

Other receivables and prepayments (current assets)

Other receivables and prepayments (current assets) decreased by approximately RMB21.6 million or approximately 27.5% from approximately RMB78.6 million as at 31 December 2016 to approximately RMB57.0 million as at 31 December 2017. The decrease was mainly due to the decrease in advance payment to suppliers for the purchase of raw materials and offset by the increase in prepaid sales tax and value-added-tax and reclassification of current portion from non-current portion of the loan to the Group's associate, Mianyang Xintong.

Inventories

Inventories (comprising raw materials, work-in-progress and finished goods) increased by approximately RMB41.7 million or approximately 24.5% from approximately RMB170.3 million as at 31 December 2016 to approximately RMB212.0 million as at 31 December 2017. The increase was mainly due to the increase in finished goods in transit, most of which were RF Coaxial Cables and Antennas.

Other investments (non-current and current assets)

Other investments (non-current assets) decreased by approximately RMB22.1 million or approximately 67.2% from approximately RMB32.9 million as at 31 December 2016 to approximately RMB10.8 million as at 31 December 2017. The decrease was mainly due to the downward revaluation of an equity investment held by the Group.

Other investments (current assets) increased by approximately RMB21.0 million or approximately 72.4% from approximately RMB29.0 million as at 31 December 2016 to approximately RMB50.0 million as at 31 December 2017. Other investments (current assets) as at 31 December 2017 represented the subscription of short term investment in a wealth management product with a duration of six months and annual yield of 4.60% commencing from 31 July 2017. Other investments (current assets) as at 31 December 2016 represented another wealth management product subscribed by the Group which was matured and redeemed in full during the Reporting Period. Please refer to the paragraph headed "Discloseable Transaction during the Reporting Period" below.

Property, plant and equipment

Property, plant and equipment decreased by approximately RMB6.4 million or approximately 4.4% from approximately RMB146.1 million as at 31 December 2016 to approximately RMB139.7 million as at 31 December 2017. The decrease was mainly due to normal charges of depreciation, which was slightly offset by additions during FY2017.

Other receivables (non-current assets)

Other receivables (non-current assets) amounting to approximately RMB17.4 million as at 31 December 2017 pertains to the non-current portion of the loan to the Group's associate, Mianyang Xintong. During the Reporting Period, RMB9.18 million had been reclassified as other receivables (current assets).

Short-term loans

Short-term loans decreased to nil from approximately RMB27.0 million as at 31 December 2016 due to the full repayment of short-term loans during the Reporting Period.

Trade payables and other payables

Trade payables increased by approximately RMB21.2 million or approximately 17.9% from approximately RMB118.2 million as at 31 December 2016 to approximately RMB139.4 million as at 31 December 2017. This is in line with the increase in the inventory levels arising from the increase in the Group's purchases of raw materials.

Other payables and accruals increased by approximately RMB18.6 million or approximately 26.4% from approximately RMB70.5 million as at 31 December 2016 to approximately RMB89.1 million as at 31 December 2017, due to the higher bonus accruals for FY2017.

Income tax payable

Income tax payable increased by approximately RMB6.5 million or approximately 118.2% from RMB5.5 million as at 31 December 2016 to approximately RMB12.0 million as at 31 December 2017. The increase mainly arose from the timing differences in the payment of income taxes.

Deferred income

Deferred income decreased by approximately RMB1.0 million or approximately 19.2% from approximately RMB5.2 million as at 31 December 2016 to approximately RMB4.2 million as at 31 December 2017. This relates to the subsidies received on acquisition of equipments for certain projects.

Cash and bank balances

Cash and bank balances decreased by approximately RMB109.1 million or approximately 19.7% from approximately RMB554.2 million as at 31 December 2016 to approximately RMB445.1 million as at 31 December 2017. The decrease is mainly due to an increase in trade receivables and inventory levels, the repayment of short-term loans and net increase in other investments during the Reporting Period.

Management Discussion and Analysis (cont'd)

SUBSIDIARIES

The subsidiaries of the Company are Hengxin (Jiangsu), Jiangsu Hengxin Wireless Technology Co., Ltd, Hengxin Network Wireless (Shanghai) Co., Ltd, Hengxin Technology (India) Pvt Ltd and Hengxin Technology International Co., Limited. Details of the subsidiaries of the Company are set out in Note 27 to the financial statements.

FINANCIAL RESOURCES, LIQUIDITY AND LIABILITY POSITION

As at 31 December 2017, the Group's total assets were approximately RMB1,731,356,000 (2016: RMB1,627,830,000) (of which current assets were approximately RMB1,497,308,000 (2016: RMB1,354,535,000) and non-current assets were approximately RMB234,048,000(2016: RMB273,295,000)), the total liabilities were approximately RMB250,411,000 (2016: RMB231,871,000) (of which current liabilities were approximately RMB240,535,000 (2016: RMB221,163,000) and non-current liabilities were approximately RMB9,876,000 (2016: RMB10,708,000)), and shareholder's equity reached approximately RMB1,480,945,000 (2016: RMB1,395,959,000).

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

The Group manages its capital to ensure that members of the Group will be able to continue as a going concern while maximising the return to its shareholders through the optimisation of debt and equity balance.

The management of the Group monitors the Group's capital based on its net gearing ratio. The Group's 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.

FOREIGN CURRENCY EXPOSURE

Renminbi ("**RMB**") is the functional currency of the Group. Currencies other than RMB expose the Group to foreign currency risk. The Group has foreign currency sales and its revenue and costs are denominated in RMB, India Rupees ("**INR**") and United States dollars ("**USD**"). Some of the Group's bank balances are denominated in USD, Singapore dollars ("**SGD**"), Hong Kong dollars ("**HKD**") and INR, whilst some costs may be denominated in Hong Kong dollars, SGD and INR. The Group has implemented a hedging policy to strike a balance between the uncertainty and the risk of opportunity loss in light of the growing significance of its exposure to the fluctuations in foreign currency, under which policy foreign exchange forward contracts may be used to eliminate the currency exposure. The Group has not entered into such forward contracts as at the end of the Reporting Period but will continue to monitor foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

DONATION AND CAPITAL COMMITMENTS

As at 31 December 2017, 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 approximately RMB500,000 per annum, which had been contracted but not provided for in the financial year of FY2017, were approximately RMB868,000 (2016: approximately RMB8,451,000) and approximately RMB4,500,000 (2016: approximately RMB 5,000,000) respectively.

CHARGE OR PLEDGE OF ASSETS

As at 31 December 2017, the Group did not charge nor pledge any assets (2016: Nil) as securities for banking facilities granted by its bankers.

Management Discussion and Analysis (cont'd)

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Net cash borrowings	(445,120)	(527,209)
Total equity	1,480,945	1,395,959
Net debt to equity ratio (%)	(30.06)	(37.77)

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

As at 31 December 2017		As at 31 December 2016	
Secured	Unsecured	Secured	Unsecured
RMB'000	RMB'000	RMB'000	RMB'000
—	—	—	27,000

There is no amount repayable after one year.

CONTINGENT LIABILITIES

There are no material contingent liabilities as at 31 December 2017.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2017, there were 927 (2016: 966) employees in the Group. Staff remuneration packages are determined in consideration of the market conditions and the performance of the individual concerned, and are subject to review from time to time.

The Group also provides other staff benefits including medical 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 its 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 report.

MATERIAL LITIGATION AND ARBITRATION

As at 31 December 2017, the Group was not involved in any material litigation or arbitration.

DELISTING FROM SINGAPORE EXCHANGE SECURITIES TRADING LIMITED

On 24 October 2017, the Company has received a confirmation from the SGX-ST that it has no objection to the proposed delisting (the "**Delisting**") of the shares of the Company (the "**Shares**") from SGX-ST. The proposed Delisting will result in the Shares being removed from the official list of the SGX-ST. After the Delisting, Shares will only be traded on the SEHK. Shareholders' voting rights and entitlement to dividends will not be affected by the Delisting. The Delisting has been completed on 5 February 2018. For details of the Delisting, please refer to the announcements of the Company dated 24 October 2017, 6 November 2017, 20 November 2017, 4 December 2017, 18 December 2017, 18 January 2018 and 1 February 2018 respectively.

Management Discussion and Analysis (cont'd)

DISCLOSEABLE TRANSACTIONS DURING THE REPORTING PERIOD

On 20 December 2016 and 10 April 2017, Hengxin (Jiangsu) subscribed for the wealth management product with GF Securities Co., Ltd. (an independent third party) at the subscription amounts of RMB29 million (equivalent to approximately HK$32.48 million) and RMB50 million (equivalent to approximately HK$56 million) for a term of three months, respectively as funded by the Group's internal resources. The wealth management product under the first subscription entered on 20 December 2016 and the second subscription entered on 10 April 2017 have matured on 20 March 2017 and 10 July 2017 respectively, and the principal and investment income have been collected.

On 31 July 2017, Hengxin (Jiangsu) subscribed for the wealth management product with GF Securities Co., Ltd. for the third time at the subscription amount of RMB50 million (equivalent to approximately HK$58 million) for a term of three months. The third subscription wealth management product has matured in 2018 and the principal and investment income have been collected.

For details of the first, second and third subscriptions for the wealth management product, please refer to the announcements of the Company dated 10 April 2017 and 31 July 2017 respectively (the "**Subscriptions**").

During the FY2017, the Group recorded an investment income of approximately RMB1.6 million from the Subscriptions. The Group invests in low risk investment products as per our strategic development needs with our working capital. In terms of cash management policy, the Group intends to invest only in short-term and low-risk investment products with a view to balance investment return and liquidity such as time deposits, bonds, fixed income funds or other fixed income products in future. The wealth management product offers better returns to the Company as compared to the fixed-term deposit interest rates offered by commercial banks in the PRC. The Subscriptions will not affect the Group's operational liquidity while enhancing the use of the surplus working capital of the Company.

PRINCIPAL RISKS TO THE GROUP

The Group is subject to different risks and exposures. Under the current state of economic environment, risks applicable to the Group are not always the same, and new risks may arise while existing risks may become irrelevant over time.

Whilst the Board has the overall responsibility in risk management, the audit committee of the Company has assisted the Board in developing and maintaining appropriate and effective risk management and internal control systems.

The following table sets out the principal risks which the Group faces, and the mitigating actions being done by the Group to manage and/or reduce such risks during FY2017:

Management Discussion and Analysis (cont'd)

No.	RISK	DESCRIPTION	MITIGATING ACTIONS/MEASURES
1	Business and industry risk	(a) The global economic slowdown has affected the speed and extent of network construction by the PRC's major telecom operators. It has also reduced the purchasing appetite of the PRC's telecom operators in their network expansion for FY2016. As part of the effort of the PRC central government in restructuring the telecom industry, China Tower Corporation Limited was incorporated to gradually take over the tower assets from the three major telecom operators in the PRC. This has the potential effect of reducing the Group's overall capital expenditure moving forward. Commodity prices had been adversely affected by the global economic slowdown. During FY2016, the decrease in copper prices had materially affected the Group's sales price, which in turn reduced the overall revenue. During FY2017, the gradual increase in copper prices has increased the production costs of the Company, the Company proactively introduces new products to lower production cost and increase gross margin on sales.	(i) Continue to build on the Group's momentum in overseas expansion; (ii) Increase marketing presence in more geographic markets; (iii) Continue to build relationships with local and overseas partners in tendering for projects; (iv) Continue to improve production and logistical efficiencies to lower costs and to stay competitive; (v) Focus on product quality checks to ensure no defective products are sent to customers to maintain the Group's reputation; (vi) Build and extend close relationships with large customers to understand their purchasing trends; (vii) Introduce new product offerings to reduce reliance on a few product models; and (viii) Actively seek appropriate acquisition targets to form positive synergies or to complement the Group's growth.
		(b) The telecommunications industry underwent an unprecedented structural divergence through the significant adoption of optic fibres over copper cables. During FY2017, the demand for fibrerelated communication products far exceeded supply, and the demand for coaxial cables continued to decline.	(i) Accelerate market development efforts for existing products such as antennas, accessories and leaky cables by securing more approvals as a qualified supplier for the Group's major customers and entering into new geographic markets.

Management Discussion and Analysis (cont'd)

No.	RISK	DESCRIPTION	MITIGATING ACTIONS/MEASURES
2	Technology risk	(a) The exponential increase in data usage and change in communication trends are constantly shaping the technology behind the networks supporting telecommunications around the world.	(i) It is of paramount importance for the Group to understand technology trends and the tendencies of telecom operators to adopt particular technologies in order to maintain its leading position and market share. This will be conducted through 2 levels: through the Group's R&D team on the various technologies being adopted, and staying close to the Group's customers (mainly telecom operators and equipment manufacturers) to understand the changing trends.
		(b) The ever-evolving technology has affected the Group's main product, i.e. RF Coaxial Cables, as adoption of optic fibres for tower construction is gaining traction.	(i) Direct the Group's efforts to ramp up R&D to introduce new range of products; (ii) Focus R&D efforts on the upcoming 5G wireless systems through intimate and constructive interaction with major telecom operators in the PRC in order to understand the direction of technology to be used and develop mainstream ancillary products which could be adopted when any of the systems are launched; (iii) Actively introduce the Group's 4G capable antennas and other accessories to new customers and geographical markets; and (iv) Continue to develop more technologically advanced models for the Group's current product range which have higher gross margins and are more readily required by customers.
		(c) One of the potential impacts of 5G on wireless communications includes reduction in size of equipment, cables and antennas.	(i) Explore and commence R&D on the miniaturisation of RF cables, accessories and antennas.

Management Discussion and Analysis (cont'd)

No.	RISK	DESCRIPTION	MITIGATING ACTIONS/MEASURES
3	Credit risk	Credit risk is the risk arising from the possibility of an obligor's inability to perform its contractual obligations. Credit risk may stem from both on-balance and off-balance sheet transactions. The potential risk associated with the non-performance of the contractual obligations by the borrower or transaction counter-party will increase the credit risk.	Adopt the policy of only dealing with creditworthy counterparties and where appropriate, obtain sufficient collateral as a means of mitigating the risk of financial loss from defaults. Regularly review the publicly available financial information of the Group's largest customers, who are mainly telecom operators and state-linked companies in the PRC and where necessary, the Group may consider setting credit limits to them although generally credit limits are not applicable to publicly listed telecom operators. Set credit limits for all other customers and regularly evaluate the credit limits on the basis of publicly available financial and non-financial information of them, and for existing customers, also their sales orders and repayment records. Regularly monitor the Group's exposure and the credit ratings to prevent excessive credit exposure to a single customer.
4	Foreign currency risk	As the Group continues to increase its presence in overseas markets, the risks arising from foreign exchange will increase due to the sales being potentially denominated in USD or other currencies. Other inherent risks include foreign currency translation differences arising from the related companies of the Group in which its operations are carried out in the countries and respective currencies in which they operate.	(i) Denominate the Group's sales in RMB, except in currency controlled countries such as India, so as to maximise the advantage brought by the internationalisation of RMB. (ii) Monitor the foreign currency exposure and continue implementing the policy in using foreign exchange forward contracts ("**Forex Forwards**") to strike a balance between the uncertainty and the risk of opportunity loss in light of the growing significance of the Group's exposure to fluctuations in foreign currency. As Forex Forwards also have risks, the Group will only consider hedging the foreign currency risk using Forex Forwards should the need arise.

Management Discussion and Analysis (cont'd)

No.	RISK	DESCRIPTION	MITIGATING ACTIONS/MEASURES
5	Commodity price risk	Copper, which forms a major component of RF Coaxial Cables, is subject to constant price fluctuations. The framework agreements entered into with the Group's major customers allow for an adjustment of selling prices should copper price movement exceed a certain adjustment level. An increase in copper price for a protracted duration while remaining within the adjustment level will increase our costs and accordingly, lower gross profit margins for the Group.	(i) Procure appropriate measures to control copper prices based on existing orders and market conditions; and (ii) Continue to explore reduction of costs of materials and manufacturing.
6	Interest rate risk	The major interest rate risk that the Group is exposed to includes the Group's short-term debt obligations which may be subject to variable interest rates.	The Group's debt obligation arising from bank borrowings bears fixed interest rate. No variable rate debt obligations were held by the Group at the end of FY2017.

FUTURE PROSPECTS

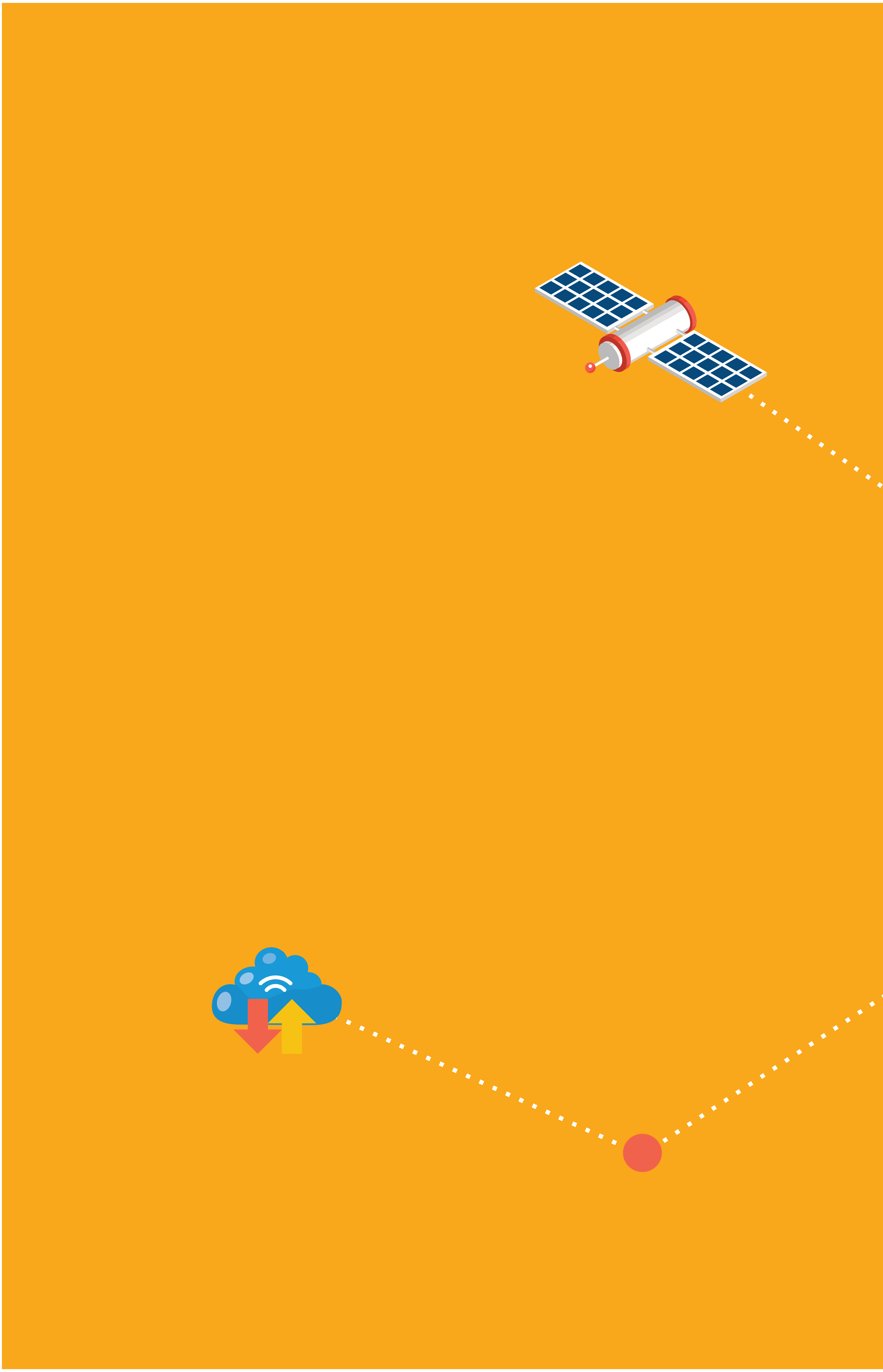
During 2017, the general economy of China continued to grow at a moderate pace, while the industry value-add continued to hover at a low level. The global economy witnessed a slow recovery and the amount of investment in China's telecommunications industry remained stable. At the same time, the process of structural divergence continued. Although the demand for fibre- related products far exceeded supply, the demand for coaxial cables continued to decline as a result of the significant adoption of optic fibre in replacement of copper-made cables.

Nonetheless, given that our new product lines of leaky cables, Antennas, HTRC and 4310 component products developed in earlier years have entered into positive development stage, the Company believes that it will replace the decline of the coaxial cable products. As the global trend of antennas continues to evolve into much smaller and intelligent systems with the pre-commercial trial of 5G antennas, the antenna demand is likely to grow, adding fresh impetus to the development of the Group.

In 2018, the Company will focus on strengthening its existing market position, step up product optimisation and actively expand to overseas markets and its key customers in preparation for the arrival of the 5G communication era. In respect of HTRC and assembly product projects, we will make use of water-proof solutions and high temperature assembly solutions to cater for various harsh application environment of the IoT and facilitate the sales model of low loss cable and cable + assembly to boost the market share of this kind of products.

With regard to antenna project, while the development and mass production of the antenna series for mobile NB-IoT projects are completed, we will facilitate the development of base station antenna for future and overseas customers and conduct R&D of multi-modulation and standard antenna (TDD+FDD+19NB-IOT), multi-frequency and ultra-wideband antenna, multi-beam antenna, small cell antenna and SARFT 700M low frequency antenna. For leaky cable market, in response to the development of unmanned underground railway, we will develop products such as leaky cable for unmanned operation and broadband leaky cable and conduct pre-research for products such as waveguide leaky cable and leaky cable for LTE low frequency. Extensive promotion will be arranged for the application of leaky cable online monitoring system in subway. R&D of antenna and related accessories and products will be further enhanced and the Company's competitive edge in coaxial cable soldering will be fully utilised in the research and development for HFC wrinkles brass high temperature cable assembly. For high-end overseas customers, water-proof and peck-proof assembly products, high intermodulation, quick installation assembly products will be developed and launched to achieve differentiation of the Company's products and high-end development.

In 2018, telecom operators in China are expected to continue to expand their 4G network construction, and on this basis the Company will not be materially affected during this period. Looking ahead, the Company will commence product transformation based on the technological requirements of 5G by developing and manufacturing a series of ultra-high-speed communications products. The transformation and development of the Company will come along with risks and opportunities.

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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 FY2017, 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.

RAW MATERIALS PURCHASE MASTER AGREEMENT

On 29 September 2016, Hengxin (Jiangsu) entered into a raw materials purchase master agreement (the "**2017 Purchase Agreement**") with Suzhou Hengli Telecommunications Materials Co., Ltd. ("**Suzhou Hengli**") to renew the raw materials purchase master agreement entered on 20 August 2015 in relation to the purchase of raw materials for a term up commencing from 1 January 2017 to 31 December 2017, pursuant to which Suzhou Hengli will supply metal plastic tape, aluminium plastic tape and other raw materials for the production of radio frequency coaxial cables on terms no less favourable than those offered by independent third parties. The annual cap in respect of the transactions for each of the years ending 31 December 2017, 2018 and 2019 are RMB50,000,000. During the year ended 31 December 2017, the aggregate amount paid by the Group for the purchase of the raw materials under the 2017 Purchase Agreement amounted to approximately RMB43.98 million (excluding VAT payable to the State Administration of Taxation of the PRC amounted to approximately RMB7.48 million for the year ended 31 December 2017).

PRODUCT SALES MASTER AGREEMENT

On 29 September 2016, Hengxin (Jiangsu) entered into a products sales master agreement (the "**2017 Sales Agreement**") with Suzhou Hengli to renew the raw materials purchase master agreement entered on 30 October 2014, pursuant to which the Group will provide its products, such as radio frequency coaxial cable series for mobile communications, telecommunications equipment and accessories, high temperature resistant cables and antennas, to Suzhou Hengli on terms no less favourable than those offered by independent third parties.

The annual caps in respect of the transactions under the 2017 Sales Agreement for each of the years ending 31 December 2017, 2018 and 2019 are RMB10,000,000. During the year ended 31 December 2017, the aggregate amount received by the Group for the sales of its products under the 2017 Sales Agreement amounted to approximately RMB6.77 million (excluding VAT payable to the State Administration of Taxation of the PRC which amounted to approximately RMB1.15 million for the year ended 31 December 2017).

LISTING RULES' IMPLICATIONS

In compliance with Chapter 14A of the Listing Rules, the respective annual caps under the 2017 Purchase Agreement and the 2017 Sales Agreement (collectively, the "**CCT Agreements**") are aggregated for the purpose of calculating the percentage ratios. As one or more of the applicable percentage ratios (other than the profits ratio) in respect of the aggregate annual caps for the CCT Agreements exceeds 5%, the CCT Agreements are subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. The Company obtained approval from the independent shareholders for the CCT Agreements at the Company's extraordinary general meeting held on 6 December 2016.

The price and the terms of the CCT Agreements have been determined in accordance with the pricing policies and guideline set out in the relevant announcement dated 29 September 2017.

BACKGROUND OF SUZHOU HENGLI

Suzhou Hengli is a company incorporated in the PRC with limited liability and wholly-owned by Hengtong Optic-Electric Co., Ltd. (江蘇亨通光電股份有限公司) ("**Hengtong Optic Electric**"). Hengtong Optic-Electric is held as to approximately 11.23% by Hengtong Group Co., Ltd. (亨通集團有限公司) ("**Hengtong Group**"), which is beneficially owned by Mr. Cui Genliang and Mr. Cui Wei as to 90% and 10% respectively. Mr. Cui Genliang is the father of Mr. Cui Wei (the Chairman, a non-executive Director and a substantial shareholder of the Company via his wholly-owned entity, Kingever Enterprises Limited). Separately, Mr. Cui Genliang directly owns approximately 19.34% of the share capital of Hengtong Optic-Electric and can control the composition of a majority of the board of directors of Hengtong Optic-Electric. In this regard, each of Mr. Cui Wei, Mr. Cui Genliang, Hengtong Group, Hengtong Optic-Electric and Suzhou Hengli is considered as a connected person of the Company under Rule 14A.07 of the Listing Rules.

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 better; 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 Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants.

The Board has received a letter from the auditors which has confirmed the matters required under Rule 14A.56 of the Listing Rules.

Board of Directors

CUI WEI
Chairman and Non-Executive Director

Mr. Cui Wei (崔巍), aged 31, is chairman of the Board (the "**Chairman**") of the Company and chairman of Hengxin (Jiangsu). He was appointed as a Non-Executive Director on 14 October 2014, and was appointed as the Chairman of the Company on 31 December 2015.

Mr. Cui holds a bachelor degree in Mechanical Engineering from Saint Louis University and a master degree in Engineering Management from University of Southern California. Mr. Cui has experience in direct investment, management of equity interests and debentures.

DU XIPING
Executive Director

Mr. Du Xiping (杜西平), aged 55, is our executive Director and was appointed on 31 December 2015. Mr. Du holds a Bachelor of Science from the Department of Astronomy in Nanjing University and a Master's Degree in Economics from the Graduate School of Chinese Academy of Social Science. Mr. Du possesses a wide range of experience over the years covering economics research, trade, finance and investment.

Mr. Du was the general manager of Shenzhen Dong Fang Hongda Investment Co., Ltd. (深圳市東方泓達投資有限公司), Shenzhen Shuangxin Investment Co., Ltd. (深圳市雙信投資有限公司) and the trust department of New Industrial Investment Co., Ltd. (新產業投資股份有限公司), all of which are principally engaged in the business of trust and asset management, and during the tenure, Mr. Du had been appointed as the fund manager for the Hope Project.

As the very first batch of securities practitioners after China's reform and opening up, Mr. Du was the general manager of the securities department of Industrial and Commercial Bank of China's United Financial Corporation Securities Unit Trust, Pearl River Delta Region (工商銀行珠江三角洲金融信托聯合總公司), mainly focusing on the securities and trust business.

XU GUOQIANG
Executive Director

Mr. Xu Guoqiang (徐國強), aged 45, is our Executive Director and the General Manager of Hengxin (Jiangsu) and was appointed on 20 December 2011, and is responsible for managing the business development and day-to-day operations of the Group. Prior to his appointment, Mr. Xu was the Senior Deputy General Manager of Hengxin (Jiangsu) and was responsible for planning, implementing and overseeing the production of the Group's 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 worked in Wujiang Miao Du Cable Co., Ltd. as workshop supervisor. From 1999 to May 2006, he worked in Jiangsu Hengtong Photoelectric Stock Co., Ltd. (a company listed on the Shanghai Stock Exchange, Stock Code: 600487, currently known as Hengtong Optic-Electric Co., Ltd.) and held various positions including quality control supervisor, quality control assistant manager and production manager. Prior to joining Hengxin (Jiangsu) in August 2010, Mr. Xu worked in Chengdu Hengtong Optic Communications Co. Ltd. as general manager since 2006.

Mr. Xu has received several awards for his production and technical achievements, including the International Professional Manager Award, a nomination as National Enterprise Mid-level Management Talent in 2004 and China Economy Top 10 Innovation Award in 2012. Mr. Xu has began his EMBA program at Nanjing University from 2016.

ZHANG ZHONG
Non-Executive Director

Ms. Zhang Zhong (張鍾), aged 63, is our Non-Executive Director and was appointed on 23 June 2005. Ms. Zhang was one of the founders and directors of Jiangsu Hengxin Technology Co., Ltd. since its establishment in June 2003.

Prior to that, between 1982 and 1988, she was the manager of the metals branch at Sichuan Agricultural Machinery Supply and Sales Co. Ltd (四川省農機供銷總公司) and was responsible for the market development and sales in the company. Between 1972 and 1982, she worked at Sichuan Chain Factory (四川省鏈條廠). From 1988 to 2004, she was the manager of the metals branch at Sichuan Science and Industrial Trade Agricultural Machinery Co. Ltd (四川省科工貿農機公司金屬材料分公司) and was responsible for the sales and marketing in the company.

Board of Directors (cont'd)

TAM CHI KWAN MICHAEL
Independent Non-Executive Director

Mr. Tam Chi Kwan Michael (譚志昆), aged 54, 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 30 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.

DR. LI JUN
Independent Non-Executive Director

Dr. Li Jun (李珺博士), aged 56, is our Independent Non-Executive Director and was appointed on 6 March 2015. Dr. Li obtained his doctorate degree of philosophy in Political Economy from Oxford University in the United Kingdom in 1994. He was a senior manager and director of a number of securities and investment companies in Hong Kong and had an extensive experience in international financial market. Dr. Li was appointed as an independent non- executive director of Sun Century Group Limited (formerly known as Hong Long Holdings Limited) (stock code: 1383) until 1 June 2012. He is currently an independent non-executive director of CMMB Vision Holdings Limited (stock code: 0471).

PU HONG
Independent Non-Executive Director

Mr. Pu Hong (浦洪), aged 53, is our Independent Non-Executive Director and was appointed on 6 March 2015. Mr. Pu holds a Masters in Accounting and Finance obtained from Anhui Finance and Economics College, a Masters of Finance obtained from Cass Business School of City University London, and an On-The-Job Doctorate from China University of Politics and Law. Mr. Pu is currently a senior partner and company securities lawyer with Deheng Law Offices (Shenzhen).

His main areas of practice encompasses a wide range of corporate advisory work such as mergers and acquisitions, corporate restructuring and initial public offerings.

Key Management

LAU FAI LAWRENCE

Financial Controller

Mr. Lau Fai Lawrence (劉斐), aged 46, joined our Group in June 2017. He is the Financial Controller and is responsible for the finance, legal, tax, compliance and reporting functions of the Group. Mr. Lau is a member of the Hong Kong Institute of Certified Public Accountants, a practising certified public accountant in Hong Kong and a fellow member of the Association of Chartered Certified Accountants in the United Kingdom.

Mr. Lau holds a bachelor degree in business administration from The University of Hong Kong and a master degree in corporate finance from The Hong Kong Polytechnic University. Mr. Lau is the company secretary of BBMG Corporation, a company listed on the main board of The Stock Exchange of Hong Kong (the "**Stock Exchange**"). Before joining BBMG Corporation, Mr. Lau has served as the group financial controller and qualified accountant of Founder Holdings Limited and Peking University Resources (Holdings) Company Limited, both companies are listed on the main board of the Stock Exchange. From 1994 to 1998, Mr. Lau worked for Price Waterhouse as a senior accountant. Mr. Lau is currently an executive director of Future World Financial Holdings Limited (Stock Code: 572), a non-executive director of Alltronics Holdings Limited (Stock Code: 833), an independent non-executive director of Primeview Holdings Limited (Stock Code: 789), Titan Petrochemicals Group Limited (Stock Code: 1192) and China HKBridge Holdings Limited (Stock Code: 2323), all the above companies are listed on the main board of the Stock Exchange.

JIN HUIYI

Deputy General Manager — Overseas Marketing

Ms. Jin Huiyi (金惠義), aged 41, joined our Group in November 2005. She is the Deputy General Manager of Jiangsu Hengxin Technology Co. Ltd., and is responsible for overseas marketing. Since 2005, Ms. Jin had been the vice president of overseas marketing of the Group. From 2001 to 2005, Ms. Jin worked as an assistant to general manager of Yixing Chenyang Ceramics Co., Ltd. Ms. Jin obtained an associate degree in Computer Application and Maintenance from Yancheng Institute of Technology in 1998 and a title of Senior Economist in 2012.

HUA YANPING

Deputy General Manager

Mr. Hua Yanping (華彥平), aged 50, joined our Group in August 2014. He is the executive vice president of Jiangsu Hengxin Wireless Technology Co., Ltd. ("Jiangs**u Wireless**"), responsible for the management of Jiangsu Wireless. From 2003 to 2014, Mr. Hua served as senior engineer, principle engineer and product line manager of Andrew Telecommunication Equipment (China) Co., Ltd. From 1997 to 2003, Mr. Hua was the R&D manager of Yaxin Electronic Technology Co., Ltd. Mr. Hua obtained a Ph.D. in Digital Signal Processing of Power Engineering at Southeast University in 2005.

Corporate Information

REGISTERED OFFICE
55 Market Street, #08-01
Singapore 048941

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
6th Floor,
The Chinese Club Building
21-22 Connaught Road
Central, Hong Kong

BOARD OF DIRECTORS
Executive directors
Mr. Du Xiping
Mr. Xu Guoqiang

Non-executive directors
Mr. Cui Wei (Chairman)
Ms. Zhang Zhong

Independent non-executive directors
Mr. Tam Chi Kwan Michael
Dr. Li Jun
Mr. Pu Hong

AUDIT COMMITTEE
Mr. Tam Chi Kwan Michael (Chairman)
Mr. Cui Wei
Ms. Zhang Zhong
Dr. Li Jun
Mr. Pu Hong

REMUNERATION COMMITTEE
Dr. Li Jun (Chairman)
Mr. Cui Wei
Mr. Xu Guoqiang
Mr. Tam Chi Kwan Michael
Mr. Pu Hong

NOMINATING COMMITTEE
Mr. Cui Wei (Chairman)
Mr. Du Xiping
Mr. Tam Chi Kwan Michael
Dr. Li Jun
Mr. Pu Hong

AUTHORISED REPRESENTATIVES
Mr. Du Xiping
Mr. Chan Ting

JOINT COMPANY SECRETARIES
Mr. Chua Kern LLB (Hons) (Singapore)
Mr. Chan Ting (Hons) (Hong Kong)

LEGAL ADVISORS
Keith Lam Lau & Chan
5th - 7th Floors
The Chinese Club Building
21-22 Connaught Road
Central, Hong Kong

AUDITORS
KPMG LLP
Public Accountants and Chartered Accountants
16 Raffles Quay
#22-00
Hong Leong Building
Singapore 048581
Partner-in-charge: Teo Han Jo
(Appointed since 6 December 2016)

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
Level 22, Hopewell Centre
183 Queen's Road East
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
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.

During FY2017, the Company was primarily listed on the Main Board of the SEHK and was secondarily listed on the Main Board of the SGX-ST. The Company completed its voluntary delisting on the SGX-ST on 5 February 2018. Throughout FY2017, the Company had adopted, for corporate governance purposes, the code provisions as set out in the Corporate Governance Code in Appendix 14 of the Listing Rules (the "**Hong Kong Code**"), and has complied with the code provisions as set out in the Hong Kong Code.

(A) BOARD MATTERS

The Board's Conduct of Affairs

As at 31 December 2017, the Board comprises of two Executive Directors, two Non-Executive Directors, and three Independent Non- Executive Directors. During FY2017, all the Executive Directors, Non- Executive Directors and Independent Non-Executive Directors displayed diversity and competency in their skill sets, knowledge, experience and perspectives which enabled them to contribute effectively to the Company.

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

The Group has set in place an approval matrix which sets out the matters requiring the Board's approval and the extent of delegation assigned to the Management. In this manner, the Management can effectively carry out its business activities with a clear understanding of its operational limits.

Board Processes

To assist in the execution of its responsibilities, the Board has established a number of Board committees, including the Nominating Committee, the Remuneration Committee and the Audit Committee (the "**Board Committees**"). The effectiveness of each committee is constantly monitored. The Board has also established a framework for the Management to establish an internal control system and 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. Board meetings may be conducted by way of tele-conference and video conference.

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

Corporate Governance Report (cont'd)

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.

During FY2017, the number of general meetings, Board meetings and Board Committee meetings held, and the attendance by each member of the Board at these meetings are set out below:

Name of Director	General meetings		Board meetings		Audit Committee meetings		Remuneration Committee meetings		Nominating Committee meetings	
	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 Wei	1	1	4	3	4	3	1	1	1	1
Du Xiping	1	1	4	4	NA	NA	NA	NA	1	1
Xu Guoqiang	1	1	4	4	NA	NA	1	1	NA	NA
Zhang Zhong	1	1	4	4	4	4	NA	NA	NA	NA
Tam Chi Kwan Michael	1	1	4	4	4	4	1	1	1	1
Pu Hong	1	1	4	4	4	4	1	1	1	1
Dr. Li Jun	1	1	4	3	4	3	1	1	1	1

(NA: Not applicable)

Matters Reserved for Board Approval

Board 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, release of the Group's half-yearly results, full-year results, interim report and annual report, review of the annual budget, connected transactions, declaration of interim dividends and proposal of final dividends.

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

Training of Directors

The Directors are responsible for their own training needs. Each newly appointed Director shall receive appropriate induction, training and coaching in order to develop individual skills as required for the discharge of their duties and responsibilities as Directors of the Company. During FY2017, the Directors have participated in continuous professional development to develop and refresh their knowledge and skills, including the training course provided by the legal advisors of the Company. Some of the Directors have also attended external trainings during FY2017 covering topics on Corporate Governance Code on risk management and internal controls under the Listing Rules, the Companies Ordinance of Hong Kong and new Hong Kong Financial Reporting Standards and legal framework update.

Corporate Governance Report (cont'd)

Board Composition and Guidance

During FY2017, the Board comprised the following Directors:

Name of Director	Designation	Date of first appointment	Date of last re-election	Due for re-election at forthcoming annual general meeting ("AGM")
Cui Wei	Chairman and Non-Executive Director	14 October 2014	28 April 2017	NA
Du Xiping	Executive Director	31 December 2015	28 April 2016	Yes
Xu Guoqiang	Executive Director	20 December 2011	28 April 2017	NA
Zhang Zhong	Non-Executive Director	23 June 2005	28 April 2016	Yes
Tam Chi Kwan Michael	Independent Non-Executive Director	10 December 2010	28 April 2016	NA
Pu Hong	Independent Non-Executive Director	6 March 2015	28 April 2017	NA
Dr. Li Jun	Independent Non-Executive Director	6 March 2015	27 April 2015	Yes

(NA: Not applicable)

The criteria for assessing independence of the Independent Non-Executive Directors are based on the guidelines set out in the Listing Rules. The Board considers an independent director is a director who has no relationship with the Company, its related companies, its shareholders who have 10% or more interest in the issued share capital of the Company or its officers that could interfere, or be reasonably perceived to be likely to interfere, with the exercise of the director's independent judgment in the conduct of the Group's affairs. The independence of the Company's Independent Non-Executive Directors meets the guidelines for assessing independence as 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 of Directors may be increased when the Board considers that additional expertise is required in specific areas, or when an outstanding candidate has been identified;

- the Board should have sufficient number of Directors to serve on various committees of the Board without encumbering the Directors or making it difficult for them to fully discharge their responsibilities; and

- the Board should consider its diversity from various aspects including but not limited to, gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. All appointments to the Board will be based on merits, and candidates will be considered against certain objective criteria, having regard to the benefits of diversity on the Board.

The Nominating Committee conducts an annual review of the Independent Non-Executive Director's independence. Based on the guidelines of the Listing Rules for assessing independence, the Nominating Committee is of the view that the Independent Non-Executive Directors, during their respective terms of office with the Company, are deemed independent.

Through the Independent Non-Executive Directors, the Board is able to exercise independent judgment on corporate affairs and provide the Management with a diverse and objective perspective on various issues. Furthermore, the Board is able to interact and work with the Management through a robust exchange of ideas and views to help shape the Company's strategic direction.

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, diversity, skills, knowledge, experience and perspectives, and possesses the core competencies necessary for the effective functioning of the Board and making informed decisions. 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 expertise in specific areas, the Nominating Committee, in consultation with the Board, will determine the

Corporate Governance Report (cont'd)

selection criteria and select candidates with the appropriate expertise and experience for the position. Pursuant to the constitution of the Company (the "**Constitution**"), any Director appointed by the Board to fill a casual vacancy shall hold office until the next AGM 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.

The Non-Executive Directors and Independent Non-Executive Directors exercise no management functions in the Group. While all the Directors have equal responsibility for the performance of the Group, the respective roles of the Non-Executive Directors and Independent Non- Executive Directors are particularly important in ensuring that the strategies proposed by the Management are discussed fully and rigorously examined, taking into account the long-term interests of not only the shareholders, but also of the employees, customers, suppliers and the many communities in which the Group conducts business.

The Board considers its Non-Executive Directors and Independent Non-Executive Directors to be competent, sufficient in number and that their views hold equal weight such that no individual or groups of Directors can dominate the Board's decision-making processes. The Non-Executive Directors and Independent Non-Executive Directors have no financial or contractual interests in the Group other than their fees and shareholdings as set out in the Report of the Directors in this Annual Report.

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

Other key information about the Directors is set out in pages 25 to 26 of this Annual Report. Their shareholdings in the Company are also disclosed in the Report of the Directors in this Annual Report. None of the Directors hold shares in any of the Company's subsidiaries.

Chairman and Chief Executive Officer

Code Provision A.2.1 of the Hong Kong Code stipulates that the roles of the Chairman and chief executive should be separate and should not be performed by the same individual. Mr. Cui Wei has been appointed as the Chairman of the Board since 31 December 2015. The Chairman shall focus on the overall corporate development and strategic direction of the Group and oversee the efficient functioning of the Board. The Chairman will ensure that all Directors are properly briefed on issues arising at Board meetings and will also ensure information flow between the Management and the Board.

The Executive Directors are responsible for the daily operations of the Company while the Non-Executive Directors and Independent Non-Executive Directors exercise no management functions in the Group. Such division of responsibilities helps to reinforce their independence and ensure a balance of power and authority. During FY2017, the Chairman had a meeting with the Non-Executive Directors, including the Independent Non-Executive Directors, without the presence of the other Executive Directors.

The Company did not appoint a chief executive officer in FY2017 and has no intention to appoint a chief executive officer in the near future.

Joint Company Secretaries

Mr. Chua Kern and Mr. Chan Ting are the joint company secretaries of the Company (the "**Joint Company Secretaries**"). Mr. Chua Kern is qualified to practise as a lawyer in Singapore and Mr. Chan Ting is qualified to practise as solicitor in Hong Kong. Their primary corporate contact person at the Company is Mr. Lau Fai Lawrence, the Financial Controller of the Company.

Corporate Governance Report (cont'd)

(B) NOMINATING COMMITTEE

Board Membership

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, and the Nominating Committee oversees this aspect of corporate governance.

The Nominating Committee comprises the following members:

Cui Wei	Chairman, Non-Executive Director
Du Xiping	Member, Executive Director
Dr. Li Jun	Member, Independent Non-Executive Director
Pu Hong	Member, Independent Non-Executive Director
Tam Chi Kwan Michael	Member, Independent Non-Executive Director

The Nominating Committee holds at least one meeting each year. The Nominating Committee has convened one meeting during FY2017 to review the independence of the Independent Non-Executive Directors as well as the composition of the Board.

The key functions of the Nominating Committee under its Terms of Reference are, amongst others:

(a) to establish procedures for, and make recommendations to the Board on all appointments to the Board, 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 an Independent Non-Executive Director is independent, bearing in mind the requirements set forth in the Listing Rules and any other relevant factors;

(c) in respect of a Director who holds 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 by such Director when serving on multiple boards;

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

(e) to review the board succession plans for the Directors.

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

The Directors will submit themselves for re-nomination and re-election at regular intervals of at least once every three years. The Non-Executive Directors are appointed for a term of three years, subject to retirement by rotation at the AGM and may, if eligible, offer themselves for re-election.

Pursuant to the Constitution, 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. Each Director shall abstain from voting on any resolutions in respect of his or her re-appointment as a Director.

Pursuant to Article 89 of the Constitution, Mr. Du Xiping, Ms. Zhang Zhong and Dr. Li Jun shall retire at the forthcoming AGM and, being eligible, will offer themselves for re-election at the forthcoming AGM. Their profiles are shown on pages 25 and 26 of the Annual Report.

Corporate Governance Report (cont'd)

The Nominating Committee has considered the level of commitment of each Director serving on multiple boards. For FY2017, the Board is satisfied that each Director has allocated sufficient time and resources to the affairs of the Company during their term of office with the Company.

Board Performance

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

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

The Nominating Committee has formulated a set of evaluation procedures and performance criteria for the assessment of the Board's performance as a whole. It had conducted an assessment of the performance of the Board for FY2017.

The Nominating Committee has established a set of procedures for assessing the effectiveness of the performance of the Board as a whole. Such performance criteria includes an evaluation of the Board's size, composition, access to information, accountability, processes and performance in relation to discharging its principal responsibilities in terms of the financial indicators. The factors taken into consideration for the re-nomination of the Directors for FY2018 are based on the Directors' attendance at meetings held during FY2017 and the contributions made by the Directors at the meetings.

The Board and the Nominating Committee will monitor to ensure that the 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-informed decisions.

Access to Information

The Directors receive regular updates of information from the Management about the Group so that they are well appraised to fully execute their role 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 the issues to be considered in Board meetings. The information provided includes background or explanatory information relating to matters to be considered by 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 received regular detailed financial and operational reports from the senior management during FY2017 to enable them to carry out their duties. The Board also liaises with the Management as required, and may consult with other employees and seek additional information on request.

All Directors have separate and independent access to the Joint Company Secretaries at all times. The Joint 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 the rules and regulations applicable to the Company, including requirements under the Companies Act (Chapter 50) of Singapore (the "**Companies Act**") and under the Listing Rules, are complied with.

The Board also has separate and independent access to the Management and the Joint Company Secretaries at all times.

Should the Directors, whether as a group or individually, need independent professional advice in furtherance of their duties, the costs of such professional advice will be borne by the Company.

Pursuant to the Constitution, the decision to appoint or to remove the Joint Company Secretaries can only be taken by the Board as a whole.

Corporate Governance Report (cont'd)

(C) REMUNERATION MATTERS

Remuneration Committee

Procedures for Developing Remuneration Policies

The Remuneration Committee comprises the following members:

Dr. Li Jun	Chairman, Independent Non-Executive Director
Cui Wei	Member, Non-Executive Director
Xu Guoqiang	Member, Executive Director
Pu Hong	Member, Independent Non-Executive Director
Tam Chi Kwan Michael	Member, Independent Non-Executive Director

The Remuneration Committee holds at least one meeting each year.

The key functions of the Remuneration Committee under its Terms of Reference are, amongst others:

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

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

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

The Terms of Reference of the Remuneration Committee are posted on the websites of the Company and the 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 FY2017, the Remuneration Committee has convened one meeting and has performed its functions in accordance with its Terms of Reference and the Hong Kong Code.

Level and Mix of Remuneration

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

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

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

Corporate Governance Report (cont'd)

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

Please refer to the financial statements for further details on the remuneration disclosure.

Share Option Scheme

The Scheme was approved by the Company's shareholders at the extraordinary general meeting of the Company held on 27 October 2010.

The Scheme is administered by the Remuneration Committee.

No options have been granted by the Company to the Directors and the controlling shareholders of the Company and their associates since the adoption of the Scheme on 27 October 2010 to the end of FY2017.

(D) ACCOUNTABILITY AND AUDIT

Accountability

In presenting the annual financial statements and half-yearly announcements to the shareholders, it is the aim of the Board to provide the shareholders with a balanced, clear and comprehensive analysis, explanation and assessment of the Group's performance, financial position and prospects.

The Management provides the Board, on a monthly basis, the management accounts of the Group to enable the Board to undertake informed, balanced and understandable assessment of the Group's financial and other information, and also its performance, financial position and prospects from time to time.

Risk Management and Internal Control

The Board recognises that it is responsible for the evaluation and management of risk and setting the tone and direction for the Group in such a way that risks are managed in the Group's businesses. The Board has ultimate responsibility for approving the internal control process 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 risk management framework and internal control system. In addition to determining the approach to risk management, the Board sets and establishes an appropriate risk culture throughout the Group for effective risk management.

The Group has a risk management framework and internal control system in place to assist the Board, including but not limited to, the following aspects:

- assessment of the Group's overall risk tolerance and strategies;
- oversight of the Group's current risk exposures and future risk strategies; and
- review of the new businesses or corporate actions that the Group may undertake.

In terms of discharging the Board's duties, the Audit Committee assists the Board in its oversight of the risk management framework and internal control system. The Audit Committee in turn is assisted by the Management in the management of risks and execution of the internal controls.

Corporate Governance Report (cont'd)

The Board acknowledges that it is responsible for the Group's risk management framework and overall internal control system, but recognises that no risk management framework and internal control system will preclude all errors and irregularities because the system is designed to manage, rather than to eliminate, the risk of failure to achieve business objectives, and can therefore provide reasonable but not absolute assurance against material misstatement or loss. During FY2017, the Board has reviewed the effectiveness of the Group's internal control system and risk management framework and is satisfied with such system and framework and has adopted the recommendations suggested by its internal auditor for further improvements of the internal control system and risk management framework.

The Audit Committee has assisted the Board in conducting periodic reviews on the adequacy of the risk management framework and internal control system of the Group, which covers the areas of financial, operational and compliance risks.

In order to ensure that the Group's internal control system and risk management framework are managed adequately and effectively, during FY2017, the Audit Committee:

- reviewed the risks which the Group is exposed to, as well as the risk management framework and internal control system in place to mitigate such risks; and

- reviewed the results of various assurance activities performed such as internal audit and external audit performed during the year.

Based on the above, the Board is of the opinion that the Group's internal control system and risk management framework are effective and adequate to address the Group's operational, financial and compliance risks.

Audit Committee

The Audit Committee comprises the following members:

Tam Chi Kwan Michael	Chairman, Independent Non-Executive Director
Cui Wei	Member, Non-Executive Director
Zhang Zhong	Member, Non-Executive Director
Dr. Li Jun	Member, Independent Non-Executive Director
Pu Hong	Member, Independent Non-Executive Director

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

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

The Audit Committee holds meetings at quarterly intervals each year. The Audit Committee has convened four meetings during FY2017 to discuss and review the following where applicable:

- to monitor the work conducted by KPMG LLP as the external auditors of the Company, and in connection with the external audit of the financial statements of the Group for FY2017, KPMG LLP has not noted any material weaknesses in the Company's internal control system after reviewing aspects of the books and records and internal accounting controls of the Group;

- to discuss with KPMG LLP the audit planning for FY2017;

Corporate Governance Report (cont'd)

- to review the quarterly, interim and annual financial statements, statement of financial position, statement of profit or loss and other comprehensive income before submitting 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 the Listing Rules, the SEHK and other statutory/regulatory requirements;

- to review the clarity and completeness of disclosures in the financial statements, interim and annual reports, preliminary announcements and related formal statements and press releases;

- to implement and review the risk management framework and internal control system (including the establishment of internal audit function (the **"IA Function"**)) and ensure co-ordination between the external auditors and the Management, to assess the independence of the IA Function by reviewing the effectiveness of the IA Function and continuously reviewing its reporting and remuneration arrangements, to review the assistance given by the Management to the auditors, and to discuss problems and concerns, if any, arising from the interim and final audits, and any matters which the auditors may wish to discuss, and where necessary, in the absence of the Management;

- to review and discuss with the external auditors (or such other parties) any suspected fraud, 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;

- to identify, develop and review the effectiveness of the Group's policies, practices and performance in respect of environmental, social and governance issues;

- to consider the selection, appointment, re-appointment, resignation or dismissal of the external auditors of the Company;

- to review notifiable transactions and/or connected transactions of the Company falling respectively within the scope of Chapters 14 and 14A of the Listing Rules (if any);

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

- to undertake such other functions and duties as may be required by the Listing Rules.

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

The Audit Committee meets with the Group's external and internal auditors and the Management to review the accounting, auditing and financial reporting matters to ensure that an effective control environment is maintained within the Group.

The Audit Committee is primarily responsible for the selection, appointment and removal of the internal auditors. The internal auditors' primary line of reporting is to the Chairman of the Audit Committee.

Apart from the responsibilities set out above, the Audit Committee also reviews, implements and administers the Group's Fraud and Whistle-Blowing Policy which sets out the mechanism by which the employees of the Company and other persons may, in confidence, raise serious concerns and complaints about possible incorrect financial reporting and/or other matters that could have a large impact on the Company. The Audit Committee is authorised by the Company to do all such acts as are necessary to ensure, amongst others, that:

- independent investigations are carried out in an appropriate and timely manner;

- appropriate action is taken to correct any such weaknesses in the internal control system to prevent the recurrence of similar events in the future; and

Corporate Governance Report (cont'd)

- any administrative, disciplinary, civil or other actions initiated upon completion of the investigations are appropriately balanced and fair.

In addition, all future transactions with connected persons shall comply with the requirements of the Listing Rules. The Directors shall abstain from voting in any contract or arrangement, or proposed contract or arrangement in which he or she has a 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 senior management to attend its meetings.

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

The external auditors provide regular updates and periodic briefings to the Audit Committee on changes or amendments to accounting standards to enable the members of the Audit Committee to keep abreast of such changes and their corresponding impact on the financial statements, if any.

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 appointed and the audit engagement partner assigned to the audit.

The auditors of the Company's subsidiaries are disclosed in note 27 to the financial statements in this Annual Report.

The Audit Committee is satisfied with the independence and objectivity of KPMG LLP as the external auditors of the Company during FY2017 and has recommended to the Board the re-appointment of KPMG LLP. KPMG LLP has been re-appointed as the external auditors of the Company at the AGM held on 28 April 2017.

During FY2017, the Audit Committee has convened four meetings and has performed its functions in accordance with its Terms of Reference and the Hong Kong Code.

Directors' and Auditors' Responsibilities for Financial Statements

The Directors acknowledge that they are responsible for the preparation of the financial statements of the Company for each financial period which give a true and fair view of the financial position, financial performance, and state of affairs of the Group.

In preparing the financial statements for FY2017, the Directors have selected appropriate accounting policies and applied them consistently. The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue its business as a going concern, and therefore the Directors have prepared the financial statements on a going concern basis.

The responsibilities of the external auditors are set out in the Independent Auditor's Report as set out in pages 55 to 60 of this Annual Report.

Auditors' Remuneration

KPMG LLP, the external auditors of the Company, was responsible for providing services in connection with the audit of the financial statements of the Group for FY2017.

For FY2017, the total remuneration in respect of the review and audit services provided by KPMG LLP, Singapore and other member firms of KPMG International for the Group amounted to approximately RMB1.17 million.

Corporate Governance Report (cont'd)

During FY2017, other than the provision of services in connection to the audit of the financial statements of the Group, KPMG LLP was not involved in the provision of other non-audit services to the Group. The Audit Committee is satisfied that the independence of the external auditors was uphold.

Internal Audit

The Company has appointed Yang Lee & Associates as the internal auditors to carry out internal audit of the Company covering the review of key internal controls in selected areas based on key operational, financial and compliance risks as identified under the risk management framework and as advised by the Audit Committee and the Management. The internal auditors report directly and primarily to the Audit Committee and assist the Board in monitoring and managing the risks and internal controls of the Group.

The internal auditors will plan their internal audit schedules in consultation with, but independently of the Management. The internal auditors will submit their internal audit plan to the Audit Committee for approval prior to the commencement of the internal audit. The Audit Committee will review the activities of the internal auditors on a regular basis, including the overseeing and monitoring of the implementation of improvements on the weaknesses of the system of internal controls in the Company.

In accordance with their audit plan, the internal auditors have conducted an annual review of the effectiveness of the Company's system of internal controls. Weaknesses in internal controls and recommendations for areas of improvements (if any) have been reported to the Audit Committee. Following the receipt of such recommendations, the Company has fully implemented the recommendations to further strengthen the risk management framework and internal control system during FY2017.

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.

(E) SHAREHOLDERS' RIGHTS AND RESPONSIBILITIES

Shareholders' Rights, Communication with Shareholders and Conduct of Shareholders' Meetings

In line with the Hong Kong Code, the following information would be communicated to the shareholders of the Company from time to time:

- any significant changes in the Constitution;
- details of shareholders by type and their aggregate shareholding;
- details of the last shareholders' meeting, including the time and venue, major items discussed and voting particulars;
- indication of important shareholders' dates such as record dates and book closure dates in the coming financial years; and
- public float capitalisation as at the end of the financial year.

The Company does not have a dividend policy. However, the Company will work towards maintaining a balance between meeting shareholders' expectations and prudent capital management.

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

Corporate Governance Report (cont'd)

Information is disseminated to the shareholders of the Company 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;
- half-yearly financial statements containing a summary of the financial information and affairs of the Group for the period;
- notices of and explanatory memoranda for AGMs 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 published on the websites of the SEHK;
- the Company's website at http://www.hengxin.com.sg at which shareholders can access information on the Group. The website provides, amongst others, annual reports, interim reports, corporate announcements, press releases, contact details and profiles of the Group;
- shareholders may refer to the Constitution in relation to their rights together with the detailed requirements and procedures for requesting the Board to convene an extraordinary general meeting or putting forward proposals at general meetings. The Constitution is posted on the websites of the Company and the SEHK. Pursuant to Section 177 of the Companies Act, two or more shareholders holding not less than 10% of the total number of issued shares of the Company (excluding treasury shares) or, if the Company has not a share capital, not less than 5% in number of the shareholders of the Company or such lesser number as is provided by the Constitution may call a general meeting. Section 177(4) of the Companies Act provides that, even if the Constitution does not have such provisions, notice of such meeting shall be served to members having a right to attend; and
- shareholders may also direct their questions to the Company by writing to the Senior General Executive of the Company at hengxin@listedcompany.com (by email).

In addition, shareholders are encouraged to attend the AGMs and other general meetings to ensure that the Company is held to a high level of accountability, and to stay informed of the Group's strategy and goals. AGMs and extraordinary general meetings are the principal forum for dialogue with shareholders.

Notices of the AGMs and extraordinary general meetings are despatched to shareholders, together with explanatory notes or a circular on items of special business before the AGMs and extraordinary general meetings. The Board welcomes questions from shareholders who have an opportunity to raise issues either informally or formally before or at any general meetings. The chairmen of the Audit Committee, Remuneration Committee, Nominating Committee and the external auditors of the Company will usually be available at general meetings of the Company to answer questions relating to the work of the Board Committees and the external auditors.

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

All resolutions in the AGM held during FY2017 have been decided on a poll demanded 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.

Corporate Governance Report (cont'd)

(F) 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 the senior management of the Group (the "**Best Practices Code**"). The Best Practices Code is no less exacting than the required standard in the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 of the Listing Rules. Having made specific enquiries on all the Directors and the senior management of the Group, all Directors and the senior management of the Group have complied with the required standard set out in the Model Code and the Best Practices Code during FY2017.

Under the Best Practices Code, the Directors, the Management and other officers of the Group who are subject to the Best Practices Code or the Model Code are not permitted to deal in any of the Company's securities during the period set out below:

- commencing 30 days before the announcement of Company's half-yearly results, or if shorter, the period from the end of the relevant half-year period up to the announcement of the Company's half-yearly results; and

- commencing 60 days before the announcement of the Company's full year results, or if shorter, the period from the end of the relevant full year period up to the announcement of the Company's full year results.

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

The Company issues regular internal memoranda to the Directors and officers of the Group to remind them of the prohibitions set out above.

(G) CONNECTED TRANSACTIONS

The Company did not enter into any new connected transactions during FY2017.

Details of the continuing connected transactions for FY2017 which fall under Chapter 14A of the Listing Rules are set out in the section headed "Continuing Connected Transactions" in this Annual Report.

(H) THE CONSTITUTION

There was no change in the Constitution of the Company during FY2017.

Financial Contents

Directors' Statement

We are pleased to submit the annual report to the members of the Company together with the audited consolidated financial statements of the Group for the financial year ended 31 December 2017 ("**FY2017**").

In our opinion:

(a) the financial statements set out on pages 61 to 124 are drawn up so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2017 and the financial performance, changes in equity and cash flows of the Group for the year ended on that date in accordance with the provisions of the Singapore Companies Act, Chapter 50 (the "**Companies Act**") and International Financial Reporting Standards; and

(b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

The Board of Directors has, on the date of this statement, authorised these financial statements for issue.

DIRECTORS

The Directors in office during the financial year ended 31 December 2017 and at the date of this statement are as follows:

Cui Wei	Chairman and Non-executive Director
Du Xiping	Executive Director
Xu Guoqiang	Executive Director
Zhang Zhong	Non-executive Director
Tam Chi Kwan Michael	Independent Non-executive Director
Dr. Li Jun	Independent Non-executive Director
Pu Hong	Independent Non-executive Director

Arrangements to enable Directors to acquire benefits by means of the acquisition of shares and debentures

Neither at the end of nor at any time during the financial year ended 31 December 2017 was the Company a party to any arrangement, whose objects are, or one of whose objects 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, except as disclosed under the "Share Options" section of this statement.

Directors' Statement (cont'd)

Directors' interests

According to the register of Directors' shareholdings kept by the Company for the purposes of Section 164 of the Companies Act, particulars of interests of Directors who held office at the end of the financial year ended 31 December 2017 ("**FY2017**") (including those held by their respective spouses and infant children) in shares, debentures, warrants and share options in the Company and in related corporations (other than wholly-owned subsidiaries) are as follows:

Name of Director and corporation in which interests are held	Shareholdings at beginning of the year	Shareholdings at end of the year
Cui Wei		
Hengxin Technology Ltd.		
— ordinary shares		
— deemed interests[1]	90,294,662	92,628,662
Kingever Enterprises Limited[1]		
— ordinary shares		
— direct interest	90,294,662	92,628,662
Zhang Zhong		
Hengxin Technology Ltd.		
— ordinary shares		
— deemed interests[2]	28,082,525	28,082,525
Wellahead Holdings Limited[2]		
— ordinary shares	28,082,525	28,082,525
— direct interest		
Du Xiping		
Hengxin Technology Ltd.		
— ordinary shares		
— direct interest	11,468,000	11,468,000

1 Mr. Cui Wei beneficially owns the entire issued share capital of Kingever Enterprises Limited ("**Kingever**"), and Kingever in turn holds 92,628,662 issued shares in the Company. By virtue of Section 7 of the Companies Act, Mr. Cui Wei is deemed to have such interests as held by Kingever in the Company. As disclosed in the announcement of the Company dated 13 December 2017, during FY2017, Mr. Cui Wei has acquired a total of 2,334,000 ordinary shares of the Company in November 2017 and December 2017 through Kingever.

2 Ms. Zhang Zhong beneficially owns the entire issued share capital of Wellahead Holdings Limited ("**Wellahead**"), and Wellahead in turn holds 28,082,525 issued shares in the Company. By virtue of Section 7 of the Companies Act, Ms. Zhang Zong is deemed to have such interests as held by Wellahead in the Company.

Except as disclosed in this statement, no Director who held office at the end of the financial year ended 31 December 2017 had interests in shares, debentures, warrants or share options of the Company, or of related corporations, either at the beginning or at the end of the financial year ended 31 December 2017.

There were no changes in any of the above mentioned interests in the Company between 31 December 2017 and 21 January 2018.

Directors' Statement (cont'd)

SHARE OPTIONS

Options to take up unissued shares

The Hengxin Share Option Scheme (the "**Share Option Scheme**") of the Company was approved and adopted by shareholders at the Company's extraordinary general meeting held on 27 October 2010. The Share Option Scheme is administered by the Remuneration Committee of the Company (the "**Remuneration Committee**") which comprises:

Dr. Li Jun (Chairman)	Chairman, Independent Non-executive Director
Cui Wei	Member, Non-executive Director
Xu Guoqiang	Member, Executive Director
Tam Chi Kwan Michael	Member, Independent Non-executive Director
Pu Hong	Member, Independent Non-executive Director

The Share Option Scheme is valid and effective for a period of 10 years from 27 October 2010. The purpose of the Share Option Scheme is to provide the people and the parties working for the interests of the Group with an opportunity to obtain an equity interest in the Company, thus linking their interest with the interest of the Group and thereby providing them with an incentive to work better for the interest of the Group. Pursuant to the Share Option Scheme, the Board may, at its discretion, offer to grant an option to all Directors (whether executive or non-executive and whether independent or not), any employee (whether full time or part time) of the Group (whether on an employment or contractual or honorary basis and whether paid or unpaid), who in the absolute opinion of the Remuneration Committee, have contributed to the Group. 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 total number of shares issued and to be issued upon exercise of the options granted to a grantee (including exercised, cancelled and outstanding options) in any 12-month period must not exceed 1% of the shares in issue at such time unless approved by the shareholders of the Company in general meeting at which the relevant participant and his/her associates shall abstain from voting. The option has an exercise price (more details below) 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 payable to the Company within 28 days from the offer date (or such other period as the Remuneration Committee may determine). Options granted with the exercise price set at the market price shall only be exercised after the first anniversary but before the tenth 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. The period within which the options may be exercised under the Share Option Scheme shall not be more than 10 years from the date of grant of the relevant option.

There were no unissued shares of the Company under options granted pursuant to the Share Option Scheme. As at the date of the annual report, the total number of shares available for issue under the Share Option Scheme is 33,600,000 shares, representing approximately 8.66% of the shares in issue (i.e. 388,000,000 shares) as at the date of the annual report.

* Exercise price or subscription price for an option shall be at least the highest of:

(i) the closing price of the shares of the Company as stated in the daily quotation sheet issued by The Stock Exchange of Hong Kong Limited ("**SEHK**") on the offer date, which must be a business day; and

(ii) the average closing price of the shares of the Company as stated in the daily quotation sheet issued by the SEHK for the five consecutive business days immediately preceding the offer date.

Directors' Statement (cont'd)

Unissued shares under option and options exercised

During the financial year ended 31 December 2017, no options to take up unissued shares of the Company or any corporation in the Group were granted. There were no shares of the Company or any corporation in the Group issued by virtue of the exercise of an option to take up unissued shares.

Unissued shares under option

As at end of the financial year ended 31 December 2017, there were no unissued shares of the Company or any corporation in the Group under options.

AUDIT COMMITTEE

The Board has adopted the principles of corporate governance as described in the Code of Corporate Governance formulated by the SEHK with regards to the Audit Committee of the Company (the "**Audit Committee**").

The Audit Committee comprises the following members:

Tam Chi Kwan Michael	Chairman, Independent Non-executive Director
Cui Wei	Member, Non-executive Director
Zhang Zhong	Member, Non-executive Director
Dr. Li Jun	Member, Independent Non-executive Director
Pu Hong	Member, Independent Non-executive Director

During the financial year ended 31 December 2017, the Audit Committee has reviewed the following, where relevant, with the executive Directors and/or the external and internal auditors of the Company:

- the audit plans and results of the internal auditor's examination and evaluation of the Group's systems of internal accounting controls;
- the Group's financial and operating results and accounting policies;
- 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;
- the interim and annual announcements as well as the related press release on the results and financial position of the Company and the Group;
- the co-operation and assistance given by the management to the Group's external auditors;
- the appointment and re-appointment of the external auditors of the Company;
- interested person transactions;
- all non-audit services provided by the Group's external auditors; and
- the financial reporting system, risk management and internal control systems of the Company.

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 function 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.

Directors' Statement (cont'd)

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

AUDITORS

KPMG LLP were first appointed as auditors of the Company in 2016 upon the retirement of Messrs Deloitte & Touche LLP.

The auditors, KPMG LLP, have indicated their willingness to accept re-appointment.

ADDITIONAL INFORMATION

The Directors are pleased to present in the report the following additional information as required under the Companies Ordinance (Chapter 622, 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 and business review

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.

Further discussion and analysis of these activities, the principal risks and uncertainties facing the Group, a business review of the Group as well as a discussion and analysis of the Group's performance during FY2017, the material factors underlying its results and financial position and an indication of likely future developments in the Group's business, can be found in the sections headed "Chairman's Message" and "Management Discussion and Analysis" as set out on pages 7 to 11 and pages 12 to 21 respectively of the annual report. These discussions form part of this Directors' statement.

In addition, details regarding the Group's performance by reference to environmental and social-related key performance indicators and policies, as well as relationships with its employees, customers and suppliers, required to be disclosed pursuant to Rule 13.91 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules of SEHK**") will be provided in a separate report which will be published by the Company in due course.

Results and dividends

The Group's profit for FY2017 and the state of affairs of the Company and the Group as at 31 December 2017 are set out in the financial statements on pages 61 to 124 of the annual report.

A final dividend of RMB0.0257 per share in respect of the FY2016 was paid during FY2017 (2016: RMB0.0297). The Directors recommend the payment of a final dividend of RMB0.0294 (2016: RMB0.0257) per share in respect of the FY2017 to shareholders of the Company whose names appear on the Company's register of members on 15 May 2018 (Tuesday), and such dividend will be paid out on or about 28 May 2018 (Monday). Upon approval by the shareholders, the payment will be incorporated in the financial statements as an allocation from accumulated profits within the equity section of the statement of financial position.

Directors' Statement (cont'd)

Board composition

During FY2017 and as at 31 December 2017, the Board comprised Mr. Du Xiping and Mr. Xu Guoqiang as Executive Directors, Mr. Cui Wei and Ms. Zhang Zhong as Non-Executive Directors, and Mr. Tam Chi Kwan Michael, Dr. Li Jun and Mr. Pu Hong as Independent Non-Executive Directors.

The Board composition during FY2017 is set out at the "Corporate Governance Report" on pages 29 to 42 of the annual report.

Bank loans and other borrowings

The Group has repaid all the unsecured bank loans as at 31 December 2016 during FY2017. As at 31 December 2017, the Group has no outstanding bank loans (31 December 2016: RMB 27,000,000).

Five year summary

A summary of the consolidated results and assets and liabilities of the Group for the last five financial years is set out on pages 2 to 6 of the 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 FY2017 are set out in Note 17 to the financial statements.

Share capital

Details of the Company's share capital are set out in Note 21(B) to the financial statements.

Pre-emptive rights

There are no provisions for pre-emptive rights under the Company's Constitution 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 the existing shareholders.

Purchase, redemption or sale of shares

Neither the Company, nor its subsidiaries, purchased, redeemed or sold its equity securities during FY2017.

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 of SEHK and considers all of the Independent Non-Executive Directors to be independent.

Directors' service contracts

Each of the Executive Directors, Mr. Du Xiping and Mr. Xu Guoqiang, entered into a service contract with the Company for an initial term of three years commencing on 31 December 2015 and 20 December 2011 respectively, renewable automatically for any successive terms upon the date of expiry of each three-year period, unless terminated in accordance with the provisions of the service contract by either contractual party giving to the other not less than three months' prior notice in writing at the end of the initial term or at any time thereafter. The service agreement for Mr. Xu Guoqiang had been renewed for a term of another three years commencing 20 December 2014 and a further three years' term commencing 20 December 2017.

Directors' Statement (cont'd)

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 compensation.

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 statutory compensation.

Directors' remuneration

Directors' remuneration is subject to approval by the Remuneration Committee of the Company with reference to the Directors' duties, responsibilities and performance and the results of the Group. Details of the Directors' remuneration are set out in Note 11 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 30(B) to the financial statements.

Save as disclosed above, no transaction, arrangement or 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 FY2017 or at the end of FY2017.

Directors' interests in competing businesses

None of the Directors or their respective close associates has any competing interests which need to be disclosed pursuant to Rule 8.10 of the Listing Rules of SEHK.

Directors' and chief executive's interests and short positions in shares, underlying shares and debentures

As at 31 December 2017, the interests and short positions of the Directors and chief executives 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 (Chapter 571 of the Laws of Hong Kong, the "**SFO**")), which are required to be notified to the Company and the SEHK pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which are deemed or taken to have under such provisions of the SFO) or which are required to be entered into, as recorded in the register required to be kept by the Company pursuant to Section 352 of Part XV 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 of SEHK, were as follows:

Long positions in the company:

Name of Directors	Capacity and nature of interests	Number of ordinary shares held	Approximate percentage of the Company's issued share capital
Cui Wei[1]	Deemed interest and interest in controlled corporation	92,628,662	23.87%
Zhang Zhong[2]	Deemed interest and interest in controlled corporation	28,082,525	7.24%
Du Xiping	Beneficial owner	11,468,000	2.96%

Notes:

(1) Mr. Cui Wei beneficially owns the entire issued share capital of Kingever, and Kingever in turn holds approximately 23.87% of the total issued shares in the Company.

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

Directors' Statement (cont'd)

Save as disclosed above, as at 31 December 2017, none of the Directors and chief executives of the Company nor their associates had or were 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 have been recorded in the register maintained by the Company pursuant to Section 352 of Part XV of the SFO or which have been notified to the Company and the SEHK pursuant to the Model Code.

Substantial shareholders' interests and short positions in shares and underlying shares

As at 31 December 2017, insofar as known to the Directors, the following shareholders having 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 Part XV of the SFO:

Long positions in the Company:

Name of substantial shareholders	Capacity and nature of interests	Number of ordinary shares held	Approximate percentage of the Company's issued share capital
Kingever(1)	Beneficial owner	92,628,662	23.87%
Cui Wei(1)	Deemed interest and interest in controlled corporation	92,628,662	23.87%
Wellahead(2)	Beneficial owner	28,082,525	7.24%
Zhang Zhong(2)	Deemed interest and interest in controlled corporation	28,082,525	7.24%

Notes:

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

(2) 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 2017, no person, other than the Directors, whose interests are set out in the section headed "Directors' and chief executive's interests and short positions in shares and underlying shares and debentures" above, had an interest or short position in the shares or underlying shares of the Company that was required to be recorded in the register required to be kept by the Company under section 336 of Part XV of the SFO.

EQUITY-LINKED AGREEMENTS

Saved as the Share Option Scheme as disclosed in the section headed "Share Options" above, no equity-linked agreements were entered into during FY2017 or subsisted at the end of FY2017.

RESERVES

Details of movements in the reserves of the Company and the Group during FY2017 are set out in Note 21 to the financial statements.

Directors' Statement (cont'd)

DISTRIBUTABLE RESERVES

The Company's reserves available for distribution to shareholders as at 31 December 2017 amounted to approximately RMB150,230,000 (31 December 2016: approximately RMB163,367,000).

CHARITABLE DONATIONS

The Group had made donations amounting approximately RMB500,000 (31 December 2016: approximately RMB500,000) which is part of a donation commitment to a charity association and payable in equal annual instalments 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 latest practicable date prior to the issue of the annual report.

RELATIONSHIPS WITH CUSTOMERS AND SUPPLIERS

The Group's sales are usually made through winning tender. For the Group's major customers such as the 3 telecom operators in the People's Republic of China ("**PRC**"), a centralised purchasing approach is adopted in which all purchases are tendered out by the central purchasing office annually or once every two years. Larger institutional customers such as telecom operators, equipment manufacturers and system integrators assess the Group regularly as to whether the Group fulfils their criteria to continue being included as their approved supplier. We have regular communications with our customers through which we can anticipate the development in the telecoms industry and coming tenders, and help us to keep abreast of our customers' product and demand trends, which enable the Group to continuously improve its product offerings.

The Group also adopts tender process for selection of qualified suppliers for all its purchases. Admission as a qualified supplier can only be made when all relevant requirements, including but not limited to background, validity of its licences/permits, production capacity, equipment, product quality assessment, etc., have been met. We do not give preference to any particular supplier, nor do we place all our purchase orders with only one supplier. Tender documents are issued to qualified suppliers every year. Generally, if qualified suppliers obtain similar scores in an overall assessment, the supplier with the most favourable price gets the highest allocation of purchase quantity. The tendered quantity of purchase will be allocated in descending amount to subsequent ranking suppliers. Evaluation of suppliers is also carried out quarterly, half-yearly or annually with respect to different materials. These evaluation results will be taken into account for consideration for the next annual tender. For major suppliers, on-site visits will be conducted at the supplier's facilities with inspections and testing being made on the required raw materials. We believe that these measures can help the Group in sourcing quality raw materials at competitive prices on one hand and can avoid heavy reliance on one particular supplier on the other.

MAJOR CUSTOMERS AND SUPPLIERS

In FY2017, sales to the Group's five largest customers accounted for approximately 65.2% of the total sales for the year and sales to the largest customer included therein amounted to approximately 21.3%. Purchases from the Group's five largest suppliers accounted for approximately 45.3% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 12.9%.

None of the Directors nor any of their close associates nor 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.

Directors' Statement (cont'd)

EMPLOYEES

As at 31 December 2017, we employed 927 (31 December 2016: 966) people on a full-time basis, among whom, 122 were in product research and development, 139 were in sales and marketing, 591 were in manufacturing and distribution, and 75 were in general and administration.

Hiring, growing and retaining talented, experienced and innovative individuals are vital to the Company's success.

Salaries of employees are maintained at a competitive level and are reviewed on a continuing basis with close reference to individual performance, working experience, qualification and the current relevant industry practices. We regularly invest in developing our people with ongoing training. Retention strategies are in place to minimise employee turnover including talent and performance management, competitive remuneration, recognition and reward programmes of high-performance employees. Human resource policies are also in place to support, attract, retain and grow talent, as well as to create a conducive work environment.

The Group has not experienced any material dispute with its employees or disruption to its operations due to employee dispute and has not experienced any difficulties in the recruitment and retention of experienced staff or skilled personnel. The Group maintains a good relationship with its employees.

RETIREMENT SCHEMES

Details of retirement schemes of the Group during FY2017 are set out in Note 10 to the financial statements.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group strives to operate in compliance with applicable environmental laws as well as to protect the environment by minimising the negative impact of the Group's existing business activities on the environment and supporting natural and environmental protection schemes.

The Company obtained the certification of OHSAS 18000 for assessment of environment system by effectively controlling the usage of water and electricity and raw materials, formulating assessment procedures on water and electricity consumption by equipment department and assessment system of utilization rate of raw materials by production department. Besides, the Group's key operating subsidiary, Hengxin (Jiangsu), has obtained the ISO 14001:2004 certification for Environmental Management Systems since 2007, and has always been in compliance with the national environmental policies of PRC.

COMPLIANCE WITH LAWS AND REGULATIONS

Throughout FY2017, to the best knowledge, information and belief, the Company was not aware of any non-compliance with any relevant laws and regulations that had a significant impact on the Company.

Directors' Statement (cont'd)

PERMITTED INDEMNITY PROVISIONS

A permitted indemnity provision for the benefit of the Directors is currently in force and was in force throughout FY2017. The Company has taken out and maintained appropriate insurance cover in respect of potential legal actions against its Directors and officers.

On behalf of the Board of Directors

Du Xiping
Director

Xu Guoqiang
Director

19 March 2018

Independent Auditor's Report

Members of the Company
Hengxin Technology Ltd.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the accompanying financial statements of Hengxin Technology Ltd. (the "**Company**") and its subsidiaries (the "**Group**"), which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 December 2017, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 61 to 124.

In our opinion, the accompanying consolidated financial statements of the Group and the statement of financial position of the Company are properly drawn up in accordance with the provisions of the Singapore Companies Act, Chapter 50 (the "**Act**") and International Financial Reporting Standards ("**IFRS**") so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2017 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group for the year ended on that date.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("**ISA**"). Our responsibilities under those standards are further described in the Auditors' responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority ("**ACRA**") Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities ("**ACRA Code**") together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent Auditor's Report (cont'd)

Valuation of trade receivables (RMB705,067,000)
(Refer to Note 15 to the financial statements)

The key audit matter

The Group has significant trade receivables balances as at year end. Given the size of the balances and the risk that some of the trade receivables may not be recoverable, judgement is required to evaluate whether any allowance should be made to reflect the risk.

The Group assessed the recoverability of trade receivables with reference to industry practices for the allowance on impairment loss and ageing analysis of the trade receivables, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

How the matter was addressed in our audit

Our audit work was focused on trade receivables which are significant and long overdue as these are considered to be most susceptible to impairment.

We reviewed the ageing analysis of the Group's trade receivables and assessed the recoverability of significant and long overdue balances, with reference to sales and payment track records. This includes ascertaining that the trade receivables are aged correctly. We also examined subsequent receipts from the customers, or where there were no subsequent receipts, analysed their payment track records to assess the recoverability of the outstanding trade receivables. We considered whether management's assessment of the allowance of impairment loss was appropriate given the current economic conditions faced by the customers. We have taken into consideration publicly available information of the Group's major customers, competitors, industry outlook and local country economic data to corroborate with management's assessment.

Our findings — We found management's assessment of the recoverability of trade receivables and the allowance for impairment loss of the trade receivables, to be conservative.

Independent Auditor's Report (cont'd)

Valuation of investment in an associate (RMB12,440,000)
(Refer to Note 19 to the financial statements)

The key audit matter

During the financial year, the operations of the Group's associate continued to incur operating losses. Accordingly, there is a need for the Group to assess whether there are impairment indicators and where applicable, to assess the recoverable amount of the investment in associate and determine if any impairment loss should be recognised or reversed.

The impairment assessment exercise and the estimation of the recoverable amount is highly subjective and involves significant management's judgement.

The Group recorded an impairment loss of RMB5,100,000 (2016: Nil) as of 31 December 2017.

How the matter was addressed in our audit

The Group engaged an external valuer to assess the recoverable amount of the investment in associate. We evaluated the competence, capabilities and objectivity of the external valuer.

We involved our own valuation specialist to assist us in challenging the valuation methodology adopted by the external valuer. The valuation specialist has considered the key assumptions used by comparing to the market data, where available, and historical performance of the associate. The valuation specialist also performed stress testing on key assumptions to evaluate the sensitivity of the outcomes, taking into account the downside scenarios against reasonably possible changes to the key assumptions.

We also considered whether management's assessment of the allowance of impairment loss was appropriate given the current economic conditions faced by the associate. We have taken into consideration the recent financial performance of the associate with reference to the latest management accounts available and business plan of the associate to corroborate with management's assessment.

Our findings — We are satisfied with the competence, capabilities and objectivity of the external valuer and have considered their independence in carrying out their work.

The valuation methodology adopted by the external valuer were in line with generally accepted market practices and the key assumptions used were found to be optimistic. Accordingly, we found management's assessment of the allowance of impairment loss to be optimistic.

Independent Auditor's Report (cont'd)

Valuation of investment in unquoted equity security (RMB10,200,000)
(Refer to Note 20 to the financial statements)

The key audit matter

The Group held interests in unquoted equity security. As the valuation of unquoted equity security is generally based on methodologies that apply significant unobservable inputs. This has resulted in a significant degrees of estimation uncertainty and management judgement in the valuation.

How the matter was addressed in our audit

The Group engaged an external valuer to assess the fair value of the investment in unquoted equity security. We evaluated the competence, capabilities and objectivity of the external valuer.

We involved our own valuation specialist to assist us in challenging the valuation methodology adopted by the external valuer and the reasonableness of the inputs applied by the external valuer. The valuation specialist has considered the key assumptions used in the determination of the fair value of unquoted investments by corroborating these with external sources and industry information, where possible.

Our valuation specialist also assessed the fair value of the investment using multiples of market comparable companies.

Our findings — We are satisfied with the competence, capabilities and objectivity of the external valuer and have considered their independence in carrying out their work.

We noted that the valuation estimates determined by the external valuer are within a reasonable range of outcomes.

Other information

Management is responsible for the other information contained in the annual report. Other information is defined as all information in the annual report other than the financial statements and our auditors' report thereon.

We have obtained all other information prior to the date of this auditors' report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and directors 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 Act and IFRSs, and for devising and maintaining a system of internal accounting controls sufficient to provide a 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 financial statements and to maintain accountability of assets.

Independent Auditor's Report (cont'd)

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Group's financial reporting process.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISA, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal controls relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Independent Auditor's Report (cont'd)

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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.

The engagement partner on the audit resulting in this independent auditors' report is Teo Han Jo.

KPMG LLP
Public Accountants and Chartered Accountants

Singapore
19 March 2018

Statements of Financial Position

At 31 December 2017

	Note	Group		Company	
		2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000
Assets					
Property, plant and equipment	17	139,710	146,112	14	8
Lease prepayment	18	49,340	50,695	—	—
Subsidiaries	27	—	—	396,385	396,385
Trade and other receivables	15	17,371	22,872	23,802	42,675
Associate	19	12,440	20,592	—	—
Other investments	20	10,847	32,947	—	—
Deferred tax assets	13(D)	4,340	77	—	—
Non-current assets		234,048	273,295	420,201	439,068
Lease prepayment	18	1,355	1,355	—	—
Inventories	14	212,046	170,296	—	—
Other investments	20	50,000	29,000	—	—
Trade and other receivables	15	762,034	593,656	15,303	15,153
Cash and cash equivalents	16	471,873	560,228	11,281	5,607
Current assets		1,497,308	1,354,535	26,584	20,760
Total assets		1,731,356	1,627,830	446,785	459,828
Equity attributable to owners of the Company					
Share capital	21(B)	295,000	295,000	295,000	295,000
General reserves	21(C)	217,391	200,601	—	—
Special reserve	21(C)	(6,017)	(6,017)	—	—
Fair value reserve	21(C)	170	18,955	—	—
Translation reserves	21(C)	(1,117)	(803)	—	—
Accumulated profits	21(A)	975,518	888,223	150,230	163,367
Total equity		1,480,945	1,395,959	445,230	458,367
Liabilities					
Deferred income	25	4,175	5,203	—	—
Deferred tax liabilities	13(D)	5,701	5,505	—	—
Non-current liabilities		9,876	10,708	—	—
Income tax payable		12,049	5,527	—	—
Short-term loans	23	—	27,000	—	—
Trade and other payables	24	228,486	188,636	1,555	1,461
Current liabilities		240,535	221,163	1,555	1,461
Total liabilities		250,411	231,871	1,555	1,461
Total equity and liabilities		1,731,356	1,627,830	446,785	459,828

The notes on page 65 to 124 are integral part of these financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2017

	Note	2017 RMB'000	2016 RMB'000
Revenue	6	1,633,327	1,532,161
Cost of sales		(1,286,701)	(1,215,379)
Gross profit		346,626	316,782
Other operating income	7(A)	22,552	25,798
Selling and distribution expenses		(101,228)	(108,328)
Administrative expenses		(58,012)	(53,116)
Other operating expenses	7(B)	(66,698)	(53,262)
Operating profit		143,240	127,874
Interest expense	8	(62)	(1,479)
Share of loss of associate, net of tax	19	(8,152)	(4,936)
Profit before tax	7(C)	135,026	121,459
Income tax expense	13	(20,969)	(21,617)
Profit for the year attributable to owners of the Company		114,057	99,842
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss:			
Available-for-sale financial assets — net change in fair value		(22,100)	22,300
Foreign operations — foreign currency translation differences		(314)	511
Related tax	13(D)	3,315	(3,345)
Other comprehensive income for the year, net of tax		(19,099)	19,466
Total comprehensive income for the year attributable to owners of the Company		94,958	119,308
Basic and diluted earnings per share (RMB)	9	0.294	0.257

The notes on page 65 to 124 are integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

	Note	Share capital RMB'000	General reserves RMB'000	Special reserve RMB'000	Fair value reserve RMB'000	Translation reserves RMB'000	Accumulated profits RMB'000	Total RMB'000
At 1 January 2016		295,000	182,898	(6,017)	—	(1,314)	817,608	1,288,175
Total comprehensive income for the year								
Profit for the year		—	—	—	—	—	99,842	99,842
Other comprehensive income for the year		—	—	—	18,955	511	—	19,466
Total comprehensive income for the year		—	—	—	18,955	511	99,842	119,308
Transactions with owners of the Company								
Contributions and distributions								
Dividends paid	21(D)	—	—	—	—	—	(11,524)	(11,524)
Total transactions with owners of the Company		—	—	—	—	—	(11,524)	(11,524)
Transfer to statutory reserves	21(C)	—	17,703	—	—	—	(17,703)	—
Balance at 31 December 2016		295,000	200,601	(6,017)	18,955	(803)	888,223	1,395,959
At 1 January 2017		295,000	200,601	(6,017)	18,955	(803)	888,223	1,395,959
Total comprehensive income for the year								
Profit for the year		—	—	—	—	—	114,057	114,057
Other comprehensive income for the year		—	—	—	(18,785)	(314)	—	(19,099)
Total comprehensive income for the year		—	—	—	(18,785)	(314)	114,057	94,958
Transactions with owners of the Company								
Contributions and distributions								
Dividends paid	21(D)	—	—	—	—	—	(9,972)	(9,972)
Total transactions with owners of the Company		—	—	—	—	—	(9,972)	(9,972)
Transfer to statutory reserves	21(C)	—	16,790	—	—	—	(16,790)	—
Balance at 31 December 2017		295,000	217,391	(6,017)	170	(1,117)	975,518	1,480,945

The notes on page 65 to 124 are integral part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	Note	2017 RMB'000	2016 RMB'000
Cash flows from operating activities			
Profit before tax		135,026	121,459
Adjustments for:			
— Share of loss of an associate, net of tax	19	8,152	4,936
— Depreciation of property, plant and equipment	17(A)	22,207	21,002
— Amortisation of lease prepayment	18(A)	1,355	1,354
— (Write-back)/allowance for doubtful trade receivables	15(A)	(1,045)	325
— (Write-back)/write-down of inventory	14	(335)	24
— Net (gain)/loss on disposal of property, plant and equipment	7	(58)	14
— Interest expense	8	62	1,479
— Interest income	7(A)	(4,860)	(8,256)
— Deferred income		(1,028)	(1,028)
— Write-off of property, plant and equipment		3	—
— Unrealised foreign exchange loss/(gain)		8,661	(9,773)
		168,140	131,536
Changes in:			
— Inventories		(41,609)	(54,142)
— Trade and other receivables		(161,907)	11,822
— Trade and other payables		40,044	40,797
Cash generated from operating activities		4,668	130,013
Interest received		4,860	8,256
Income tax paid		(15,199)	(17,774)
Net cash (used in)/from operating activities		(5,671)	120,495
Cash flows from investing activities			
Acquisition of property, plant and equipment	17(A)	(16,159)	(16,582)
Acquisition of associate	19	—	(25,528)
Loans to the associate		—	(24,872)
Proceeds from disposal of property, plant and equipment		422	3,797
Changes in pledged bank deposits		(20,734)	13,158
Acquisition of other investments		(21,000)	(29,000)
Net cash used in investing activities		(57,471)	(79,027)
Cash flows from financing activities			
Dividends paid to owners of the Company	21(D)	(9,972)	(11,524)
Interest paid		(62)	(1,479)
Proceeds from short-term bank loans		—	27,870
Repayment of short-term bank loans		(27,000)	(118,274)
Net cash used in financing activities		(37,034)	(103,407)
Net decrease in cash and cash equivalents		(100,176)	(61,939)
Cash and cash equivalents at 1 January		554,209	605,907
Effects of movements in exchange rates on cash held		(8,913)	10,241
Cash and cash equivalents at 31 December	16	445,120	554,209

The notes on page 65 to 124 are integral part of these financial statements.

Notes to the Financial Statements

1 REPORTING ENTITY

Hengxin Technology Ltd. ("**the Company**") is incorporated in the Republic of Singapore. The address of the Company's principal place of business is 7 Temasek Boulevard, #04-02B, Suntec Tower One, Singapore 038987. The address of the Company's registered office is 55 Market Street, #08-01, Singapore 048941. The Company is primarily listed on the Main Board of the Stock Exchange of Hong Kong Limited ("**SEHK**") with a secondary listing on the Main Board of the Singapore Exchange Securities Trading Limited ("**SGX-ST**"). On 5 February 2018, the Company was delisted from the SGX-ST. After delisted from SGX-ST, the Company's shares will only be traded in SEHK.

The financial statements of the Group as at and for the year ended 31 December 2017 comprise the Company and its subsidiaries (together referred to as the "**Group**" and individually as "**Group entities**") and the Group's interest in equity-accounted investees.

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are disclosed in Note 27 to the financial statements.

2 BASIS OF ACCOUNTING

The financial statements have been prepared in accordance with the International Financial Reporting Standards ("**IFRS**"). They were authorised for issue by the Company's Board of Directors on 19 March 2018.

Details of the Group's accounting policies are included in Note 32.

3 FUNCTIONAL AND PRESENTATION CURRENCY

These financial statements are presented in Renminbi ("**RMB**"), which is the Company's functional currency. All financial information presented in RMB has been rounded to the nearest thousand, unless otherwise stated.

4 USE OF JUDGEMENTS AND ESTIMATES

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

A. Judgements

There is no critical judgement in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements.

B. Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ending 31 December 2018 is included in the following notes:

- Note 15 — Recoverable amount of trade receivables
- Note 19 — Recoverable amount of investment in associate
- Note 26 — Determination of fair value of investment in unquoted security

Notes to the Financial Statements (cont'd)

4 USE OF JUDGEMENTS AND ESTIMATES (cont'd)

B. Assumptions and estimation uncertainties (cont'd)

i. Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Group has an established control framework with respect to the measurement of fair values. The finance team has overall responsibility for all significant fair value measurements, including Level 3 fair values, and reports directly to the Chief Financial Officer.

For all significant financial reporting using valuation models and significant unobservable inputs, it is the Group's policy to engage external valuation experts to perform the valuations. Management is responsible for selecting and engaging valuation experts that possess the relevant credentials and knowledge on the subject of valuation and valuation methodologies.

Significant valuation issues are reported to the Group's Audit Committee.

When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

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

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in the Note 26 — Financial instruments.

Notes to the Financial Statements (cont'd)

5 OPERATING SEGMENTS

A. Basis for segmentation

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

Based on segment information reported to the Executive Directors, the Group is organised into five product lines — radio frequency coaxial cables, telecommunication equipment and accessories, high temperature resistant cables, antennas and antenna testing services.

The Group has presented the three main products, radio frequency coaxial cables, telecommunication equipment and accessories and antennas, as reportable segments. The other products do not meet any of the quantitative thresholds for determining reportable segments in 2016 and 2017 and have therefore been combined.

B. Information about reportable segments

Information related to each reportable segment is set out below. Segment profit before tax is used to measure performance because management believes that such information is the most relevant in evaluating the results of the respective segments relative to other entities that operate in the same industries.

	Reportable segments					
	Radio frequency coaxial cables RMB'000	**Telecom-munication equipment and accessories RMB'000**	**Antennas RMB'000**	**Total reportable segments RMB'000**	**All other segments RMB'000**	**Total RMB'000**
Group						
2017						
Revenue	952,553	441,687	205,463	1,599,703	33,624	1,633,327
Segment profit before tax[1]	71,909	67,524	5,400	144,833	1,210	146,043
Interest income	2,832	1,313	611	4,756	104	4,860
Interest expense	(36)	(17)	(8)	(61)	(1)	(62)
Amortisation of lease prepayment	(790)	(366)	(171)	(1,327)	(28)	(1,355)
Write-back of stock obsolescence	—	—	335	335	—	335
Depreciation expense	(12,945)	(6,003)	(2,792)	(21,740)	(457)	(22,197)
Segment assets[2]	1,002,959	465,059	216,336	1,684,354	35,404	1,719,758
Capital expenditure[3]	9,424	4,370	2,033	15,827	332	16,159
Segment liabilities[2]	145,132	67,296	31,305	243,733	5,123	248,856

Notes to the Financial Statements (cont'd)

5 **OPERATING SEGMENTS (cont'd)**

B. Information about reportable segments (cont'd)

	Reportable segments					
	Radio frequency coaxial cables RMB'000	**Telecom-munication equipment and accessories RMB'000**	**Antennas RMB'000**	**Total reportable segments RMB'000**	**All other segments RMB'000**	**Total RMB'000**
Group						
2016						
Revenue	1,050,555	376,303	76,746	1,503,604	28,557	1,532,161
Segment profit before tax[1]	52,643	57,564	4,052	114,259	3,966	118,225
Interest income	5,661	2,028	413	8,102	154	8,256
Interest expense	(1,014)	(363)	(74)	(1,451)	(28)	(1,479)
Amortisation of lease prepayment	(929)	(332)	(68)	(1,329)	(25)	(1,354)
Allowance of stock obsolescence	—	—	—	—	(24)	(24)
Depreciation expense	(14,395)	(5,156)	(1,051)	(20,602)	(391)	(20,993)
Segment assets[2]	1,112,099	398,348	81,241	1,591,688	30,231	1,621,919
Capital expenditure[3]	11,370	4,072	831	16,273	309	16,582
Segment liabilities[2]	157,985	56,589	11,541	226,115	4,295	230,410

[1] Segment profit before tax represent the profits earned by each segment without allocation of central administration costs, independent directors' fees, interest income, foreign exchange gains and losses and interest expense at corporate level.

[2] Segment assets represent property, plant and equipment, lease prepayment, associate, other investments, deferred tax assets, inventories, trade and other receivables and prepayment, cash and cash equivalents which are attributable to each operating segments. Segment liabilities represent deferred income, deferred tax liabilities, short-term loans, trade and other payables, and income tax payable, which are attributable to each operating segments.

[3] Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment, and intangible assets other than goodwill.

Notes to the Financial Statements (cont'd)

5 OPERATING SEGMENTS (cont'd)

C. Reconciliations of information on reportable segments to IFRS measures

	Group	
	2017 **RMB'000**	**2016** **RMB'000**
Profit before tax		
Total profit before tax for reportable segments	144,833	114,259
Profit before tax for other segments	1,210	3,966
Unallocated amounts:		
— Other income	17,716	17,542
— Other expenses	(10,986)	(832)
— Share of loss of an associate	(8,152)	(4,936)
— Other unallocated amounts	(9,595)	(8,540)
Consolidated profit before tax	135,026	121,459

	Group	
	2017 **RMB'000**	**2016** **RMB'000**
Assets		
Total assets for reportable segments	1,684,354	1,591,688
Assets for other segments	35,404	30,231
Other unallocated amounts[1]	11,598	5,911
Consolidated total assets	1,731,356	1,627,830
Liabilities		
Total liabilities for reportable segments	243,733	226,115
Liabilities for other segments	5,123	4,295
Other unallocated amounts[1]	1,555	1,461
Consolidated total liabilities	250,411	231,871

[1] Unallocated assets mainly represent cash and cash equivalents, other receivables and prepayments and property, plant and equipment at Company level. Unallocated liabilities represent other payables at Company level.

Notes to the Financial Statements (cont'd)

5 OPERATING SEGMENTS (cont'd)

C. Reconciliations of information on reportable segments to IFRS measures (cont'd)

Other material items

	Reportable and all other segment totals RMB'000	Adjustments RMB'000	Consolidated totals RMB'000
2017			
Depreciation expense	(22,197)	(10)	(22,207)
2016			
Depreciation expense	(20,993)	(9)	(21,002)

D. Geographical information

The geographical regions of the customers of the Group principally comprise the People's Republic of China ("**PRC**"), India and other countries.

The geographic information analyses the Group's revenue and non-current assets by the Company's country of domicile and other countries. In presenting the geographic information, segment revenue has been based on the geographic location of customers and segment assets were based on the geographic location of the assets.

	Revenue from external customers		Non-current assets[1]	
	2017 RMB'000	**2016 RMB'000**	**2017 RMB'000**	**2016 RMB'000**
PRC	1,399,456	1,355,403	217,508	240,260
India	74,086	80,815	1,339	3
Other countries	159,785	95,943	14	8
	1,633,327	1,532,161	218,861	240,271

[1] Excluding other investments and deferred tax assets

Notes to the Financial Statements (cont'd)

5 OPERATING SEGMENTS (cont'd)

E. Major customer

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

	Group	
	2017 RMB'000	2016 RMB'000
Customer A	347,278	363,371
Customer B	301,719	347,374
Customer C	198,922	222,517
	847,919	933,262

6 REVENUE

	Group	
	2017 RMB'000	2016 RMB'000
Sales of goods:		
— Radio frequency coaxial cables	952,553	1,050,555
— Telecommunication equipment and accessories	441,687	376,303
— Antenna	205,463	76,745
— Others	33,615	28,359
Service income	9	199
	1,633,327	1,532,161

7 INCOME AND EXPENSE

A. Other operating income

	Group	
	2017 RMB'000	2016 RMB'000
Compensation claims received	691	669
Government grants	14,775	6,688
Interest income	4,860	8,256
Net foreign exchange gain	—	6,051
Rental income	23	2,857
Net gain on disposal of property, plant and equipment	58	—
Others	2,145	1,277
	22,552	25,798

Notes to the Financial Statements (cont'd)

7 INCOME AND EXPENSE (cont'd)

B. Other operating expenses

	Group 2017 RMB'000	Group 2016 RMB'000
Donation	750	700
Net loss on disposal of property, plant and equipment	—	14
Net foreign exchange loss	10,122	—
Research and development expenses	55,737	52,430
Write-off of property, plant and equipment	3	—
Others	86	118
	66,698	53,262

These research and development expenses were not capitalised as the Group cannot demonstrate that an intangible asset exists that will generate probable future economic benefits.

C. Profit for the year

The following items have been included in arriving at profit for the year:

	Note	Group 2017 RMB'000	Group 2016 RMB'000
Amortisation of lease prepayment	18(A)	1,355	1,354
Audit and related services fees paid to:			
— auditors of the Company		406	387
— other member firms of KPMG International		745	540
— other auditors		164	305
Depreciation of property, plant and equipment	17(A)	22,207	21,002
Employee benefit expenses	10	131,882	131,426
Non-audit fees paid to:			
— auditors of the Company		—	—
— other auditors		—	256
Operating lease expense		1,676	1,483
(Write-back)/Allowance for doubtful trade receivables	15(A)	(1,045)	325
(Write-back)/Write-down of inventory	14	(335)	24

Notes to the Financial Statements (cont'd)

8 INTEREST EXPENSE

	Group	
	2017 **RMB'000**	**2016** **RMB'000**
Interest expense on bank loans	62	1,479

9 EARNINGS PER SHARE

A. Basic earnings per share

The calculation of basic earnings per share at 31 December 2017 was based on the profit attributable to ordinary equity shareholders of RMB114,057,000 (2016: RMB99,842,000), and a weighted average number of ordinary shares outstanding of 388,000,000 (2016: 388,000,000), calculated as follows:

Weighted average number of ordinary shares:

	Group	
	2017 **'000**	**2016** **'000**
Issued ordinary shares and weighted average number of ordinary shares at 1 January and 31 December	388,000	388,000

B. Diluted earnings per share

There were no dilutive potential ordinary shares in existence for the years ended 31 December 2017 and 2016. The calculated diluted earnings per share equals the basic earnings per share at 31 December 2017 and 2016.

Notes to the Financial Statements (cont'd)

10 EMPLOYEE BENEFIT EXPENSES

	Note	Group 2017 RMB'000	Group 2016 RMB'000
Staff costs		120,978	122,673
Contributions to defined contribution plans		7,146	5,216
Executive directors' remuneration	11	2,147	1,947
Non-executive directors' fees	11	1,611	1,590
	7(C)	131,882	131,426

Pursuant to the relevant regulations of the PRC government, the PRC subsidiaries have participated in central pension schemes (the "**Schemes**") operated by local municipal government whereby the subsidiaries are required to contribute 24% of the basic salaries of their 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 subsidiaries 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.

As at 31 December 2017, the contributions due in respect of the year that had not been paid over to the schemes were approximately RMB507,000 (2016: RMB616,000). The amounts were paid subsequent to the end of the reporting period.

Notes to the Financial Statements (cont'd)

11 DIRECTOR'S EMOLUMENTS

Directors' emoluments is as follows:

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Total RMB'000
Group				
2017				
Executive directors				
Du Xiping	—	852	212	1,064
Xu Guoqiang	—	629	454	1,083
Non-executive directors				
Cui Wei	416	—	—	416
Zhang Zhong	328	—	—	328
Independent non-executive directors				
Tam Chee Kwan Michael	347	—	—	347
Dr. Li Jun	260	—	—	260
Pu Hong	260	—	—	260
	1,611	1,481	666	3,758
2016				
Executive directors				
Du Xiping	—	837	70	907
Xu Guoqiang	—	634	403	1,037
Non-executive directors				
Cui Wei	411	—	—	411
Zhang Zhong	323	—	—	323
Independent non-executive directors				
Tam Chee Kwan Michael	342	—	—	342
Dr. Li Jun	257	—	—	257
Pu Hong	257	—	—	257
	1,590	1,471	473	3,534

During 2017 and 2016, there were no amounts paid or payable by the Group to the directors or any of the highest paid individuals set out in Note 12 as an inducement to join or upon joining the Group or as compensation for loss of office.

Notes to the Financial Statements (cont'd)

12 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2016: two) are directors whose emoluments are disclosed in Note 11. The aggregate of the emoluments in respect of the other three (2016: three) individuals are as follows:

	Group	
	2017 RMB'000	2016 RMB'000
Salaries, allowances and benefits in kind	1,493	1,555
Performance related bonuses	780	1,247
Retirement scheme contributions	43	101
	2,316	2,903

The emoluments of the three (2016: three) individuals with the highest emoluments are within the following bands:

	Group Number of employees	
	2017	2016
HKD Nil to HKD1,000,000	3	2
HKD1,000,001 to HKD1,500,000	—	1
	3	3

13 INCOME TAXES

A. Amounts recognised in profit or loss

		Group	
	Note	2017 RMB'000	2016 RMB'000
Current tax expense			
Current year		24,709	20,780
Over provision in prior years		(2,988)	(80)
		21,721	20,700
Deferred tax expense			
Origination and reversal of temporary differences	13(D)	(752)	917
Income tax expense		20,969	21,617

Tax expense excluded the Group's share of tax expense of the Group's equity-accounted investees which has been included in "share of loss of equity-accounted investee" in the consolidated statement of profit or loss and other comprehensive income.

Notes to the Financial Statements (cont'd)

13 INCOME TAXES (cont'd)

B. Amounts recognised in other comprehensive income ("OCI")

	2017 Before tax RMB'000	2017 Tax expense RMB'000	2017 Net of tax RMB'000	2016 Before tax RMB'000	2016 Tax expense RMB'000	2016 Net of tax RMB'000
Group						
Available-for-sale financial assets	(22,100)	3,315	(18,785)	22,300	(3,345)	18,955

C. Reconciliation of effective tax rates

	Group 2017 %	Group 2017 RMB'000	Group 2016 %	Group 2016 RMB'000
Profit before tax		135,026		121,459
Add: Share of loss of associate, net of tax		8,152		4,936
		143,178		126,395
Tax using the PRC statutory tax rate of 25% (2016: 25%)	25.0%	35,795	25.0%	31,599
Effect of concessionary tax rate	(10.4%)	(14,945)	(11.2%)	(14,152)
Effect of tax rates in foreign jurisdictions	0.4%	543	0.7%	856
Tax effect of:				
— Non-taxable income	(0.2%)	(261)	—	—
— Non-deductible expenses	2.0%	2,825	2.7%	3,394
Over provision in prior years	(2.1%)	(2,988)	(0.1%)	(80)
	14.6%	20,969	17.1%	21,617

Singapore, PRC and India income tax liabilities are calculated at the applicable rates in accordance with the relevant tax laws and regulation in respective countries.

Pursuant to a PRC Enterprise Income Tax Law promulgated on 16 March 2007, the enterprise income tax for both domestic and foreign-invested enterprises has been unified at 25% effective from 1 January 2008.

Jiangsu Hengxin Technology Co., Ltd ("**Jiangsu Hengxin**"), a wholly foreign-owned enterprise ("**WFOE**"), established in the city of the coastal open economic zone, is subjected to a PRC corporate tax rate of 25%. In 2008, the subsidiary has been awarded the High-Tech Enterprise Award status and the applicable effective tax rate was 15% based on PRC Enterprise Income Tax laws for the three financial years starting from 31 December 2008. Subsequently, the status was renewed in 2011, 2014 and 2017, and the concession will end on 6 December 2020.

Notes to the Financial Statements (cont'd)

13 INCOME TAXES (cont'd)

D. Movement in deferred tax balances

	Net balance at 1 January RMB'000	Recognised in profit or loss (see (A)) RMB'000	Recognised in OCI (see (B)) RMB'000	Balance at 31 December: Net RMB'000	Balance at 31 December: Deferred tax assets RMB'000	Balance at 31 December: Deferred tax liabilities RMB'000
Group						
2017						
Allowance for doubtful receivables	2,169	(161)	—	2,008	2,008	—
Allowance for inventory obsolescence	65	(50)	—	15	15	—
Available-for-sale financial assets	(3,345)	—	3,315	(30)	—	(30)
Deferred income	780	(154)	—	626	626	—
Impairment loss on associate	—	765	—	765	765	—
Unrealised exchange loss	16	—	—	16	16	—
Unrealised profits	—	940	—	940	940	—
Dividend from subsidiary	(5,113)	(588)	—	(5,701)	—	(5,701)
Tax assets/(liabilities) before set-off	(5,428)	752	3,315	(1,361)	4,370	(5,731)
Set-off of tax				—	(30)	30
Net tax assets/(liabilities)				(1,361)	4,340	(5,701)
2016						
Allowance for doubtful receivables	2,364	(195)	—	2,169	2,169	—
Allowance for inventory obsolescence	102	(37)	—	65	65	—
Available-for-sale financial assets	—	—	(3,345)	(3,345)	—	(3,345)
Deferred income	934	(154)	—	780	780	—
Unrealised exchange loss	17	(1)	—	16	16	—
Dividend from subsidiary	(4,583)	(530)	—	(5,113)	—	(5,113)
Tax assets/(liabilities) before set-off	(1,166)	(917)	(3,345)	(5,428)	3,030	(8,458)
Set-off of tax				—	(2,953)	2,953
Net tax assets/(liabilities)				(5,428)	77	(5,505)

Deferred tax assets are recognised to the extent that realisation of the related tax benefits through future taxable profits is probable.

Notes to the Financial Statements (cont'd)

13 INCOME TAXES (cont'd)

E. Unrecognised deferred tax liabilities

The total undistributed profits of the PRC subsidiaries are RMB824,426,000 (2016: RMB722,874,000). No deferred tax liability has been recognised for undistributed profits of RMB710,329,000 (2016: RMB620,612,000) because the Group controls the dividend policy of its subsidiaries and is of the opinion that these reserves will not be remitted back to the holding company in the foreseeable future.

14 INVENTORIES

	Group	
	2017	**2016**
	RMB'000	**RMB'000**
Raw materials	45,164	25,838
Work-in-progress	18,637	9,978
Finished goods	148,245	134,480
	212,046	170,296

In 2017, inventories of RMB1,286,701,000 (2016: RMB1,215,379,000) were recognised as an expense during the year and included in "cost of sales".

The write-down of inventories to net realisable value amounted to RMB Nil (2016: RMB24,000), and the write-back amounted to RMB335,000 (2016: RMB Nil), which is based on the inventory life cycles, expected future sales level and recoverable value. The write-back and write-downs are included in "cost of sales".

Notes to the Financial Statements (cont'd)

15 TRADE AND OTHER RECEIVABLES

		Group		Company	
	Note	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000
Trade receivables from:					
— third parties		633,322	462,107	—	—
— affiliated corporation		1,364	1,674	—	—
Bills receivables		83,774	65,679	—	—
Less: Allowance for doubtful debts	A	(13,393)	(14,438)	—	—
		705,067	515,022	—	—
Advances to suppliers	B	13,316	33,321	—	—
Advances to staff	C	1,804	5,042	—	—
Loans to the associate	D	24,872	24,872	—	—
Non-trade amounts due from:					
— subsidiaries	E	—	—	38,802	57,532
— associate	F	1,680	1,680	—	—
Refundable deposits	G	6,396	18,906	152	147
Tax recoverables	H	23,125	14,736	—	—
Others		202	702	—	—
		776,462	614,281	38,954	57,679
Prepayments		2,943	2,247	151	149
		779,405	616,528	39,105	57,828
Non-current		17,371	22,872	23,802	42,675
Current		762,034	593,656	15,303	15,153
		779,405	616,528	39,105	57,828

An affiliated corporation is defined as one:

(a) in which a director of the Company has substantial financial interests or who is in a position to exercise significant influence; and/or

(b) which directly or indirectly, through one or more intermediaries, are under the control of a common shareholder.

Notes to the Financial Statements (cont'd)

15 TRADE AND OTHER RECEIVABLES (cont'd)

A. Impairment losses

The Group maintains allowance for impairment losses at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by the Group with reference to industry practices for the allowance on impairment loss and ageing analysis of the trade receivables, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends. The Group reviews the ageing and status of receivables and identifies accounts which require allowance to be made on a monthly basis. The amount and timing of recorded expenses for any period would differ if the Group made different judgement or utilised different estimates. An increase in the Group's allowance for doubtful accounts would increase the Group's recorded administrative expenses and decrease trade and other receivables.

At the reporting date, the ageing of trade and other receivables excluding advances to suppliers and prepayments are as follows:

	Gross 2017 RMB'000	Impairment losses 2017 RMB'000	Gross 2016 RMB'000	Impairment losses 2016 RMB'000
Group				
Not past due	665,571	—	535,393	—
Past due 1–90 days	59,781	(49)	28,273	(164)
Past due 91–180 days	28,223	(39)	13,819	—
Past due over 180 days	22,964	(13,305)	17,913	(14,274)
	776,539	(13,393)	595,398	(14,438)

The change in impairment losses in respect of trade and other receivables excluding advances to suppliers and prepayments during the year is as follows:

	Group 2017 RMB'000	Group 2016 RMB'000
At 1 January	14,438	14,113
Allowance made during the year	—	325
Write-back during the year	(1,045)	—
At 31 December	13,393	14,438

Notes to the Financial Statements (cont'd)

15 TRADE AND OTHER RECEIVABLES (cont'd)

A. Impairment losses (cont'd)

At the reporting date, the ageing analysis of trade receivables (including bills receivables, which are included in trade and other receivables), based on the invoice date and net of allowance for doubtful debts, is as follows:

	Group	
	2017 RMB'000	2016 RMB'000
0 to 180 days	607,492	469,455
181 to 360 days	87,916	28,109
Over 360 days	9,659	17,458
	705,067	515,022

B. Advances to suppliers

Advance to suppliers are unsecured, interest-free and repayable on demand.

C. Advances to staff

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

D. Loans to the associate

The Group's loans to the associate is unsecured, interest-free and repayable on demand in 7 semi-annual instalments from 30 December 2017 to 30 December 2020. The first instalment due on 30 December 2017 was subsequently repaid on 28 February 2018.

E. Non-trade amounts due from subsidiaries

The Company's non-trade amounts due from subsidiaries are unsecured, bears no interest and is repayable in five annual instalments from 30 December 2017 to 30 December 2020. The Company's non-trade amounts due from subsidiaries is recognised initially at fair value. The difference between the fair value and the absolute amount due from subsidiaries represents equity contribution to the subsidiaries (see Note 27). The Group believes that no impairment allowance is necessary for these outstanding balances in respect of the financial performance of these subsidiaries.

F. Non-trade amounts due from the associate

The non-trade amounts due from the associate are unsecured, interest-free and repayable on demand.

G. Refundable deposits

Included in the refundable deposits are tender deposits for bidding of customer contracts. If the tender is not successful, these deposit paid will be refunded to the Group.

H. Tax recoverables

Included in the tax recoverables are value added tax receivables in PRC arising from the purchase of raw materials for manufacturing.

Notes to the Financial Statements (cont'd)

15 TRADE AND OTHER RECEIVABLES (cont'd)

I. Credit and currency risks

Information about the Group's exposure to credit and currency risks for trade and other receivables is included in Note 26(C).

16 CASH AND CASH EQUIVALENTS

	Group		Company	
	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000
Bank balances	444,649	550,799	11,281	5,607
Short-term deposits	471	3,410	—	—
Pledged bank deposit	26,753	6,019	—	—
Cash and cash equivalents in the statements of financial position	471,873	560,228	11,281	5,607
Less: pledged bank deposit	(26,753)	(6,019)	—	—
Cash and cash equivalents in the statements of cash flows	445,120	554,209	11,281	5,607

Deposits amounting to RMB9,301,000 (2016: RMB6,019,000) were pledged to banks as guarantees for bidding of customer contracts. Pledged bank deposits bear interest at an average effective interest rates at 0.923% (2016: 1.301%) per annum and for a tenure of approximately 6 to 36 months (2016: 6 to 12 months). Remaining pledged deposits is pertaining to the security deposit for the commodity future contracts entered to hedge the purchase of raw materials during the year.

17 PROPERTY, PLANT AND EQUIPMENT

A. Reconciliation of carrying amount

	Building and leasehold improvement RMB'000	Plant and machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Under construction RMB'000	Total RMB'000
Group						
Cost						
Balance at 1 January 2016	83,377	163,373	24,792	6,200	13,070	290,812
Additions	593	1,267	2,592	171	11,959	16,582
Transfers	5,322	2,412	1,298	—	(9,032)	—
Disposals	—	(97)	(1,329)	—	(3,419)	(4,845)
Effect of movements in exchange rates	—	—	6	—	—	6
Balance at 31 December 2016	89,292	166,955	27,359	6,371	12,578	302,555

Notes to the Financial Statements (cont'd)

17 PROPERTY, PLANT AND EQUIPMENT (cont'd)

A. Reconciliation of carrying amount (cont'd)

	Note	Building and leasehold improvement RMB'000	Plant and machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Under construction RMB'000	Total RMB'000
Group							
Cost							
Balance at 1 January 2017		89,292	166,955	27,359	6,371	12,578	302,555
Additions		17	4,047	4,098	—	7,997	16,159
Transfers		—	15,215	3,629	—	(18,844)	—
Disposals		—	(57)	(22)	(1,155)	—	(1,234)
Write-off		—	—	(38)	—	—	(38)
Effect of movements in exchange rates		—	6	1	—	—	7
Balance at 31 December 2017		89,309	186,166	35,027	5,216	1,731	317,449
Accumulated depreciation							
Balance at 1 January 2016		23,404	92,678	16,309	4,078	—	136,469
Depreciation	7(C)	4,535	11,114	4,867	486	—	21,002
Disposals		—	(22)	(1,012)	—	—	(1,034)
Effect of movements in exchange rates		—	—	6	—	—	6
Balance at 31 December 2016		27,939	103,770	20,170	4,564	—	156,443
Balance at 1 January 2017		27,939	103,770	20,170	4,564	—	156,443
Depreciation	7(C)	4,659	13,252	3,899	397	—	22,207
Disposals		—	(32)	(17)	(821)	—	(870)
Write-off		—	—	(35)	—	—	(35)
Effect of movements in exchange rates		—	(5)	(1)	—	—	(6)
Balance at 31 December 2017		32,598	116,985	24,016	4,140	—	177,739
Carrying amounts							
At 1 January 2016		59,973	70,695	8,483	2,122	13,070	154,343
At 31 December 2016		61,353	63,185	7,189	1,807	12,578	146,112
At 31 December 2017		56,711	69,181	11,011	1,076	1,731	139,710

Notes to the Financial Statements (cont'd)

17 PROPERTY, PLANT AND EQUIPMENT (cont'd)

A. Reconciliation of carrying amount (cont'd)

	Office equipment RMB'000
Company	
Cost	
Balance at 1 January 2016 and 31 December 2016	54
Additions	19
Write-off	(38)
Balance at 31 December 2017	35
Accumulated depreciation	
Balance at 1 January 2016	37
Depreciation	9
Balance at 31 December 2016	46

	Office equipment RMB'000
Company	
Accumulated depreciation	
Balance at 1 January 20172017	46
Depreciation	10
Write-off	(35)
Balance at 31 December 2017	21
Carrying amounts	
At 1 January 2016	17
At 31 December 2016	8
At 31 December 2017	14

The Group's plant and buildings are all located in the People's Republic of China ("**PRC**").

Notes to the Financial Statements (cont'd)

18 LEASE PREPAYMENT

A. Reconciliation of carrying amount

	Note	Group 2017 RMB'000	Group 2016 RMB'000
Cost			
Balance at beginning and end of the year		61,256	61,256
Accumulated amortisation			
Balance at beginning of the year		9,206	7,852
Amortisation	7(C)	1,355	1,354
Balance at end of the year		10,561	9,206
Carrying amount at end of the year		50,695	52,050
Non-current asset		49,340	50,695
Current asset		1,355	1,355
		50,695	52,050

The lease prepayment represent payments for 5 (2016: 5) land use rights located in the PRC. The leases run for a period of 42 to 48 years.

19 ASSOCIATE

	Group 2017 RMB'000	Group 2016 RMB'000
Interests in associate	12,440	20,592

Details of the associate are as follows:

Name of associate	Principal activities	Principal place of business/Country of incorporation	Effective equity held by the Group 2017 %	Effective equity held by the Group 2016 %
Held by Jiangsu Hengxin				
Mianyang Xin Tong Industrial Co., Ltd. ("**Mianyang Xin Tong**")	Manufacture and sale of communications equipment and related components, optical integrated circuits, precision zirconia ceramic instruments and equipment and electronic products	PRC	24	24

Notes to the Financial Statements (cont'd)

19 ASSOCIATE (cont'd)

On 2 February 2016, the Group acquired 24% equity interest in Mianyang Xin Tong, for a total consideration of RMB72,000,000. The Group subsequently entered into 1st and 2nd Supplemental Agreements with the sellers on 24 June 2016 and 21 November 2016 respectively. Included in the original purchase agreement, the sellers shall compensate the Group if the 2015 guaranteed profit is not met, and if the aggregated 2016 and 2017 guaranteed profits are not met. On 24 June 2016, pursuant to the 1st Supplemental Agreement, the purchase consideration was revised down to RMB36,000,000. On 21 November 2016, pursuant to the 2nd Supplemental Agreement, the purchase consideration was further reduced to RMB25,528,000 and clauses relating to the guaranteed profit compensation were removed. Arising from the acquisition, goodwill amounting to approximately RMB47,000,000 was identified. However, due to the subsequent adjustments in purchase considerations, an impairment loss on goodwill amounting to approximately RMB47,000,000 was recognised as part of the share of loss of associate. To reflect the economic substance of the series of transactions, the impairment loss was net off against the gain arising from the settlement of profit guarantees that was removed pursuant to the 2nd Supplemental Agreement.

The following table summarises the financial information of the associate as included in its own financial statements, adjusted for fair value adjustments at acquisition and differences in accounting policies. The table also reconciles the summarised financial information to the carrying amount of the Group's interest in the associate. The information for 2016 presented in the table includes the results of the associate for the period from 28 February 2016 to 31 December 2016, because the associate was acquired on 2 February 2016.

	Mianyang Xin Tong	
	2017 RMB'000	**2016 RMB'000**
Revenue	27,535	45,971
Loss from continuing operations	(12,719)	(20,567)
Other comprehensive income	—	—
Total comprehensive income	(12,719)	(20,567)
Non-current assets	114,099	107,802
Current assets	35,270	63,590
Non-current liabilities	(397)	(23,376)
Current liabilities	(77,929)	(64,254)
Net assets	71,043	83,762
Group's interest in net assets of associate at beginning of the year	20,592	25,039
Group's share of:		
— Loss from continuing operations	(3,052)	(4,936)
— Other comprehensive income	—	—
Total comprehensive income	(3,052)	(4,936)
Goodwill	—	489
Impairment loss recognised during the year	(5,100)	—
Carrying amount of interest in associate at end of the year	12,440	20,592

Notes to the Financial Statements (cont'd)

19 ASSOCIATE (cont'd)

Impairment loss

During the year, the operations of the associate continued to incur operating losses. Accordingly, the Group performed an impairment assessment to determine the recoverable amount of the investment in associate. The Group has engaged an external valuer, 艾華迪集團 (Avista Group) to assess the recoverable amount of the investment in associate. The recoverable amounts of investment in associate were estimated based on the value-in-use calculation derived from the associate's cash flows projection.

The value assigned to the key assumption represent the Group's assessment of future trends and have been based on historical data derived from both external and internal sources.

	Group 2017
Key assumption used for value-in-use calculations:	
Revenue growth rate	2018 to 2020: 5% to 32%
	Terminal growth rate: 3%
Operating margin	2018 to 2020: (15.4)% to 4.7%
	2020 onwards: 14.0% (average)
Discount rate	12.0%

Management determined the average revenue growth rate and operating margin based on past performance and its expectation of market development for the next three years. The discount rate used was pre-tax and reflected specific risks relating to the relevant industry.

In 2017, based on the above, the estimated recoverable amount of the associate amounted to approximately RMB12,440,000 which is lower than its carrying amount. This has resulted in an impairment loss of RMB5,100,000 (2016: Nil) being recognised in profit or loss. If the associate is not able to achieve the forecasted results and realise the fair values of the assets and liabilities, the Group would be required to record additional impairment loss.

20 OTHER INVESTMENTS

	Group	
	2017 RMB'000	2016 RMB'000
Non-current asset		
Available-for-sale investments:		
— unquoted equity security, at fair value	10,200	32,300
— quoted equity shares, at fair value	647	647
	10,847	32,947
Current asset		
Wealth management products	50,000	29,000

Wealth management products relates to investments placed with a financial security firm that offer fixed rates of return for a fixed period of at least three months.

Notes to the Financial Statements (cont'd)

21 CAPITAL AND RESERVES

A. Movement in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity.

Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Note	Share capital RMB'000	Accumulated profits RMB'000	Total RMB'000
Company				
Balance at 1 January 2016		295,000	181,390	476,390
Loss and total comprehensive income for the year		—	(6,499)	(6,499)
Transactions with owners of the Company				
Contributions and distributions				
Dividends paid	21(D)	—	(11,524)	(11,524)
Total transactions with owners of the Company		—	(11,524)	(11,524)
Balance at 31 December 2016		295,000	163,367	458,367
Balance at 1 January 2017		295,000	163,367	458,367
Loss and total comprehensive income for the year		—	(3,165)	(3,165)
Transactions with owners of the Company				
Contributions and distributions				
Dividends paid	21(D)	—	(9,972)	(9,972)
Total transactions with owners of the Company		—	(9,972)	(9,972)
Balance at 31 December 2017		295,000	150,230	445,230

Notes to the Financial Statements (cont'd)

21 CAPITAL AND RESERVES (cont'd)

B. Share capital

	Group and Company			
	2017 No. of shares ('000)	2017 RMB'000	2016 No. of shares ('000)	2016 RMB'000
Issued and fully paid ordinary shares, with no par value				
At beginning and end of year	388,000	295,000	388,000	295,000

All ordinary shares rank equally with regard to the Company's residual assets.

i. Ordinary shares

Holders of these shares are entitled to dividends as declared from time to time and are entitled to one vote per share at general meetings of the Company.

C. Nature and purpose of reserves

i. General reserves

General reserves represent the statutory reserve arising from the PRC subsidiaries.

In accordance with the Foreign Enterprise Law applicable to the subsidiaries in the PRC, the subsidiaries are required to make appropriation to a statutory reserve.

In the PRC, at least 10% of the statutory profits after tax as determined in accordance with the applicable PRC accounting standards and regulations must be allocated to the statutory reserve until the cumulative total of the statutory reserves reach 50% of the subsidiaries' registered capital. Subject to approval from the relevant PRC authorities, the statutory reserve may be used to offset any accumulated losses or increase the registered capital of the subsidiaries. The statutory reserves in PRC are not available for dividend distribution to shareholders.

ii. 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.

iii. Fair value reserve

The fair value reserve represents the gain in fair value arising from available-for-sale financial assets.

iv. Translation reserves

The translation reserves comprise all foreign currency differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from that of the Group's presentation currency.

Notes to the Financial Statements (cont'd)

21 CAPITAL AND RESERVES (cont'd)

D. Dividends

The following exempt (one-tier) dividends were declared and paid by the Group and the Company during the year.

	Group and Company	
	2017 RMB'000	**2016 RMB'000**
RMB0.0257 per qualifying ordinary share (2016: RMB0.0297)	9,972	11,524

After the reporting dates, the following exempt (one-tier) dividends were proposed by the Board of Directors. These exempted (one-tier) dividends have not been recognised as liabilities and there are no tax consequences.

	Group and Company	
	2017 RMB'000	**2016 RMB'000**
RMB0.0294 per qualifying ordinary share (2016: RMB0.0257)	11,407	9,972

22 CAPITAL MANAGEMENT

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

The capital structure of the Group consists of debt, which includes equity attributable to equity holders of the Company, comprising share capital, reserves and accumulated profits.

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

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

As at the end of the reporting period, the Group is in compliance with all capital requirements on its external borrowings.

Notes to the Financial Statements (cont'd)

22 CAPITAL MANAGEMENT (cont'd)

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

	Group	
	2017 RMB'000	2016 RMB'000
Net cash borrowings	(445,120)	(527,209)
Total equity	1,480,945	1,395,959
Net debt to equity ratio	(30%)	(38%)

23 SHORT-TERM LOANS

	Group	
	2017 RMB'000	2016 RMB'000
Unsecured bank loans	—	27,000

Information about the Group's exposure to interest rate, foreign currency and liquidity risks is included in Note 26(C).

A. Terms and debt repayment schedule

The terms and conditions of outstanding loans are as follows.

	Currency	Nominal interest rate	Year of maturity	Face value RMB'000	Carrying amount RMB'000
At 31 December 2016					
Unsecured bank loans	RMB	4.35%	2017	27,000	27,000

At 31 December 2017, the Group had RMB1,576,931,000 (2016: RMB1,680,331,000) of unutilised bank borrowing facilities.

Notes to the Financial Statements (cont'd)

23 SHORT-TERM LOANS (cont'd)

A. Terms and debt repayment schedule (cont'd)

Reconciliation of movements of liabilities to cash flows arising from financing activities

		Liabilities		Equity	
	Note	Short-term loans RMB'000	Interest payable RMB'000	Retained earnings RMB'000	Total RMB'000
Restated balance at 1 January 2016		27,000	—	888,223	915,223
Changes from financing cash flows					
Repayment of borrowings		(27,000)	—	—	(27,000)
Dividend paid to owners of the Company		—	—	(9,972)	(9,972)
Interest paid		—	(62)	—	(62)
Total changes from financing cash flows		(27,000)	(62)	(9,972)	(37,034)
Other changes					
Liability-related					
Interest expense		—	62	—	62
Total liability-related other changes		—	62	—	62
Total equity-related other changes		—	—	97,267	97,267
Balance at 31 December 2017		—	—	975,518	975,518

Notes to the Financial Statements (cont'd)

24 TRADE AND OTHER PAYABLES

	Group		Company	
	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000
Trade payables from:				
— third parties	136,127	118,170	—	—
— affiliated corporation	3,223	—	—	—
	139,350	118,170	—	—
Accrued operating expenses	68,803	51,032	1,496	1,411
Receipt in advance from customers	9,543	10,657	—	—
Other payables	10,790	8,777	59	50
	228,486	188,636	1,555	1,461

As at the end of the reporting period, the ageing profile of trade payables of the Group, based on invoice date which are included in trade and other payables, is as follows:

	Group	
	2017 RMB'000	2016 RMB'000
0–90 days	135,635	117,519
91–180 days	2,013	9
181–360 days	547	—
Over 360 days	1,155	642
	139,350	118,170

25 DEFERRED INCOME

	Group	
	2017 RMB'000	2016 RMB'000
Deferred income	4,175	5,203

At 31 December 2017, the amount represents deferred revenue arising as a result of the special fund received from local government to support the Group's project of transformation of science and technology achievements in the People's Republic of China. The grants are related to assets and will be offset against relevant cost incurred in profit or loss over a period of 5 to 10 years.

Notes to the Financial Statements (cont'd)

26 FINANCIAL INSTRUMENTS — FAIR VALUES AND RISK MANAGEMENT

A. Accounting classifications and fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

		Carrying amount				Fair value			
	Note	Loans and receivables RMB'000	Available-for-sale RMB'000	Other financial liabilities RMB'000	Total carrying amount RMB'000	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Group									
31 December 2017									
Financial assets measured at fair value									
Available-for-sale equity security	20	—	10,847	—	10,847	647	—	10,200	10,847
Financial assets not measured at fair value									
Wealth management products	20	50,000	—	—	50,000				
Loans to the associate	15	24,872	—	—	24,872	—	—	23,386	23,386
Trade and other receivables#	15	715,149	—	—	715,149				
Cash and cash equivalents	16	471,873	—	—	471,873				
		1,261,894	—	—	1,261,894				
Financial liabilities not measured at fair value									
Trade and other payables##	24	—	—	218,943	218,943				

\# Exclude advances to suppliers, prepayments, loans to the associate and tax recoverables

\## Exclude receipt in advance from customers

Notes to the Financial Statements (cont'd)

26 FINANCIAL INSTRUMENTS — FAIR VALUES AND RISK MANAGEMENT (cont'd)

A. Accounting classifications and fair values (cont'd)

		Carrying amount				Fair value			
	Note	Loans and receivables RMB'000	Available-for-sale RMB'000	Other financial liabilities RMB'000	Total carrying amount RMB'000	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Group									
31 December 2016									
Financial assets measured at fair value									
Available-for-sale equity security	20	—	32,947	—	32,947	647	32,300	—	32,947
Financial assets not measured at fair value									
Wealth management products	20	29,000	—	—	29,000				
Loans to the associate	15	24,872	—	—	24,872	—	—	21,234	21,234
Trade and other receivables#	15	541,352	—	—	541,352				
Cash and cash equivalents	16	560,228	—	—	560,228				
		1,155,452	—	—	1,155,452				
Financial liabilities not measured at fair value									
Unsecured bank loans	23	—	—	27,000	27,000				
Trade and other payables##	24	—	—	177,979	177,979				
		—	—	204,979	204,979				

\# Exclude advances to suppliers, prepayments, loans to the associate and tax recoverables

\## Exclude receipt in advance from customers

Notes to the Financial Statements (cont'd)

26 FINANCIAL INSTRUMENTS — FAIR VALUES AND RISK MANAGEMENT (cont'd)

A. Accounting classifications and fair values (cont'd)

	Note	Carrying amount			Fair value			
		Loans and receivables RMB'000	Other financial liabilities RMB'000	Total carrying amount RMB'000	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Company								
31 December 2017								
Financial assets not measured at fair value								
Non-trade amounts due from subsidiaries	15	38,802	—	38,802	—	—	38,720	38,720
Trade and other receivables#	15	152	—	152				
Cash and cash equivalents	16	11,281	—	11,281				
		50,235	—	50,235				
Financial liabilities not measured at fair value								
Trade and other payables	24	—	1,555	1,555				
31 December 2016								
Financial assets not measured at fair value								
Non-trade amounts due from subsidiaries	15	57,532	—	57,532	—	—	57,524	57,524
Trade and other receivables#	15	147	—	147				
Cash and cash equivalents	16	5,607	—	5,607				
		63,286	—	63,286				
Financial liabilities not measured at fair value								
Trade and other payables	24	—	1,461	1,461				

Exclude prepayments and non-trade amounts due from subsidiaries

Notes to the Financial Statements (cont'd)

26 FINANCIAL INSTRUMENTS — FAIR VALUES AND RISK MANAGEMENT (cont'd)

B. Measurement of fair values

The fair value of unquoted equity security was determined by an external independent valuer, having the relevant expertise to perform the valuation.

Valuation techniques and inputs used in Level 3 fair value measurements

The following table shows the valuation techniques used in measuring the fair value of unquoted equity security, as well as the significant unobservable inputs used.

Valuation technique	Key unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Discounted cash flow method: The discounted cash flow method involves the estimation and projection of an income over a period with an internal rate of return to arrive at the market value	Growth rate: 30% to 33% Discount rate: 19.0%	An increase in growth rate would result in a higher fair value measurement. Conversely, an increase in discount rate would result in a lower fair value measurement.

In 2017, fair value is estimated using the discounted cash flow model. As the unquoted equity security is not listed on any stock exchange, a quoted market price is not available; there were also no recent observable arm's length transactions in the shares. Consequently, significant judgement is involved in determining an appropriate valuation method and the key assumptions to be applied in determining the fair value.

Transfer between level 2 and level 3

The Group holds an investment in unquoted equity shares which is classified as available-for-sale, with a fair value of RMB10,200,000 at 31 December 2017 (2016: RMB 32,300,000). There is no recent observable arm's length transactions in the shares in 2017. Therefore, the Group has transferred the classification from level 2 to level 3.

In 2016, the Group transferred the classification of the abovementioned shares from level 3 to level 2 as there were recent observable arm's length market transactions of the shares in 2016.

i Financial instruments not measured at fair value

Type	Valuation technique
Group	
Loans to the associate	*Discounted cash flows:* The valuation model considers the present value of expected payment, discounted using a risk-adjusted discount rate.
Company	
Non-trade amounts due from subsidiaries	*Discounted cash flows:* The valuation model considers the present value of expected payment, discounted using a risk-adjusted discount rate.

ii. Transfers between levels 1 and 2

There were no transfers between levels 1 and 2 during the year.

Notes to the Financial Statements (cont'd)

26 FINANCIAL INSTRUMENTS — FAIR VALUES AND RISK MANAGEMENT (cont'd)

C. Financial risk management

The Group has exposure to the following risks arising from financial instruments:

- credit risk;
- liquidity risk; and
- market risk.

Risk management framework

The Company's Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board of Directors has established the risk management committee, which is responsible for developing and monitoring the Group's risk management policies. The committee is subsumed under the Audit Committee, which in turn reports regularly to the Board of Directors on its activities.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to maintain a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group Audit Committee is assisted in its oversight role by internal audit. The risk management committee undertakes both regular and ad hoc reviews of risk management controls and procedures, and together with results of internet audits and other internal controlled self-assessment work, the overall results are reported to the Audit Committee.

Notes to the Financial Statements (cont'd)

26 FINANCIAL INSTRUMENTS — FAIR VALUES AND RISK MANAGEMENT (cont'd)

C. Financial risk management (cont'd)

i. Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's trade receivables.

The carrying amount of financial assets represents the Group and the Company's maximum credit exposures, before taking into account any collateral held. The Group and the Company do not hold any collateral in respect of their financial assets.

Trade and other receivables

The Group's exposure to credit risk is mainly arising from trade receivables. The credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of its customer base, including the default risk associated with the industry and country in which customers operate. Details of concentration of revenue are included in Notes 5(D)-(E).

The Group has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, if they are available, financial statements, credit agency information, industry information, and in some cases bank references (if available). Sale limits are established for each customer and reviewed quarterly. Any sales exceeding those limits require approval from Management. 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. The trade receivables that are neither past due nor impaired are receivables from customers with long standing relationship and are of sound credit quality. Management considers these receivables to be still recoverable.

The Group limits its exposure to credit risk from trade receivables by establishing a maximum payment period of nine months for corporate customers. For individuals, the Group strictly requires cash payment for goods received. The Group's average credit terms on sales of goods is 180 days (2016: 180 days) after delivery. The Group has assessed the recoverability of trade receivables with reference to industry practices for the allowance on impairment loss and ageing analysis of these trade receivables, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

More than 81% (2016: 87%) of the Group's customers have been transacting with the Group for over four years, and no impairment loss has been recognised against these customers. In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or a legal entity, their geographic location, industry, trade history with the Group and existence of previous financial difficulties.

The Group monitors the global economic environment closely and will take actions to limit its exposure to customers in countries experiencing particular economic volatility, if required.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade receivables (see Note 32(O)(i)).

Notes to the Financial Statements (cont'd)

26 FINANCIAL INSTRUMENTS — FAIR VALUES AND RISK MANAGEMENT (cont'd)

C. Financial risk management (cont'd)

i. Credit risk (cont'd)

Trade and other receivables (cont'd)

At 31 December 2017, the maximum exposure to credit risk for trade receivables by geographical region was as follows.

	Group	
	2017 **RMB'000**	**2016** **RMB'000**
PRC	656,598	474,858
India	25,434	27,804
Other countries	23,035	12,360
	705,067	515,022

At 31 December 2017, 5 (2016: 5) major customers accounted for 63% (2016: 63%) of gross trade receivables. There are no other customers who represent more than 5% of the total balance of trade receivables.

Included in the Group's trade and other receivables balance are debtors with a carrying amount of RMB97,575,000 (2016: RMB45,567,000) 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.

Cash and cash equivalents

The Group held cash and cash equivalents of RMB471,873,000 at 31 December 2017 (2016: RMB560,228,000). The cash and cash equivalents are held with banks, which are regulated.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Typically the Company ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days; including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

Undrawn credit facilities with financial institutions are disclosed in Note 23. Management monitors the utilisation of bank loans and ensures compliance with the loan covenants, if any.

Notes to the Financial Statements (cont'd)

26 FINANCIAL INSTRUMENTS — FAIR VALUES AND RISK MANAGEMENT (cont'd)

C. Financial risk management (cont'd)

i. Credit risk (cont'd)

Exposure to liquidity risk

The following are the remaining contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted, and include contractual interest payments and exclude the impact of netting agreements.

		Contractual cash flows		
	Carrying amount RMB'000	Total RMB'000	Within 1 year RMB'000	More than 1 year RMB'000
Group				
2017				
Non-derivative financial liabilities				
Trade and other payables#	218,943	(218,943)	(218,943)	—
2016				
Non-derivative financial liabilities				
Short-term loans	27,000	(27,392)	(27,392)	—
Trade and other payables#	177,979	(177,979)	(177,979)	—
	204,979	(205,371)	(205,371)	—
Company				
2017				
Non-derivative financial liabilities				
Trade and other payables	1,555	(1,555)	(1,555)	—
2016				
Non-derivative financial liabilities				
Trade and other payables	1,461	(1,461)	(1,461)	—

Exclude receipt in advance from customers

The interest payments on variable interest rate loans in the table above reflect market forward interest rates at the reporting date and these amounts may change as market interest rates change.

The maturity analyses show the contractual undiscounted cash flows of the Group's financial liabilities on the basis of their earliest possible contractual maturity. It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

Notes to the Financial Statements (cont'd)

26 FINANCIAL INSTRUMENTS — FAIR VALUES AND RISK MANAGEMENT (cont'd)

C. Financial risk management (cont'd)

ii. Market risk

Market risk is the risk that changes in market prices — such as foreign exchange rates, interest rates and equity prices — will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

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.

Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings, including inter-company sales, purchases and inter-company balances, that are denominated in a currency other than the respective functional currencies of Group entities. The currencies in which these transactions primarily are denominated are the United States dollars ("**USD**"), Singapore dollars ("**SGD**"), Hong Kong dollars ("**HKD**") and Euro ("**EUR**").

The Group is also exposed to currency translation risk arising from its net investments in foreign operations. The Group's net investments in India are not hedged as currency positions in INR are considered to be long-term in nature.

Exposure to currency risk

The summary quantitative data about the Group's exposure to currency risk as reported to the management of the Group is as follows.

	USD RMB'000	SGD RMB'000	HKD RMB'000	EUR RMB'000
Group				
2017				
Cash and cash equivalents	207,893	1,136	3,895	1,313
Trade and other receivables	28,031	153	137	1,482
Trade and other payables	(217)	(875)	(647)	(2,429)
Net exposure	235,707	414	3,385	366
2016				
Cash and cash equivalents	90,829	1,717	441	4,466
Trade and other receivables	15,647	296	—	784
Trade and other payables	(123)	(1,444)	(5)	—
Net exposure	106,353	569	436	5,250

Notes to the Financial Statements (cont'd)

26 FINANCIAL INSTRUMENTS — FAIR VALUES AND RISK MANAGEMENT (cont'd)

C. Financial risk management (cont'd)

ii. Market risk (cont'd)

Currency risk (cont'd)

Exposure to currency risk (cont'd)

	2017			2016		
	USD	SGD	HKD	USD	SGD	HKD
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Company						
Cash and cash equivalents	1,245	1,136	3,895	3,449	1,717	441
Trade and other receivables	—	153	137	—	296	—
Trade and other payables	—	(875)	(647)	—	(1,444)	(5)
Net exposure	1,245	414	3,385	3,449	569	436

The following significant exchange rates have been applied.

	Average rate		Year-end spot rate	
	2017	2016	2017	2016
	RMB	RMB	RMB	RMB
USD1	6.7547	6.6401	6.5342	6.9370
SGD1	4.8944	4.8115	4.8649	4.7984
HKD1	0.8675	0.7841	0.8328	0.8955
EUR1	7.6216	7.3426	7.8023	7.3068

Notes to the Financial Statements (cont'd)

26 FINANCIAL INSTRUMENTS — FAIR VALUES AND RISK MANAGEMENT (cont'd)

C. Financial risk management (cont'd)

ii. Market risk (cont'd)

Currency risk (cont'd)

Sensitivity analysis

A change of 10% strengthening of the RMB, as indicated below, against the USD, SGD, HKD and EUR at 31 December would have increased/(decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. This analysis is performed on the same basis for 2016.

	Group Profit or loss		Company Profit or loss	
	2017 RMB'000	**2016 RMB'000**	**2017 RMB'000**	**2016 RMB'000**
USD	(23,571)	(10,635)	(124)	(345)
SGD	(41)	(57)	(41)	(57)
HKD	(339)	(44)	(339)	(44)
EUR	(37)	(525)	—	—

A weakening of the RMB against the above currencies would have the equal but opposite effect to the amounts shown above.

Interest rate risk

The Group's exposure to interest rate risks arises primarily from the Group's bank deposits and its debt obligations.

Exposure to interest rate risk

At the reporting date, the interest rate profile of the Group's interest-bearing financial instruments, as reported to management was as follows:

	Note	Group Carrying amount	
		2017 RMB'000	**2016 RMB'000**
Fixed-rate instruments			
Pledged bank deposits	16	26,753	6,019
Short-term deposits	16	471	3,410
Short-term investment fund		50,000	29,000
Unsecured bank loans	23	—	(27,000)
		77,224	11,429

Notes to the Financial Statements (cont'd)

26 FINANCIAL INSTRUMENTS — FAIR VALUES AND RISK MANAGEMENT (cont'd)

C. Financial risk management (cont'd)

ii. Market risk (cont'd)

***Interest rate risk* (cont'd)**

Fair value sensitivity analysis for fixed-rate instruments

The Group does not account for any fixed-rate financial assets and liabilities at fair value through profit or loss, and the Group does not use derivatives to hedge interest rate risk. Therefore, in respect of the fixed rate instrument, a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable-rate instruments

As at 31 December 2017, the Group does not have significant financial assets or liabilities that are exposed to interest rate risk.

Equity price risk — sensitivity analysis

The Group has investment in quoted and unquoted equity securities. An increase of 5% (2016: 5%) in the underlying equity prices at the reporting date would increase equity by the following amounts shown below. This analysis assumes that all other variables remain constant.

	Group	
	2017 RMB'000	2016 RMB'000
Quoted equity investments available-for-sale	32	32
Unquoted equity investment available-for-sale	510	1,615
	542	1,647

A decrease in the equity prices would have the equal but opposite effect to the amounts shown above.

Notes to the Financial Statements (cont'd)

27 SUBSIDIARIES

	Note	Company 2017 RMB'000	Company 2016 RMB'000
Equity investment, at cost		392,544	392,544
Discount on amounts due from subsidiary	15(E)	3,841	3,841
		396,385	396,385

Details of the subsidiaries are as follows:

Name of subsidiary	Principal activities	Principal place of business/ Country of incorporation	Type of legal entity	Particulars of issued and paid up capital RMB	Effective equity held by the Group 2017 %	Effective equity held by the Group 2016 %
Held by the Company						
Jiangsu Hengxin Technology Co., Ltd[1]	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	PRC	Limited liability	384,883,000	100	100
Hengxin Technology (India) Pvt Ltd[2]	Marketing and trading of the Group's products to telecommunication operators in India	India	Limited liability	7,661,000	100	100
Held by Jiangsu Hengxin						
Jiangsu Hengxin Wireless Technology Co., Ltd[1]	Research, design, development and manufacture sale and technical services of antennas and related telecommunications products for mobile communications systems	PRC	Limited liability	5,000,000	100	100
Hengxin Network Wireless (Shanghai) Co., Ltd[1]	Research, design, development and manufacture sale and technical services of antennas and related telecommunications products for mobile communications systems	PRC	Limited liability	20,000	100	100
Hengxin Technology International Co., Ltd[1]	Trading and investment	HK	Limited liability	1,000,000	100	—

1 Audited by other member firm of KPMG International for consolidation purposes

2 The financial year-end of the subsidiary is 31 March

Notes to the Financial Statements (cont'd)

28 OPERATING LEASES

A. Leases as lessee

Operating lease represent rentals leased by the Group and the Company for certain of its office and workshop properties. Leases are negotiated for an average of 1 to 3 years (2016: 1 to 3 years).

i. Future minimum lease payment

At 31 December, the future minimum lease payments under non-cancellable leases were payable as follows:

	Group		Company	
	2017 RMB'000	**2016 RMB'000**	**2017 RMB'000**	**2016 RMB'000**
Less than one year	989	943	628	630
Between one and five years	341	759	194	759
	1,330	1,702	822	1,389

ii. Amounts recognised in profit or loss

	Group	
	2017 RMB'000	**2016 RMB'000**
Lease expense	1,356	1,483

29 COMMITMENTS

A. Capital commitments

As at the respective reporting dates, the Group had entered into contracts for:

	Group	
	2017 RMB'000	**2016 RMB'000**
Contracted for but not provided for		
Property, plant and equipment	868	8,451

Notes to the Financial Statements (cont'd)

30 RELATED PARTIES

A. Transactions with key management personnel

i. Key management personnel compensation

Key management personnel are directors and those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly. The amounts stated below for key management compensation are for all the executive directors and other key management personnel.

Key management personnel compensation comprised the following.

	Group	
	2017 **RMB'000**	**2016** **RMB'000**
Short-term employee benefits	7,021	5,716
Retirement benefits scheme contributions	137	125
	7,158	5,841
Key management personnel compensation comprised amounts paid to:		
— directors of the Group	2,147	1,944
— other key management personnel	5,011	3,897
	7,158	5,841

B. Other related party transactions

Other than as disclosed elsewhere in the financial statements, transactions carried out in the normal course of business on terms agreed with related parties are as follows:

	Group	
	2017 **RMB'000**	**2016** **RMB'000**
Transactions with Suzhou Hengli Telecommunications Materials Co., Ltd[1]		
Sale of finished goods	6,767	204
Purchases of raw materials	43,985	26,817

[1] Suzhou Hengli Telecommunication Materials Co., Ltd is a subsidiary of Hengtong Group Co., Ltd., a company in which the father of Cui Wei, the non-executive chairman of the Company, is a substantial shareholder of. Cui Wei is a substantial shareholder with shareholding of 23.87% of the total issued shares in the Company and has significant influence over the Company.

The related party transactions in respect of sales and purchases above constitute continuing connected transactions or continuing connected transactions as defined in Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Notes to the Financial Statements (cont'd)

31 BASIS OF MEASUREMENT

The financial statements have been prepared on the historical cost basis except as otherwise described in Note 32.

32 SIGNIFICANT ACCOUNTING POLICIES

The Group adopted new or new revised financial reporting standards and interpretations which became effective during the year. The initial adoption of these standards and interpretations did not have a material impact on the financial statements.

The Group has consistently applied the following accounting policies to all periods presented in the financial statements.

A. Basis of consolidation

i. Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

ii. Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

iii. Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

32 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

A. Basis of consolidation (cont'd)

iv. Interest in equity-accounted investee

The Group's interests in equity-accounted investee comprise interests in an associate.

Associate is the entity in which the Group has significant influence, but not control or joint control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds 20% or more of the voting power of another entity.

Interests in the associate are accounted for using the equity method. They are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and other comprehensive income ("**OCI**") of equity-accounted investee, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date on which significant influence ceases.

v. Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investee are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

B. Foreign currency

i. Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currencies of Group companies at the exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are generally recognised in profit or loss.

Notes to the Financial Statements (cont'd)

32 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

B. Foreign currency

ii. Foreign operation

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into RMB at the exchange rates at the reporting date. The income and expenses of foreign operations are translated into RMB at the exchange rates at the dates of the transactions.

Foreign currency differences are recognised in OCI and accumulated in the translation reserve, except to the extent that the translation difference is allocated to NCI.

When a foreign operation is disposed of in its entirety or partially such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. If the Group disposes of part of its interest in a subsidiary but retains control, then the relevant proportion of the cumulative amount is reattributed to NCI. When the Group disposes of only part of an associate or joint venture while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

C. Revenue

i. Sale of goods

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods and the amount of revenue can be measured reliably. Revenue is measured net of returns, trade discounts and volume rebates.

The timing of the transfer of risks and rewards varies depending on the individual terms of the sales agreement. Revenue is recognised when the goods are delivered and legal title has passed.

ii. Rendering of services

Revenue from rendering of services is recognised in profit and loss when the service is rendered.

iii. Interest income

Interest income is recognised as it accrues in profit and loss, using the effective interest method.

Notes to the Financial Statements (cont'd)

32 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

D. Employee benefits

i. Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

ii. Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

iii. Termination benefits

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the reporting date, then they are discounted.

E. Government grants

Government grants are initially recognised as deferred income at fair value if there is reasonable assurance that they will be received and the Group will comply with the conditions associated with the grant; they are then recognised in profit or loss as other income on a systematic basis over the useful life of the asset.

Grants that compensate the Group for expenses incurred are recognised in profit or loss on a systematic basis in the periods in which the expenses are recognised.

F. Finance costs

The Group's finance costs include interest expense. Interest expense is recognised using the effective interest method.

G. Foreign currency gains and losses

Foreign currency gains and losses on financial assets and financial liabilities are reported on a net basis as either other income or other operating expense depending on whether foreign currency movements are in a net gain or net loss position.

Notes to the Financial Statements (cont'd)

32 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

H. Income tax

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in OCI.

i. Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

Current tax assets and liabilities are offset only if certain criteria are met.

ii. Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss; and

- temporary differences related to investments in subsidiaries and associates to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on business plans for individual subsidiaries in the Group and the reversal of temporary differences. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset only if certain criteria are met.

I. Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average cost principle. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Notes to the Financial Statements (cont'd)

32 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

J. Property, plant and equipment

i. Recognition and measurement

Items of property, plant and equipment are measured at cost, which includes capitalised borrowing costs, less accumulated depreciation and any accumulated impairment losses.

If significant parts of an item of property, plant and equipment have different useful lives, then they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is recognised in profit or loss.

ii. Subsequent expenditure

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Group.

iii. Depreciation

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

The estimated useful lives of property, plant and equipment for current and comparative periods are as follows:

• Building and leasehold improvement	20 years
• Plant and machinery	10 years
• Office equipment	5 years
• Motor vehicles	5 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

K. Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss as incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. However, because of the nature of the Company's development activities, the criteria for the recognition of such costs as assets are generally not met, relevant development expenditure is recognised in profit or loss as incurred.

Notes to the Financial Statements (cont'd)

32 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

L. Lease prepayment

i. Recognition and measurement

Lease prepayment represent land use rights that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and any accumulated impairment losses.

ii. Amortisation

Amortisation is calculated to write off the cost of land use right less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss.

The estimated useful lives of land use right for current and comparative periods are 42 to 48 years.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

M. Financial instruments

The Group classifies non-derivative financial assets into the following categories: loans and receivables and available-for-sale financial assets.

The Group classifies non-derivative financial liabilities into other financial liabilities categories.

i. Non-derivative financial assets and financial liabilities — Recognition and derecognition

The Group initially recognises loans and receivables issued on the date when they are originated. All other financial assets and financial liabilities are initially recognised on the trade date when the entity becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognised financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Notes to the Financial Statements (cont'd)

32 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

M. Financial instruments

ii. Non-derivative financial assets — Measurement

Loans and receivables

These assets are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method.

Available-for-sale financial assets

These assets are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, are recognised in OCI and accumulated in the fair value reserve. When these assets are derecognised, the gain or loss accumulated in equity is reclassified to profit or loss.

iii. Non-derivative financial liabilities — Measurement

Other non-derivative financial liabilities are initially measured at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method.

N. Share capital

i. Ordinary shares

Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity.

O. Impairment

i. Non-derivative financial assets

Financial assets not classified as at fair value through profit or loss, including an interest in an equity accounted investee, are assessed at each reporting date to determine whether there is objective evidence of impairment.

Objective evidence that financial assets are impaired includes:

— default or delinquency by a debtor;

— restructuring of an amount due to the Group on terms that the Group would not consider otherwise;

— indications that a debtor or issuer will enter bankruptcy;

— adverse changes in the payment status of borrowers or issuers;

— the disappearance of an active market for a security because of financial difficulties; or

— observable data indicating that there is a measurable decrease in the expected cash flows from a group of financial assets.

32 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

O. Impairment

i. Non-derivative financial assets (cont'd)

For an investment in an equity security, objective evidence of impairment includes a significant or prolonged decline in its fair value below its cost. The Group considers a decline of 20% to be significant and a period of nine months to be prolonged.

Financial assets measured at amortised cost

The Group considers evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets are individually assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet individually identified. Assets that are not individually significant are collectively assessed for impairment. Collective assessment is carried out by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Group uses historical information on the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account. When the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through profit or loss.

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve to profit or loss. The amount reclassified is the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss previously recognised in profit or loss. If the fair value of an impaired available-for-sale debt security subsequently increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed through profit or loss. Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available-for-sale are not reversed through profit or loss.

Equity-accounted investees

An impairment loss in respect of an equity-accounted investee is measured by comparing the recoverable amount of the investment with its carrying amount. An impairment loss is recognised in profit or loss, and is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

Notes to the Financial Statements (cont'd)

32 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

O. Impairment (cont'd)

ii. Non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating units ("CGUs"). Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, 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 or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a *pro rata* basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

P. Operating lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Q. Fair value measurement

"Fair value" is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities (see Note 4(B)(i)).

When one is available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Notes to the Financial Statements (cont'd)

32 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Q. Fair value measurement (cont'd)

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price — i.e. the fair value of the consideration given or received. If the Group determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

33 ADOPTION OF NEW STANDARDS

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2017 and earlier application is permitted; however, the Group has not early applied the following new or amended standards in preparing the financial statements.

Applicable to financial statements for the year 2018

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It also introduces new cost guidance which requires certain costs of obtaining and fulfilling contracts to be recognised as separate assets when specified criteria are met.

Notes to the Financial Statements (cont'd)

33 ADOPTION OF NEW STANDARDS (cont'd)

Applicable to financial statements for the year 2018 (cont'd)

IFRS 15 Revenue from Contracts with Customers (cont'd)

Based on the assessment completed to date, the Group has identified the following areas which are expected to be affected:

i. Sales of goods

For the sale of products, revenue is currently recognised when the goods are delivered to the customers' premises or when the goods are consumed by the customers, which is taken to be the point in time at which the customer accepts the goods and the related risks and rewards of ownership transfer. Revenue is recognised at this point provided that the revenue and costs can be measured reliably, the recovery of the consideration is probable and there is no continuing management involvement with the goods.

Under IFRS 15, revenue will be recognised when a customer obtains control of the goods.

The Group has assessed that the new revenue standard is not likely to have significant impact on how it recognises revenue from provision of services and sales of goods.

ii. Rendering of services

The Group is involved in the testing of third party manufactured antennas. If the services under a single arrangement are rendered in different reporting periods, then the consideration is allocated on a relative fair value basis between the different services. Revenue is currently recognised using the stage–of–completion method.

Under IFRS 15, the total consideration in the service contracts will be allocated to all services based on their stand-alone selling prices. The stand-alone selling prices will be determined based on the list prices at which the Group sells the services in separate transactions.

Since these amounts are broadly similar, the Group has assessed that there are no significant differences in the timing of revenue recognition for these services.

Notes to the Financial Statements (cont'd)

33 ADOPTION OF NEW STANDARDS (cont'd)

Applicable to financial statements for the year 2018 (cont'd)

IFRS 9 Financial Instruments

IFRS 9 contains new requirements for classification and measurement of financial instruments, a new expected credit loss model for calculating impairment of financial assets, and new general hedge accounting requirements.

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied by the Group retrospectively.

The expected impact on adoption of IFRS 9 is described below. The information below reflects the Group's expectation of the implications arising from changes in the accounting treatment, however, the actual tax effect may change when the transition adjustments are finalised.

i. ***Classification — Financial assets***

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income ("FVTOCI") and fair value through profit or loss ("FVTPL"). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification.

The Group has assessed that its financial assets currently measured at amortised cost and FVTPL will continue with their respective classification and measurements upon the adoption of IFRS 9.

With respect to the Group's financial assets currently classified as "available-for-sale", these are investments in equity securities which the Group has the option to irrevocably designate as FVTOCI (without recycling) on transition to IFRS 9. Currently, the Group recognises the fair value changes of available-for-sale equity investments in other comprehensive income until disposal or impairment, when gains or losses are recycled to profit or loss in accordance with the Group's policies set out in notes 32(M). As at 31 December 2017, the Group has made a decision to designate them as FVTOCI, where all fair value gains and losses would be reported in other comprehensive income, no impairment losses would be recognised in profit or loss and no gains or losses would be reclassified to profit or loss on disposal.

Notes to the Financial Statements (cont'd)

33 ADOPTION OF NEW STANDARDS (cont'd)

Applicable to financial statements for the year 2018 (cont'd)

IFRS 9 Financial Instruments (cont'd)

ii. Impairment — Financial assets

The new impairment model in IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure either 12-month expected credit loss or lifetime expected credit loss, depending on the asset and the facts and circumstances. The Group expects that the application of the expected credit loss model will result in earlier recognition of credit losses. Based on management's assessment, the Group does not expect that there will be significant impact to the opening balances of net assets and retained profits at 1 January 2018.

iii. Classification — Financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

However, under IAS 39 all fair value changes of liabilities designated as at FVTPL are recognised in profit or loss, whereas under IFRS 9 these fair value changes are generally presented as follows:

— the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and

— the remaining amount of change in the fair value is presented in profit or loss.

The Group has not designated any financial liabilities at FVTPL and the Group has no current intention to do so. The Group's management do not expect any material impact if IFRS 9's requirements regarding the classification of financial liabilities were applied at 31 December 2017.

33 ADOPTION OF NEW STANDARDS (cont'd)

Applicable to 2019 financial statements

IFRS 16 Leases

IFRS 16 replaces existing lease accounting guidance. IFRS 16 is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted if IFRS 15 is also applied. IFRS 16 eliminates the lessee's classification of leases as either operating leases or finance leases and introduces a single lessee accounting model. Applying the new model, a lessee is required to recognise right-of-use ("ROU") assets and lease liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.

The Group plans to adopt the standard when it becomes effective in 2019 and expects to apply the standard using the modified retrospective approach. The Group also expects the ROU assets recognised at the date of initial application to be equal to their lease liabilities.

The Group is likely to elect the practical expedient approach of not to reassess whether a contract contains a lease at the date of initial application, 1 January 2019. Accordingly, existing lease contracts that are still effective on 1 January 2019 continue to be accounted for as lease contracts under IFRS 16. The Group has performed a preliminary assessment of the impact on its financial statements based on its existing operating lease arrangements (refer to note 28).

Until 2018, the approximate financial impact of the standard is unknown due to factors that impact calculation of lease liabilities such as discount rate, expected term of leases including renewal options and exemptions for short-term leases. The Group will continue to assess its portfolio of leases to calculate the impending impact of transition to the new standard.

The Group as lessee

The Group expects its existing operating lease arrangements to be recognised as ROU assets with corresponding lease liabilities under IFRS 16. The operating lease commitments on an undiscounted basis amount to approximately 0% of the consolidated total assets and approximately 0% of consolidated total liabilities. Under the new standard, remaining lease payments of the operating leases will be recognised at their present value discounted using appropriate discount rates. In addition, the nature of expenses related to those leases will now change as IFRS 16 replaces the straight-line operating lease expense with depreciation charge of ROU assets and interest expense on lease liabilities.

The Group as lessor

IFRS 16 substantially carries forward the current existing lessor accounting requirements. Accordingly, the Group continues to classify its leases as operating leases or finance leases, and to account for these two types of leases using the existing operating lease and finance lease accounting models respectively. However, IFRS 16 requires more extensive disclosures to be provided by a lessor.

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