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ANNUAL REPORT 2018

HENGXIN TECHNOLOGY LTD

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 integrated antennas and feeder cables 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 pieces 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

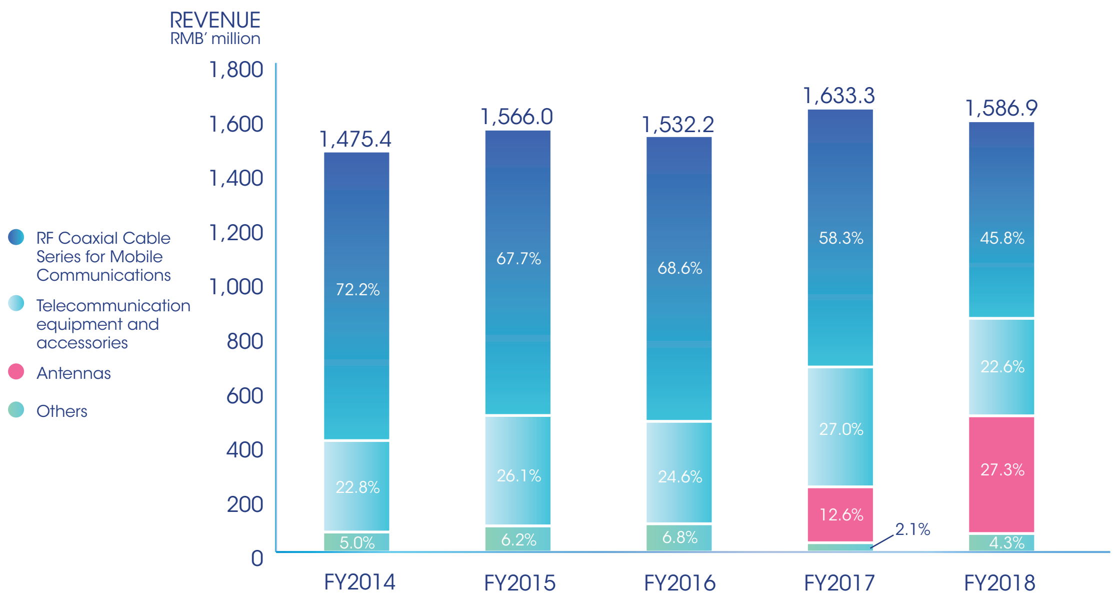
RF coaxial cable series for mobile communications ("**RF Coaxial Cables**")	Telecommunications equipment and accessories ("**Accessories**")	Antennas ("**Antennas**")	Others
• Transmission of high-frequency signals between antenna and base station equipment in outdoor base station wireless signal coverage 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

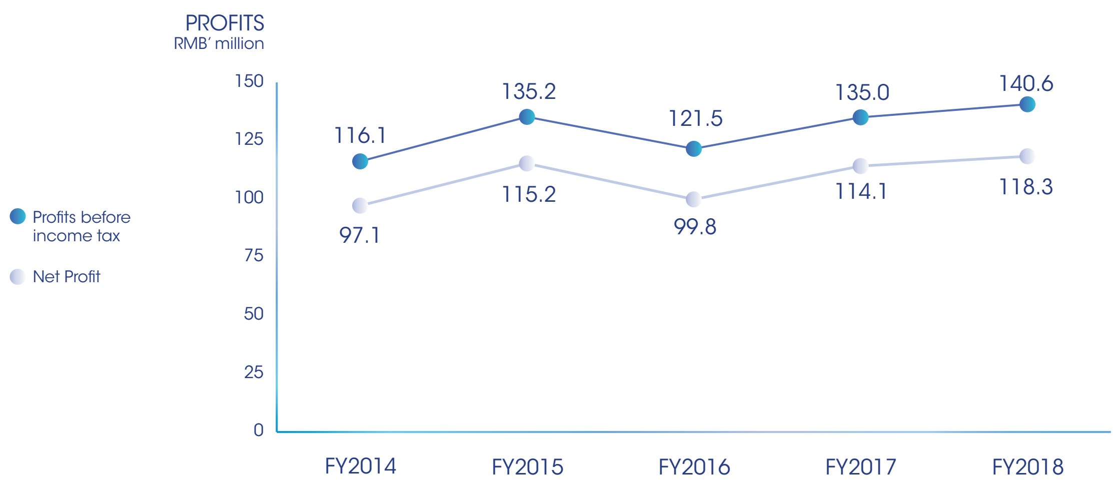
Five-year Financial Summary

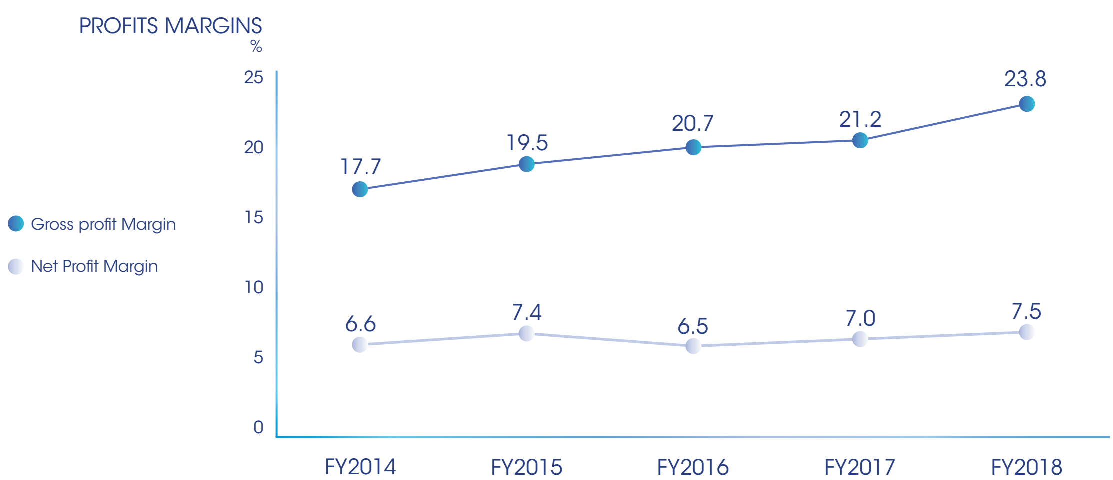
A summary of the consolidated results and assets and liabilities of the Group for the last five financial years, as extracted from the published audited financial statements is set out below.

	Year ended 31 December				
	2014	2015	2016	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
RESULTS					
REVENUE	1,475,410	1,565,984	1,532,161	1,633,327	1,586,950
Cost of sales	(1,213,829)	(1,259,965)	(1,215,379)	(1,286,701)	(1,210,021)
Gross profit	261,581	306,019	316,782	346,626	376,929
Other income	11,758	20,573	25,798	22,552	30,048
Selling and distribution expenses	(74,877)	(87,693)	(108,328)	(101,228)	(102,429)
Administrative expenses	(37,626)	(44,399)	(53,116)	(59,057)	(56,883)
Other operating expenses	(40,083)	(52,328)	(53,262)	(66,698)	(74,407)
(Impairment losses)/reversal of impairment loss on trade and other receivables	–	–	–	1,045	(19,183)
Finance costs	(4,657)	(7,001)	(1,479)	(62)	(1,042)
Share of losses of an associate, net of tax	–	–	(4,936)	(8,152)	(12,440)
Profit before income tax	116,096	135,171	121,459	135,026	140,593
Income tax expense	(19,009)	(19,993)	(21,617)	(20,969)	(22,317)
NET PROFIT	97,087	115,178	99,842	114,057	118,276
ASSETS AND LIABILITIES					
TOTAL ASSETS	1,555,755	1,565,297	1,627,830	1,731,356	2,136,080
TOTAL LIABILITIES	(382,274)	(277,122)	(231,871)	(250,411)	(548,572)
NET ASSETS	1,173,481	1,288,175	1,395,959	1,480,945	1,587,508

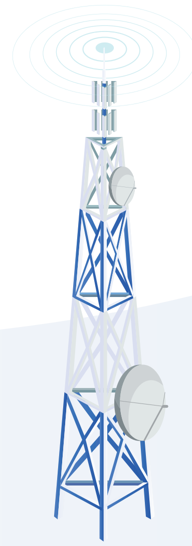
Financial Highlights

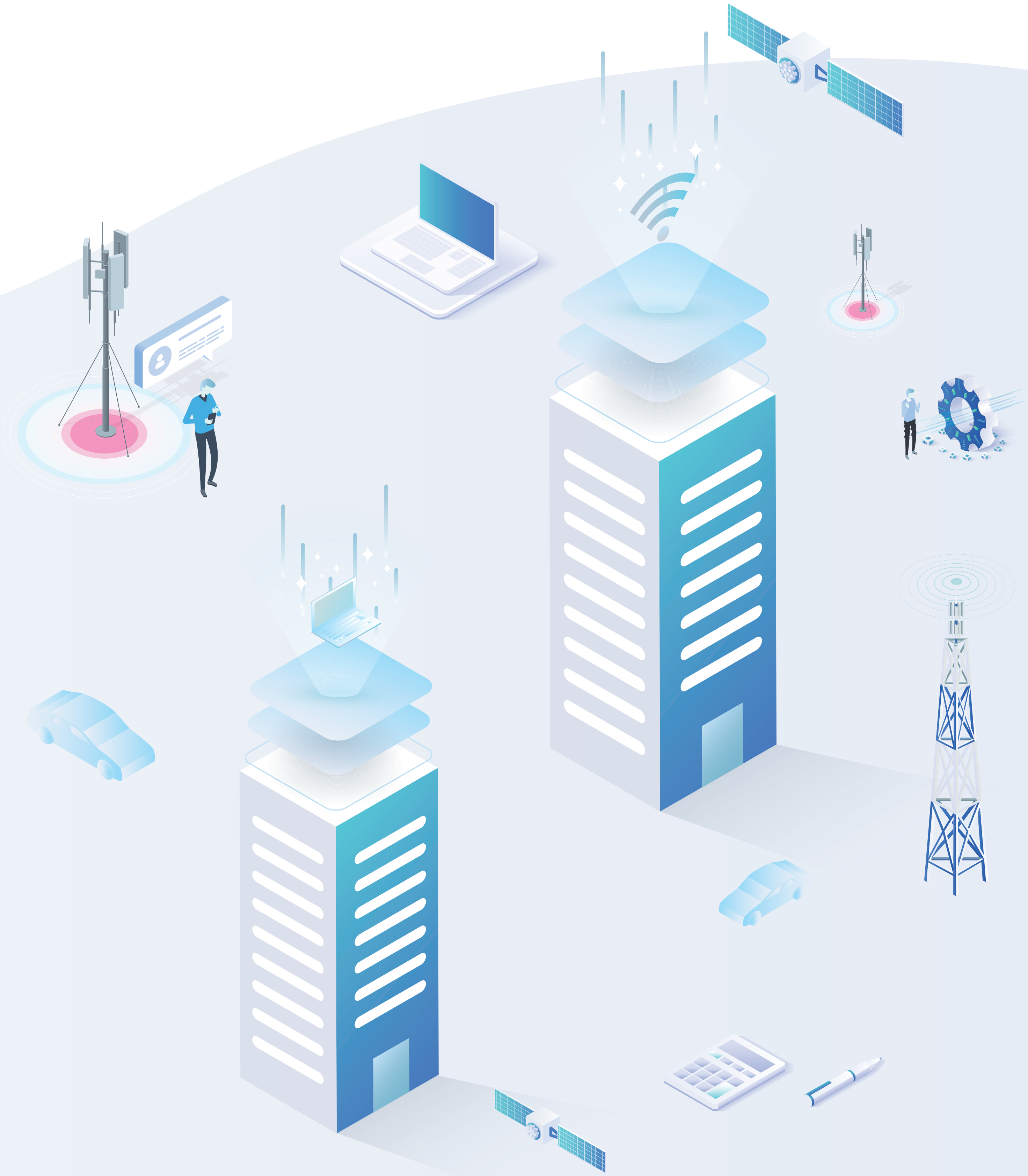






Research and Development





Financial Ratios and Performance

FINANCIAL PERFORMANCE	UNIT	FY2014	FY2015	FY2016	FY2017	FY2018
Revenue	RMB'000	1,475,410	1,565,984	1,532,161	1,633,327	1,586,950
Including: Revenue from regions outside of PRC	RMB'000	154,835	156,680	176,758	233,871	325,132
Gross profit margin	%	17.7	19.5	20.7	21.2	23.8
Profit before income tax	RMB'000	116,096	135,171	121,459	135,026	140,593
Income tax expense	RMB'000	(19,009)	(19,993)	(21,617)	(20,969)	(22,317)
Net profit	RMB'000	97,087	115,178	99,842	114,057	118,276

FINANCIAL POSITION	UNIT	FY2014	FY2015	FY2016	FY2017	FY2018
Net assets	RMB'000	1,173,481	1,288,175	1,395,959	1,480,945	1,587,508

FINANCIAL RATIOS	NOTE	UNIT	FY2014	FY2015	FY2016	FY2017	FY2018
Earnings per share		RMB	0.250	0.297	0.257	0.294	0.305
Net asset per share		RMB	3.02	3.32	3.60	3.82	4.09
Return on total equity		%	8.3	8.9	7.2	7.7	7.5
Net debt/equity ratio	a	%	(22.52)	(37.92)	(37.77)	(30.06)	(39.80)
Interest cover ratio	b	times	25.9	20.3	83.1	2,178.8	135.9
Current ratio	c	times	3.6	5.0	6.1	6.2	3.6
Trade receivables turnover		days	164	140	128	139	169
Inventory turnover		days	50	39	43	54	57

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

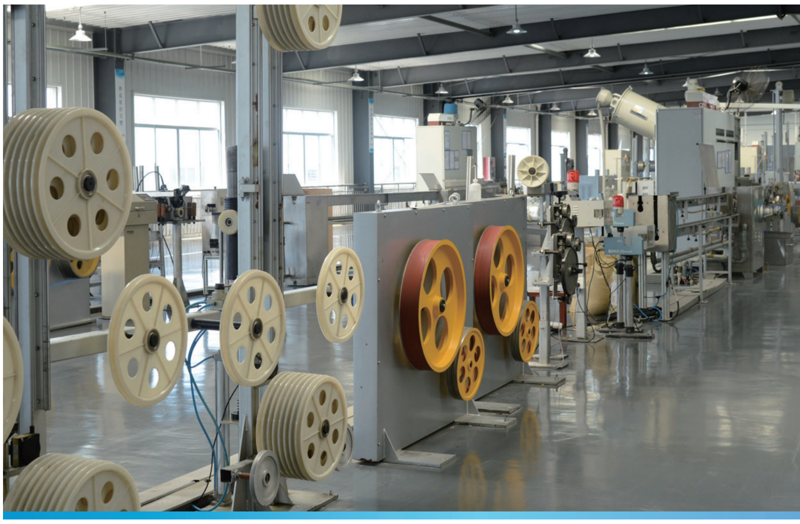
Chairman's Message

"Adhere to business transformation and speed up products mix adjustment to enhance competitiveness"

2018 was very extraordinary for the China economy. Under the combined effect of domestic cyclical factor, structural factor and external trade friction factor, the GDP growth rate declined quarter by quarter. The liquidity position suddenly went sour, and corporate investment growth rate and household consumption ability both declined rapidly. The growth rate in national fixed asset investment was only 5.9%, the lowest in many years. The capital expenditures of the three major telecom operators, who are closely related to the Group's operations, even went down in the first half of 2018. Under such a difficult background, thanks to the dedication of all staff, years of accumulated technologies, management and brand advantages, and persistent measures in business transformation, the Group is still able to achieve remarkable results:

Revenue and net profit of the Group in 2018 were approximately RMB1,586.9 million and approximately RMB118.3 million respectively, representing a decrease of approximately RMB46.4 million and an increase of approximately RMB4.2 million respectively as compared with the same period of last year. It is notable that revenue from RF Coaxial Cables, the principal product of the Group, reached approximately RMB727.2 million, a decrease of approximately RMB225.3 million or 23.7% from previous year. The corresponding proportion of both revenue and gross profit for RF Coaxial Cables decreased substantially when compared

Chairman's Message (cont'd)



to last year, whereas the proportion of revenue and gross profit from the Group's key products that are crucial to its new business transformation, i.e. antennas and leaky cables, both recorded a significant growth. The Group also managed to record an increase in overall gross profit margin from 21.2% in previous year to approximately 23.8% this year through endeavouring efforts.

I. PRODUCTION

1. RF Coaxial Cables remained the pillar product of the Company. As the demand for RF Coaxial Cables declined, the Company continued to promote the construction of lean production, management informatization and smart production to improve production efficiency. Through introducing new materials and innovative production techniques, the Group had lifted material utilisation rate and lowered defect rate further. For sales, we also increased the gross profit margin of products through selective orders and other methods;

2. As the transformation product of the Company, in 2018, the Company endeavoured efforts 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 HPC high-performance quick-install connection series products, indoor broadband and wide wave beam leaky cable products, the 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 the mobile NBIoT solution that is applicable to the conditions in plaza, vehicle pavement, high-rise building, residential community, high-speed railway and airport, sports stadium, etc.;

C. To prepare for the imminent 5G era, the Company launched the smart antenna and multi-system fusion antenna that are already available for bulk production; and

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

II. SALES

The demand for RF coaxial cable is further shrunk in the context of weakening 4G investment with 5G being not formally launched. In general, in 2018, the Company recorded significant growth in sales for telecommunication equipment and accessories, antennas and leaky cables, except the sales of RF Coaxial Cables which went down when compared to the corresponding period of last year.

As one of the essential pillars in business transformation, the Company achieved encouraging results in leaky cables business in 2018. With the Company's technical advantage of leaky cables and the favourable environment in rail transit industry development, the orders relating to leaky cables and tools in 2018 increased by approximately 36.3% from last year. Currently, the Company represents a large market share in the leaky cables business and ranked as the top bidder for four consecutive years in terms of market share, and has basically covered all the rail-link cities in China. In light of the continuous development of constructing city rail transit in China, there is higher requirement on reliable coverage of wireless communication signals. With our investment in the research and development and expansion for the product series of leaky coaxial cables and related auxiliary materials, in 2018, the Company continued to maintain the development of leaky cables tailored for traditional rail transit system and police service system while enhancing efforts to promote the leaky cables for rail transit communication signals. As such, the Company was the appointed supplier of 14 rail transit communication projects.

The other important pillar of the Company's business transformation, the antenna business, also achieved considerable progress with increase in sales of approximately 110.8% in 2018. With the increasing efforts in antenna market promotion, for the antennas bidding of domestic major telecom operators in 2018, the Group's awarded amounts were among the best on many occasions, and the sales of antennas basically cover 30 provinces, municipals and autonomous regions nationwide.

In 2018, high temperature resistant products of the Company have also been growing and evolving, which passed Huawei's supplier certification. Such products are also formed from the selling of one single cable variant to a series of high temperature cable and high temperature resistant cable component module and test modules. The sales customers are mainly targeted antenna companies, equipment manufacturers and various instruments companies. In 2018, we managed to establish business relationships with a number of antenna and equipment companies in the PRC for bulk supply of high temperature resistant cable component series products and achieved total sales orders amounted to approximately RMB55.38 million.

On the overseas front, with the leaping development into the 4G and 5G technologies, the demand for RF cable products from various regions have declined remarkably. In order to tackle market challenges, we focused on new products and market development in overseas segments and had achieved significant breakthroughs in South America and North America Markets, recorded a doubled year-on-year growth in sales. Meanwhile, we actively developed the new jumper cable business with various major equipment suppliers and operators. In May 2018, we successfully undertook the jumper cable orders from Samsung, Korea and made delivery to factories in India to shorten delivery time, thereby further enhanced the satisfaction of overseas customers.

Chairman's Message (cont'd)

III. RESEARCH AND DEVELOPMENT

The Group has always attached great importance to research and development. Our continuous efforts over the years had achieved fruitful results in 2018. We obtained 27 authorised patents, including 14 invention patents and 1 US patent. For antenna products, 51 new product launchings were completed with 24 types of products in batch production. The national standards for three coaxial cables developed by the Group were published and implemented.

1. In response to the wide applications of 5G with high personalisation demand, the Company created and launched a variety of products such as 4G/5G multi-system fusion antenna;

2. Launched HPC high-performance quick-install connectors, completed 12 national pilot projects with China Tower and Huawei and was well recognised by users. Such connectors have been applied in batches to the mega indoor distribution system, metro and high-speed rail projects constructed by China Tower, and have solved the indoor coverage intermodulation interference issues effectively; and

3. Currently, we have completed the pilot run in the research and development of cables for the unmanned operation of leaky cable layout. At the same time, we also completed a series of leaky cable products covering the future 5G in the 3.6GHz channel.

IV. EFFECTS OF MAJOR EVENTS

According to the national plan, 5G will speed up its promotion in 2019, the IoT is set to bring profound changes to almost every aspect of people's livelihood. With the newly developed technologies as well as the newly created enormous market demand, the Company is well positioned to seize this opportunity. In this regard of entwining the core sectors, i.e. the 5G and mobile narrowband IoT, of our industry chain layout, the Company had conducted research and development and launched various types of related products. These new products will no doubt enhance the Company's development potential and enables it to have a broader market potential in future.

The main factors affecting the Company's operating results in future are: (i) the timing of large-scale application of 5G and mobile narrowband internet of things (IoT), marketing efforts and the development of market demand and (ii) whether the Group's related products can satisfy the demand of emerging markets or not are yet to be tested, improved and promoted in practice. Moreover, the Company will also be materially affected by the investment strategies of telecom operators under the current business environment.

PROSPECT AND OUTLOOK

The macroeconomic situation in 2019 is severe and complicated. From the domestic condition viewpoint, the economy is still in its downward cycle, insufficient economic growth momentum, difficulty in progressing structural adjustment, weak financing environment, and unfavourable corporate investment sentiment. From the international standpoint, not only major developed economies are weak in economic growth, but also lack effective means to continue stimulating the economy, hence, the chances of global economic crisis are not low. Also, the threat of trade war still exists and the trade environment shows a deteriorating trend, therefore, the decline in global trade growth is highly probable.

To cope with the unfavourable situations domestically and abroad, the government put forward hedging measures in stabilising employment, finance, foreign trade, foreign investment, investment and expectations. Through further strengthening the reform and opening up, the government is striving to inject new driving forces into the economy by implementing proactive fiscal policies, enhancing infrastructure investments, reducing taxes and charges and nurturing new economic growth points.

Among the aforementioned various policy measures, those that have a relatively specific material impact on the Group include the 5G commercialisation process, the large-scale construction of rail transportation projects, and the improvement in tax rebate rate and trade facilitation, cleaning up and regulating import and export charges, and enhancing financing and insurance support and other policies to reduce trade costs.

For the industry, profits of the major domestic telecom operators will drop substantially, and the government will also put forward a new round of tariff reduction requirements, which will result a significant decrease in investments by telecom operators. At the same time, China Unicom has conducted a pilot mixed-ownership reform, and equipment manufacturers have stepped up their overall plans. The pace of optic fibres over copper cables is further accelerated, the market demand and prices for RF Coaxial Cables continues to fall, posing tremendous challenge to our sales and profit.

In the 5G era, the industrial state of full-fledged manufacturing chain for antenna and wireless will undergo tremendous changes compared with the 4G era and are mainly reflected in the following two aspects:

Firstly, the demand for feeder wires and jumper cables may tumble, and antenna will also be changed from insulated products to electrically-linked products, that is, transceiver components and modules for antenna and RRU will be deeply integrated, and the entire product forms will experience rapid change.

Secondly, different 5G application conditions have emerged a lot of personalised needs, and diversity of 5G antenna products will far exceed those in the 3G and 4G eras.

China's 5G licence will be issued as early as in mid-2019. The 5G plans of China's three major telecom operators are to be in pre-commercial and mass commercial use in 2019 and 2020, respectively. The attention of 5G has been escalated to a new high level. Combined with the operators' 5G schedule, the Company has formulated its own 5G development strategy and is actively engaged in new technology verification and new product development and verification. This mainly includes the comprehensive development of 5G antennas (including macro base station antenna and micro base station antenna), feeder wire and leaky cable products for 5G indoor distribution, broadband series products and unmanned operation, etc. At the same time, we will continue to pay attention to the evolution and development of 5G indoor coverage technologies, and closely tracking the development trend of insulation devices sector;

For antennas, we seize the opportunities of constructing the world's first batch of large-scale 5G equipment and maintain close communication with equipment manufacturers and deploy large-scale array antennas to meet the needs of large-capacity, low-latency, high-speed networks in the 5G era. The production mode is transformed from labour-intensive production of antennas to automated production to increase the intelligentisation standard. We will actively expand overseas markets, improve the layout of overseas antenna products, enhance industry awareness and create a globally renowned brand.

For cable components, we will fully promote the high-end components market, improve the comprehensive performance of cables. We will transform from a traditional cable supplier to delivering complete sets of component provider and achieve selling to four major international equipment manufacturers;

The Group will seize the favorable conditions of constructing more new rail transportation projects in China, actively carry out sales of leaky cable series products, promote the larger application of leaky cable online monitoring system and railway broadband leaky cable to lay a good foundation for formal commercial use. By leveraging on the national strategy of the Belt and Road, we will layout the application of the international leaky cable market;

The Group will utilise the current favourable situation in RMB exchange rate and the favourable national policies in promoting foreign trade to actively develop the international market by establishing overseas distribution outlets to construct our global distribution network. We will strengthen the certification of overseas operators and equipment manufacturers for the Group's products, and enhance the recognition of the Hengxin brand.

Under the market downturn environment, the Group will actively identify new investment subjects to prepare for its future development.

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 would also like to express my heartfelt appreciation to our valued shareholders, bankers, customers and suppliers for your continuous support.

Management Discussion and Analysis

Revenue

The Group's revenue for the financial year ended 31 December 2018 ("**FY2018**" or the "**Reporting Period**") decreased by approximately RMB46.4 million, or approximately 2.8% from approximately RMB1,633.3 million in the previous financial year ended 31 December 2017 ("**FY2017**") to approximately RMB1,586.9 million in FY2018.

RF Coaxial Cables

Revenue generated from the segment of RF Coaxial Cables decreased by approximately RMB225.4 million or approximately 23.7% from approximately RMB952.6 million in FY2017 to approximately RMB727.2 million in FY2018. In particular, the decrease in sales for this segment is due to the decrease in sales of feeder cables of approximately RMB231.4 million from FY2017's approximately RMB858.9 million to approximately RMB627.5 million in FY2018 amidst the declining demand in feeder cable in the context of weakening 4G investment with 5G being not formally launched.

Included in the segment revenue of RF Coaxial Cables are the revenue from leaky cables of approximately RMB99.8 million for FY2018, representing an increase of approximately RMB6.1 million or 6.5% from approximately RMB93.7 million in FY2017. 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. In FY2018, the gross profit margin of leaky cables was 27.2% whereas that of RF Coaxial Cables (feeder cables) was 18.3%. The Group has increased its effort in business transformation on promoting leaky cables relating to usage in tunnels and underground mobile communications during FY2018.

Telecommunication equipment and accessories

Revenue generated from the segment of telecommunication equipment and accessories decreased by approximately RMB82.7 million or approximately 18.7% from approximately RMB441.7 million in FY2017 to approximately RMB359.0 million in FY2018. The decrease in revenue for this segment is in line with the decrease in the revenue of feeder cables.

Antennas

Revenue generated from Antennas during FY2018 was approximately RMB433.1 million and the revenue of Antennas during FY2017 was approximately RMB205.5 million, representing an increase of approximately 110.8%. As part of the Group's business transformation plan to fuel for future business development, revenue from Antennas has achieved substantial growth in FY2018. The Group will continue to increase its efforts in antennas market promotion during the future telecommunications network upgrade for the major domestic telecom operators.

Others (HTRC and antennas testing services)

Revenue generated in this segment increased by approximately RMB34.0 million or approximately 101.2% from approximately RMB33.6 million during FY2017 to approximately RMB67.6 million during FY2018, of which the increase was mostly attributable to the increase in sales of HTRC during FY2018. Such increase was mainly because the Group has managed to establish favourable business relationships with a number of domestic antennas and equipment companies in FY2018 and thus can boost revenue for this business segment.

Gross profit margin

The Group achieved an overall gross profit margin of approximately 23.8% during FY2018 compared to approximately 21.2% during FY2017, representing an increase of approximately 2.6 percentage point year-on-year. The higher than average gross profit margin for the product line of leaky cables in FY2018 of approximately 27.2% has lifted the overall gross profit margin of the Group. Despite facing intense market competition and decline market demand, gross profit margin of RF Coaxial Cables (feeder cables) has managed to increase by approximately 1.9 percentage point from FY2017's approximately 16.4% to approximately 18.3% in FY2018. 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. In addition, the gross profit margin of Antennas has also increased by approximately 5.2 percentage points from FY2017's approximately 20.2% to approximately 25.4% in FY2018. Such increase is because the Antennas sold in FY2018 generally have higher profitability than that of FY2017.

Other income

Other income increased by approximately RMB7.5 million or approximately 33.2% from approximately RMB22.6 million in FY2017 to approximately RMB30.0 million in FY2018. The increase is primarily due to:

(i) increase in interest income earned;

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

(iii) decrease in government grants received; and

(iv) the change from net foreign exchange losses in FY2017 to net foreign exchange gains in FY2018 due to the gradual depreciation of renminbi in FY2018.

Selling and distribution expenses

Selling and distribution expenses increased slightly by approximately RMB1.2 million or approximately 1.2% from approximately RMB101.2 million in FY2017 to approximately RMB102.4 million in FY2018 due to the offsetting effects of decrease in salary expenses as a result of the decrease in headcount of the Group and increase in marketing efforts to promote the businesses of leaky cables and Antennas during FY2018.

Administrative expenses

Administrative expenses decreased by approximately RMB2.2 million or approximately 3.7% from approximately RMB59.1 million in FY2017 to approximately RMB56.9 million in FY2018. The slight decrease is mainly due to the general cost savings in a wide range of administrative expenses during FY2018.

Other operating expenses

Other operating expenses increased by approximately RMB7.7 million or approximately 11.5% from approximately RMB66.7 million in FY2017 to approximately RMB74.4 million in FY2018. The increase is due to (i) the increase in research and development ("**R&D**") expenses incurred from continuing R&D activities under taken for the modifications and improvements to the Group's products and (ii) the absence of net foreign exchange losses in FY2018 (net foreign exchange losses of approximately RMB10.1 million incurred in FY2017 as compared with a net foreign exchange gains of approximately RMB6.0 million in FY2018 recorded as other income).

Impairment losses/reversal of impairment loss on trade and other receivables

The impairment losses on trade and other receivables for FY2018 represented the combined effects of (i) the expected credit loss of approximately RMB22.9 million relating to the other receivables of the outstanding amount of the loan to Mianyang Xintong Industrial Co., Ltd. (formerly known as Mianyang City Siemax Industrial Co., Ltd.) ("**Mianyang Xintong**"), a limited liability company established in PRC held through Jiangsu Hengxin Technology Co., Ltd. ("**Hengxin (Jiangsu)**") due to the poor operating results of Mianyang Xintong in FY2018 and the expected deteriorating future business of Mianyang Xintong and (ii) the reversal of the allowance for impairment in respect of trade receivables of the amount of approximately RMB3.7 million.

Share of losses of an associate

The amount of approximately RMB12.4 million for FY2018 represents:

(i) the Group's proportionate share of the losses incurred by the Group's 24% equity interest in Mianyang Xintong recognised during FY2018 of approximately RMB1.8 million (after tax); and

(ii) the impairment loss on the equity interest in Mianyang Xintong of approximately RMB10.7 million.

Finance costs

Finance costs increased by approximately RMB0.9 million from approximately RMB0.1 million in FY2017 to approximately RMB1.0 million in FY2018 as the Group has increased its bank borrowings during FY2018.

Profit before income tax

Profit before income tax increased by approximately RMB5.6 million or approximately 4.1% from approximately RMB135.0 million in FY2017 to approximately RMB140.6 million in FY2018.

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 increased by approximately RMB1.3 million or approximately 6.2% from approximately RMB21.0 million in FY2017 to approximately RMB22.3 million in FY2018, mainly due to the increase in corporate income tax and 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 RMB4.2 million or approximately 3.7% from approximately RMB114.1 million in FY2017 compared to approximately RMB118.3 million in FY2018.

STATEMENT OF FINANCIAL POSITION

Material fluctuations of balance sheet items are explained below:

Pledged bank deposits

Pledged bank deposits increased by approximately RMB4.9 million or approximately 18.3% from approximately RMB26.8 million as at 31 December 2017 to approximately RMB31.7 million as at 31 December 2018. Pledged bank deposits mainly represent security deposits relating to the commodity future contracts entered for hedging the purchase of raw materials and security deposits for contracts performance.

Trade and bills receivables

Trade and bills receivables increased by approximately RMB32.6 million or approximately 4.6% from approximately RMB705.1 million as at 31 December 2017 to approximately RMB737.7 million as at 31 December 2018.

Average trade receivables turnover days was 169 days as at 31 December 2018 compared to 139 days as at 31 December 2017. The increase in trade receivables turnover by approximately 30 days was because some customers have used bills for settlement thus leading to an extension of the settlement cycle. Also, the Group's expansion of overseas market has also led to a longer settlement period. 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. By implementing measures to control the trade receivable collection cycle, the average trade receivables turnover days has improved during the second half of FY2018 (average trade and bills receivables turnover days was approximately 183 days for the first half of FY2018).

Nonetheless, most of the trade and bills receivables balances were recent sales which were within the average credit period given to the Group's customers. As at 31 December 2018, approximately 82.2% of the trade and bills receivable were within the credit period given as compared with that of approximately 84.6% as at 31 December 2017.

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 under taken 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.

Other receivables and prepayments (current assets)

Other receivables and prepayments (current assets) decreased by approximately RMB6.1 million or approximately 10.7% from approximately RMB57.0 million as at 31 December 2017 to approximately RMB50.9 million as at 31 December 2018. The decrease was mainly due to (i) the decrease in advance payment to suppliers for the purchase of raw materials; (ii) the increase in prepaid sales tax and value-added-tax; and (iii) the expected credit loss of approximately RMB9.2 million made in relation to the current portion of the outstanding balance of the loan to Mianyang Xintong.

Inventories

Inventories (comprising raw materials, work-in-progress and finished goods) decreased by approximately RMB43.1 million or approximately 20.3% from approximately RMB212.0 million as at 31 December 2017 to approximately RMB168.9 million as at 31 December 2018. The decrease was mainly due to the decrease in finished goods as the Group's measure to control inventory level on implementing business transformation.

Other investments (non-current and current assets)

Other investments (non-current assets) relates to an equity investment held by the Group. As at 31 December 2018, there was no change in the valuation of that equity investment as compared with 31 December 2017.

Other investments (current assets) decreased by RMB50.0 million or 100.0% from RMB50.0 million as at 31 December 2017 to nil as at 31 December 2018. 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. The wealth management product was redeemed in full on the maturity date at 31 January 2018.

Property, plant and equipment

Property, plant and equipment decreased by approximately RMB10.3 million or approximately 7.4% from approximately RMB139.7 million as at 31 December 2017 to approximately RMB129.4 million as at 31 December 2018. The decrease was mainly due to normal charges of depreciation, which was offset by additions during FY2018.

Associate

The interest in associate represented the 24% equity interest in Mianyang Xintong. Due to the poor operating results of Mianyang Xintong in FY2018 and the expected deteriorating future business, an impairment loss on the equity interest in Mianyang Xintong of approximately RMB10.7 million was made in FY2018. During FY2018, the Group has also shared losses of approximately RMB1.8 million from Mianyang Xintong.

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, Mianyang Xintong has repaid RMB3.68 million of the loan to the Group and for reasons mentioned above, an impairment loss of approximately RMB13.7 million was made against the non-current portion of the outstanding balance of the loan to Mianyang Xintong.

Short-term loans

During FY2018, the Group has raised funds of approximately RMB315.0 million from short-term loans provided by banks in the PRC carrying fixed interest rate for enhancing the working capital position of the Group.

Trade payables

Trade payables decreased by approximately RMB21.6 million or approximately 15.5% from approximately RMB139.4 million as at 31 December 2017 to approximately RMB117.8 million as at 31 December 2018. The decrease is mainly due to the gradual decrease in revenue throughout FY2018 and is in line with the decrease in the inventory levels.

Income tax payable

Income tax payable increased by approximately RMB4.6 million or approximately 38.3% from RMB12.0 million as at 31 December 2017 to approximately RMB16.6 million as at 31 December 2018. The increase mainly arose from the timing differences in the payment of income taxes.

Deferred income

Deferred income decreased by approximately RMB1.1 million or approximately 26.2% from approximately RMB4.2 million as at 31 December 2017 to approximately RMB3.1 million as at 31 December 2018. This relates to the subsidies received from local government on acquisition of equipment for certain projects for supporting the Group's project of transformation of science and technology achievements in the PRC.

Cash and bank balances

Cash and bank balances increased by approximately RMB501.8 million or approximately 112.7% from approximately RMB445.1 million as at 31 December 2017 to approximately RMB946.9 million as at 31 December 2018. The increase is mainly due to the cash generated from operating activities of approximately RMB167.7 million and funds raised from short-term bank borrowings of approximately RMB315.0 million during the Reporting Period.

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 28 to the financial statements.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2018, the Group's total assets were approximately RMB2,136,080,000 (2017: RMB1,731,356,000) (of which current assets were approximately RMB1,937,369,000 (2017: RMB1,497,308,000) and non-current assets were approximately RMB198,711,000 (2017: RMB234,048,000)), the total liabilities were approximately RMB548,572,000 (2017: RMB250,411,000) (of which current liabilities were approximately RMB539,073,000 (2017: RMB240,535,000) and non-current liabilities were approximately RMB9,499,000 (2017: RMB9,876,000)), and shareholder's equity reached approximately RMB1,587,508,000 (2017: RMB1,480,945,000). As at 31 December 2018, the Group has short-term bank borrowings due within one year of RMB315,000,000 (2017: nil) carrying fixed interest rate.

The Group generally finances its operations from cash flows generated internally and short-term bank borrowings.

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

The management of the Group monitors capital based on the Group's 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 2018, 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 FY2018, were approximately RMB1,250,000 (2017: approximately RMB868,000) and approximately RMB4,000,000 (2017: approximately RMB4,500,000) respectively.

CHARGE OR PLEDGE OF ASSETS

As at 31 December 2018, the Group did not charge nor pledge any assets (2017: Nil) as securities for banking facilities granted by its bankers.

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Net cash borrowings	(631,903)	(445,120)
Total equity	1,587,508	1,480,945
Net debt to equity ratio (%)	(39.80)	(30.06)

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

As at 31 December 2018		As at 31 December 2017	
Secured	Unsecured	Secured	Unsecured
RMB'000	RMB'000	RMB'000	RMB'000
–	315,000	–	–

There is no amount repayable after one year.

CONTINGENT LIABILITIES

There were no material contingent liabilities as at 31 December 2018.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2018, there were 845 (31 December 2017: 927) 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 and life insurance, and grants discretionary incentive bonuses and share options to eligible staff based on their performance and contributions to the Group.

The Company adopted the Share Option Scheme for its employees at its extraordinary general meeting held on 27 October 2010. No option has been granted under the Share Option Scheme since its adoption and up to the date of this report.

MATERIAL LITIGATION AND ARBITRATION

As at 31 December 2018, 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 resulted in the Shares being removed from the official list of the SGX-ST. After the Delisting, Shares are only traded on the SEHK. Shareholders' voting rights and entitlement to dividends are not 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.

DISCLOSEABLE TRANSACTIONS DURING THE REPORTING PERIOD

During the year ended 31 December 2018, the Company has not carried out any discloseable transaction.

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.

Management Discussion and Analysis (cont'd)

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 FY2018:

No.	RISK	DESCRIPTION	MITIGATING ACTIONS/MEASURES
1	Business and industry risk	(a) Due to the overall slowdown in economy, decrease in profitability for telecom operators and adjustment in investment strategies, the speed and progress of network construction of telecom operators have faced significant influence, thus leading to a decrease in the acquisition of facilities. 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. The gradual wave-like decrease of copper prices in FY2018 has affected the product selling prices and sales volume.	(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 adoption of optic fibres over copper cables for the telecommunications sector has continued during FY2018.	(i) To strengthen the effort on research and development and market exploration for high profit margin products like antennas, leaky cables and accessories and by securing more approvals as a qualified supplier for the Group's major customers and entering into new geographic markets.

No.	RISK	DESCRIPTION	MITIGATING ACTIONS/MEASURES
2	Technology risk	As the specific technological specifications and development trend for 5G, the model to achieve economies of scale and the form of products for 5G are also uncertain, the risk associated with research and economies of scale for production has increased.	(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; (ii) Direct the Group's efforts to ramp up R&D to introduce new range of products; (iii) 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; (iv) Actively introduce the Group's 4G capable antennas and other accessories to new customers and geographical markets; (v) 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; and (vi) Explore and commence R&D on the miniaturisation of RF cables, accessories and antennas.

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 credit worthy 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.

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 FY2018.

Continuing Connected Transactions

The significant related party transactions set out in Note 31(B) 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 FY2018, 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 2019, 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 2018, the aggregate net amount paid by the Group for the purchase of the raw materials under the 2017 Purchase Agreement amounted to approximately RMB23.4 million (excluding VAT payable to the State Administration of Taxation of the PRC).

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 2018, the aggregate net amount received by the Group for the sales of its products under the 2017 Sales Agreement amounted to approximately RMB6.0 million (excluding VAT payable to the State Administration of Taxation of the PRC).

POWER PURCHASE (TRIAL IMPLEMENTATION) AGREEMENT AND POWER PURCHASE AGREEMENT

on 1 January 2018, Hengxin (Jiangsu) entered into the Power Purchase (Trial Implementation) Agreement with Jiangsu Hengtong Sell Electricity Co., Ltd.* (江蘇亨通售電有限公司), a limited liability company established in the PRC and a wholly-owned subsidiary of Hengtong Group ("**Hengtong SE**") for a term from 1 January 2018 to 31 January 2018.

According to the Power Purchase (Trial Implementation) Agreement, Hengtong SE agreed to sell and supply power (to be transmitted and distributed by Jiangsu State Grid) to Hengxin (Jiangsu) and Hengxin (Jiangsu) agreed to purchase such power from Hengtong SE for the period from 1 January 2018 to 31 January 2018 with transaction volume of approximately 605,000 kWh and transaction cap of RMB1,000,000.

On 30 January 2018, Hengxin (Jiangsu) entered into the Power Purchase Agreement with Hengtong SE for a term from 1 February 2018 to 31 January 2019. On the same day, Hengxin (Jiangsu), Hengtong SE and Jiangsu State Grid also entered into the Tripartite Agreement in respect of the Power Purchase Agreement in accordance with the requirements from relevant government authorities.

According to the Power Purchase Agreement, Hengtong SE agreed to sell and supply power (to be transmitted and distributed by Jiangsu State Grid) to Hengxin (Jiangsu) and Hengxin (Jiangsu) agreed to purchase such power from Hengtong SE for the period from 1 February 2018 to 31 January 2019 with transaction volume of approximately 13 million kWh and transaction cap of RMB11,300,000.

The Directors believe that the Group could reduce its cost on electricity consumption by purchasing power from Hengtong SE, as the power price payable is be lower than that would have been payable for power purchase from the electricity grid operated by the government, hence the competitiveness of the Group's products will be enhanced.

Continuing Connected Transactions (cont'd)

The Company was informed by Hengtong SE that its controlling shareholder Hengtong Group has disposed of its entire equity intersts in Hengtong SE to independent third parties on 17 August 2018 and therefore commencing on 17 August 2018, Hengtong SE was no longer a connected person of the Company as defined by the Listing Rules, thus, the related continuing connected transaction in respect of the Power Purchase Agreement has ended on 17 August 2018.

During the period between 1 February 2018 and 31 August 2018, the aggregate net amount paid by the Group for the power purchased under the Power Purchase Agreement amounted to approximately RMB5.2 million.

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.

As all the applicable percentage ratios as calculated in respect of the transaction contemplated under the Power Purchase (Trial Implementation) Agreement is less than 5%, and the aggregate consideration for the transaction is less than HK$3 million, the transaction constitutes de minimis continuing connected transaction according to Rule 14A.76(1) of the Listing Rules, which is fully exempted from the Shareholders' approval, annual review and all the disclosure requirements under Chapter 14A of the Listing Rules. Nevertheless, due to their similar nature or correlation in other aspects between the Power Purchase (Trial Implementation) Agreement and the Power Purchase Agreement, the Power Purchase (Trial Implementation) Agreement and the Power Purchase Agreement will be aggregated and treated as one transaction.

Based on the transaction amount of the Power Purchase (Trial Implementation) Agreement and the Annual Cap under the Power Purchase Agreement for the 12- month period from 1 February 2018 to 31 January 2019, all the applicable percentage ratios in respect of the continuing connected transactions are less than 5% on an annual basis, the transactions constitute exempted continuing connected transactions of the Company under the requirements of Rule 14A.76(2) of the Listing Rules and are exempted from the requirements of circular and approval of independent Shareholders of the Company, but are subject to the requirements of annual review, reporting and announcement under Chapter 14A of the Listing Rules.

For the pricing policy and further details of the Power Purchase (Trial Implementation) Agreement and Power Purchase Agreement, please refer to the announcements of the Company dated 30 January 2018 and 21 February 2018.

BACKGROUND OF HENGTONG GROUP, SUZHOU HENGLI AND HENGTONG SE

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.

As Hengtong SE is wholly-owned by Hengtong Group, therefore Hengtong SE is considered as a connected person of the Company as defined in Chapter 14A of the Listing Rules. Accordingly, the transactions contemplated under the Power Purchase (Trial Implementation) Agreement and the Power Purchase Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Continuing Connected Transactions (cont'd)

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 32, 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's 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 56, 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 46, 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 begun his EMBA program at Nanjing University from 2016.

Board of Directors (cont'd)

ZHANG ZHONG

Non-Executive Director

Ms. Zhang Zhong (張鍾), aged 64, is our Non-Executive Director and was appointed on 23 June 2005. Ms. Zhang was one of the founders and directors o f 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.

TAM CHI KWAN MICHAEL

Independent Non-Executive Director

Mr. Tam Chi Kwan Michael (譚志昆), aged 55, 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 known as 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 57, 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 Suncity Group 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 54, is our Independent Non-Executive Director and was appointed on 6 March 2015. Mr. Pu holds a master degree in Accounting and Finance obtained from Anhui Finance and Economics College, a master degree 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 encompass 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 47, 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), an independent non-executive director of Primeview Holdings Limited (Stock Code: 789), Titan Petrochemicals Group Limited (Stock Code: 1192), China HKBridge Holdings Limited (Stock Code: 2323) and Tenwow International Holdings Limited (Stock Code: 1219), all the above companies are listed on the main board of the Stock Exchange. From February 2017 to December 2018, Mr. Lau was the non-executive director of Alltronics Holdings Limited (Stock Code: 833, a company listed on the main board of the Stock Exchange).

JIN HUIYI

Deputy General Manager — Overseas Marketing

Ms. Jin Huiyi (金惠義), aged 42, 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 51, joined our Group in August 2014. He is the executive vice president of Jiangsu Hengxin Wireless Technology Co., Ltd. ("**Jiangsu 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

138 Robinson Road
#26-03 Oxley Tower
Singapore 068906

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

Up to 31 March 2019:
7 Temasek Boulevard
#04-02B Suntec Tower One
Singapore 038987

With effect from 1 April 2019:
5 Tampines Central 1
#06-05 Tampines Plaza
Singapore 529541

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 708A, 7/F.
Tower 1, Cheung Sha Wan Plaza
833 Cheung Sha Wan Road
Lai Chi Kok
Kowloon, 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

NOMINATION 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. Lai Yang Chau, Eugene

JOINT COMPANY SECRETARIES

Ms. Wong Jing Ting, Renee (Singapore)
(appointed on 23 October 2018)
Mr. Lai Yang Chau, Eugene
(Hong Kong)
(appointed on 29 January 2019)
Mr. Chua Kern (Singapore)
(resigned on 23 October 2018)
Mr. Chan Ting (Hong Kong)
(resigned on 29 January 2019)

LEGAL ADVISORS

Yang Chau Law Office
Unit 708A, 7/F.
Tower 1,Cheung Sha Wan Plaza
833 Cheung Sha Wan Road
Lai Chi Kok
Kowloon, Hong Kong

AUDITORS

KPMG LLP
Certified Public 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. 138 Long Tan Xi 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

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.

The Company was listed on the Main Board of the SEHK. The Company completed its voluntary delisting on the SGX-ST on 5 February 2018. Throughout FY2018, 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 2018, the Board comprises of two Executive Directors, two Non-Executive Directors, and three Independent Non-Executive Directors. During FY2018, 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 "**Managemen**t"). 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 Nomination 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 FY2018, 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		Nomination 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	5	3	4	2	1	1	1	1
Du Xiping	1	1	5	5	NA	NA	NA	NA	1	1
Xu Guoqiang	1	1	5	5	NA	NA	1	1	NA	NA
Zhang Zhong	1	1	5	5	4	4	NA	NA	NA	NA
Tam Chi Kwan Michael	1	1	5	5	4	4	1	1	1	1
Pu Hong	1	1	5	5	4	4	1	1	1	1
Dr. Li Jun	1	1	5	5	4	4	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 FY2018, 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 FY2018 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.

Board Composition and Guidance

During FY2018, 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 2018	NA
Xu Guoqiang	Executive Director	20 December 2011	28 April 2017	Yes
Zhang Zhong	Non-Executive Director	23 June 2005	28 April 2018	NA
Tam Chi Kwan Michael	Independent Non-Executive Director	10 December 2010	28 April 2016	Yes
Pu Hong	Independent Non-Executive Director	6 March 2015	28 April 2017	Yes
Dr. Li Jun	Independent Non-Executive Director	6 March 2015	28 April 2018	NA

(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 Nomination 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 Nomination Committee is of the view that the Independent Non-Executive Directors, during their respective terms of office with the Company, are deemed independent.

Corporate Governance Report (cont'd)

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 Nomination 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 Nomination Committee, in consultation with the Board, will determine the selection criteria and select candidates with the appropriate expertise and experience for the position. Pursuant to the 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 FY2018, 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 FY2018 and has no intention to appoint a chief executive officer in the near future.

Joint Company Secretaries

The Company's secretarial functions are outsourced to external services provider. Mr. Chua Kern ("**Mr. Chua**") and Mr. Chan Ting ("**Mr. Chan**") were 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. Mr. Chua resigned as a joint company secretary with effect from 23 October 2018. Ms. Wong Jing Ting, Renee ("**Ms. Wong**") has been appointed as a new joint company secretary of the Company with effect from 23 October 2018. Ms. Wong is a qualified company secretary under the laws of Singapore.

Mr. Chua, Mr. Chan and Ms. Wong have complied with the requirement under Rule 3.29 of the Listing Rules during the year.

Their primary corporate contact person at the Company is Mr. Lau Fai Lawrence, the Financial Controller of the Company.

(B) NOMINATION 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 Nomination Committee oversees this aspect of corporate governance.

The Nomination 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 Nomination Committee holds at least one meeting each year. The Nomination Committee has convened one meeting during FY2018 to review the independence of the Independent Non-Executive Directors as well as the composition of the Board.

The key functions of the Nomination 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 Nomination 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. Xu Guoqiang, Mr. Tam Chi Kwan Michael and Mr. Pu Hong 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 to 26 of the Annual Report.

The Nomination Committee has considered the level of commitment of each Director serving on multiple boards. For FY2018, 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 Diversity

The Company recognizes and embraces the benefits of having a diverse Board to enhance the quality of its performance.

When determining the composition of the Board, the Company will consider Board diversity in terms of, among other things, gender, age, cultural, educational background, professional experience, skills and know-how. All Board appointments will be based on merits, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

Selection of candidates for Board membership will be based on a range of diversity perspectives, including but not limited to gender, age, cultural, educational background, professional experience, skills and know-how.

The Nomination Committee will review its board diversity policy, as appropriate, to ensure the effectiveness of the policy. The Nomination Committee will discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

Board Performance

The Nomination 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 Nomination 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 Nomination 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 FY2018.

The Nomination 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 FY2018 and the contributions made by the Directors at the meetings.

The Board and the Nomination 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 FY2018 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.

(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 FY2018, 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.

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 FY2018.

(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.

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 FY2018, 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 FY2018, 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 FY2018 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 the year ended 31 December 2017, 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 FY2018;

- 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
- 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 28 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 FY2018 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 27 April 2018.

During FY2018, 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 FY2018, 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 58 to 64 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 FY2018.

For FY2018, 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 RMB1.4 million.

During FY2018, 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 FY2018.

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.

During FY2018, in response to the relevant requirements of the Hong Kong Code, the Company has formulated a dividend policy. Accordingly, the Company will work towards maintaining a balance between meeting shareholders' expectations and prudent capital management in accordance with the dividend policy.

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, Nomination 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 FY2018 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.

(F) DIVIDEND POLICY

The objective of the dividend policy of the Company is to reward its shareholders by sharing a portion of profits/earning, while also ensuring that enough funds are retained for the future growth and prospects of the Company.

The Company will distribute dividends subject to the distributable profits in the financial statements prepared in accordance with the Companies Act of Singapore, International Financial Reporting Standards and the provisions of the Company's Constitution, as well as all applicable laws.

The Board will take into account of the following factors when considering the payment of any dividends:

- financial results;
- shareholders' interests;
- general business conditions and strategies;
- capital requirements;
- contractual restrictions on the payment of dividends by the Company to its shareholders or by its subsidiaries to the Company;
- taxation consideration;
- possible effects on the Company's creditworthiness;
- statutory and regulatory restrictions; and
- any other factors the Board may deem relevant.

The Board may, from time to time, declare and pay to the shareholders such interim dividends as appear to the Board to be justified by the profits of the Company.

The Board may recommend final dividend to the shareholders for their approval in the general meeting of the Company and any final dividend recommended by the Board will be subject to the shareholders' approval, at the ensuing annual general meeting of the Company. The Board may additionally declare and pay special dividends in special circumstances including but not limited to one-off profits, non-recurring incomes and disposal of assets. Dividend may be paid in cash or in stock.

(G) 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 FY2018.

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.

(H) CONNECTED TRANSACTIONS

The Company has entered into new continuing connected transactions during FY2018.

Details of the continuing connected transactions for FY2018 which fall under Chapter 14A of the Listing Rules are set out in the section headed "Continuing Connected Transactions" in this Annual Report.

(I) THE CONSTITUTION

There was no change in the Constitution of the Company during FY2018.

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 2018 ("**FY2018**").

In our opinion:

(a) the financial statements set out on pages 65 to 144 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 2018 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 2018 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 2018 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' 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 2018 ("**FY2018**") (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]	92,628,662	96,868,662
Kingever Enterprises Limited[1]		
– ordinary shares		
– direct interest	92,628,662	96,868,662
Zhang Zhong		
Hengxin Technology Ltd.		
– ordinary shares		
– deemed interests[2]	28,082,525	28,082,525
Wellahead Holdings Limited[2]		
– ordinary shares		
– direct interest	28,082,525	28,082,525
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 96,868,662 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. In FY2018, Mr. Cui Wei has acquired a total of 4,240,000 ordinary shares of the Company in April 2018 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 2018 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 2018.

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.

Unissued shares under option and options exercised

During the financial year ended 31 December 2018, 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 2018, 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 2018, 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.

The Audit Committee has made recommendation to the Directors on the re-appointment of KPMG LLP as the external auditors of the Company at the forthcoming annual general meeting of the Company.

AUDITORS

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 FY2018, 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 FY2018 and the state of affairs of the Company and the Group as at 31 December 2018 are set out in the financial statements on pages 66 and 65 of the annual report, respectively.

A final dividend of RMB0.0294 per share in respect of the FY2017 was paid during FY2018 (2017: RMB0.0257). The Directors recommend the payment of a final dividend of RMB0.0457 (2017: RMB0.0294) per share in respect of the FY2018 to shareholders of the Company whose names appear on the Company's register of members on 14 May 2019 (Tuesday), and such dividend will be paid out on or about 27 May 2019 (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 FY2018 and as at 31 December 2018, 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 FY2018 is set out at the "Corporate Governance Report" on pages 29 to 45 of the annual report.

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 page 2 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 FY2018 are set out in Note 18 to the financial statements.

Share capital

Details of the Company's share capital are set out in Note 22(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 FY2018.

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. The service agreement for Mr. Du Xiping had been renewed automatically for a term of another three years commencing 31 December 2018.

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 12 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 31(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 FY2018 or at the end of FY2018.

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 2018, 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	96,868,662	24.97%
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 24.97% 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 2018, 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 2018, 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	96,868,662	24.97%
Cui Wei[1]	Deemed interest and interest in controlled corporation	96,868,662	24.97%
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 2018, 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 FY2018 or subsisted at the end of FY2018.

Reserves

Details of movements in the reserves of the Company and the Group during FY2018 are set out in Note 22 to the financial statements.

Distributable reserves

The Company's reserves available for distribution to shareholders as at 31 December 2018 amounted to approximately RMB131,556,000 (2017: approximately RMB150,230,000).

Charitable donations

The Group had made donations amounting approximately RMB500,000 (2017: 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 telecommunication 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 global telecommunication 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 FY2018, sales to the Group's five largest customers accounted for approximately 59% of the total sales for the year and sales to the largest customer included therein amounted to approximately 30%. Purchases from the Group's five largest suppliers accounted for approximately 45% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 12%.

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.

Employees

As at 31 December 2018, we employed 845 (2017: 927) people on a full-time basis, among whom, 79 were in product research and development, 142 were in sales and marketing, 470 were in manufacturing and distribution, and 154 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 FY2018 are set out in Note 11 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 FY2018, 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.

Permitted indemnity provisions

A permitted indemnity provision for the benefit of the Directors is currently in force and was in force throughout FY2018. 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 2019

Independent Auditor's Report

Members of the Company
Hengxin Technology Ltd.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of Hengxin Technology Ltd. (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, 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 65 to 144.

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 2018 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 (RMB737,697,000)
(Refer to Note 16 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.

During the year, the Group has applied IFRS 9 *Financial Instruments* from 1 January 2018. In accordance with IFRS 9, trade receivables continue to be measured at amortised cost, and subject to expected credit loss (ECL) assessment. Accordingly, management has constructed a provision matrix to compute the expected loss rate through the summation of each average age bands and applied the expected loss rate to the trade receivable balances to arrive at the ECL allowance. The expected loss rate generated will depend on the length and amount of historical data used and forward-looking adjustments made. This has resulted in a significant degrees of management judgement in the ECL assessment.

How the matter was addressed in our audit

We assessed the appropriateness of the solely payments of principal and interest (SPPI) criterion and business model test performed by management in accordance with IFRS 9.

When constructing a provision matrix in the ECL model, we considered whether the period used contains sufficient data to generate an expected outcome of the population, taking into consideration the historical default and the credit risk of the receivables, including the forward-looking adjustments.

Our findings – We found the classification and measurement of trade receivables as amortised cost by the Group to be appropriate.

We found management's assessment of allowance for impairment loss of the trade receivables to be conservative.

Independent Auditor's Report (cont'd)

Valuation of investment in an associate (RMB Nil)
(Refer to Note 20 to the financial statements)

The key audit matter	How the matter was addressed in our audit
During the financial year, the operations of the Group's associate continued to incur operating losses. Accordingly, the Group 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 Group recorded an impairment loss of RMB10,666,000 (2017: RMB5,100,000) as of 31 December 2018. Management has estimated the recoverable amount based on fair value less cost to sell, determined by the external valuer. The impairment assessment exercise and the estimation of the recoverable amount is highly subjective and involves significant management's judgement.	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 in the determination of the fair value of the underlying assets by comparing to market data and the historical financial performance of the associate, where possible. 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 found 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 reasonable.

Independent Auditor's Report (cont'd)

Valuation of equity investments – at fair value through other comprehensive income (RMB10,847,000)
(Refer to Note 21 to the financial statements)

The key audit matter	How the matter was addressed in our audit
The Group held interests in unquoted equity security. The unquoted equity security is stated at their fair value at the reporting date. Management adopted the discounted cash flow to calculate the fair value of the unquoted equity security which involved the exercise of significant judgement, particularly in respect of the assumptions adopted relating to the discount rate, revenue growth rate, and operating margin.	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, such as discount rate, revenue growth rate, and operating margin 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.

Independent Auditor's Report (cont'd)

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.

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 2019

Statements of Financial Position

At 31 December 2018

	Notes	Group 2018 RMB'000	Group 2017 RMB'000	Company 2018 RMB'000	Company 2017 RMB'000
Assets					
Property, plant and equipment	18	129,391	139,710	11	14
Lease prepayment	19	47,985	49,340	–	–
Subsidiaries	28	–	–	396,385	396,385
Trade and other receivables	16	–	17,371	4,421	23,802
Associate	20	–	12,440	–	–
Other investments	21	10,847	10,847	–	–
Deferred tax assets	14(D)	10,488	4,340	–	–
Non-current assets		198,711	234,048	400,817	420,201
Lease prepayment	19	1,355	1,355	–	–
Inventories	15	168,853	212,046	–	–
Other investments	21	–	50,000	–	–
Trade and other receivables	16	788,557	762,034	15,256	15,303
Cash and cash equivalents	17	978,604	471,873	11,668	11,281
Current assets		1,937,369	1,497,308	26,924	26,584
Total assets		2,136,080	1,731,356	427,741	446,785
Equity attributable to owners of the Company					
Share capital	22(B)	295,000	295,000	295,000	295,000
General reserves	22(C)	233,658	217,391	–	–
Special reserve	22(C)	(6,017)	(6,017)	–	–
Fair value reserve	22(C)	170	170	–	–
Translation reserves	22(C)	(1,423)	(1,117)	–	–
Accumulated profits	22(A)	1,066,120	975,518	131,556	150,230
Total equity		1,587,508	1,480,945	426,556	445,230
Liabilities					
Deferred income	26	3,146	4,175	–	–
Deferred tax liabilities	14(D)	6,353	5,701	–	–
Non-current liabilities		9,499	9,876	–	–
Income tax payable		16,627	12,049		–
Short-term loans	24	315,000	–	–	–
Trade and other payables	25	207,446	228,486	1,185	1,555
Current liabilities		539,073	240,535	1,185	1,555
Total liabilities		548,572	250,411	1,185	1,555
Total equity and liabilities		2,136,080	1,731,356	427,741	446,785

The notes on pages 69 to 144 are an integral part of these financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
Revenue	7	1,586,950	1,633,327
Cost of sales		(1,210,021)	(1,286,701)
Gross profit		376,929	346,626
Other operating income	8(A)	30,048	22,552
Selling and distribution expenses		(102,429)	(101,228)
Administrative expenses		(56,883)	(59,057)
(Impairment losses)/Reversal of impairment loss on trade and other receivables		(19,183)	1,045
Other operating expenses	8(B)	(74,407)	(66,698)
Operating profit		154,075	143,240
Interest expense	9	(1,042)	(62)
Share of loss of associate, net of tax	20	(12,440)	(8,152)
Profit before tax	8(C)	140,593	135,026
Income tax expense	14	(22,317)	(20,969)
Profit for the year attributable to owners of the Company		118,276	114,057
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)
Foreign operations – foreign currency translation differences		(306)	(314)
Related tax	14(D)	–	3,315
Other comprehensive income for the year, net of tax		(306)	(19,099)
Total comprehensive income for the year attributable to owners of the Company		117,970	94,958
Basic and diluted earnings per share (RMB)	10	0.305	0.294

The notes on pages 69 to 144 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Notes	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 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	22(D)	–	–	–	–	–	(9,972)	(9,972)
Total transactions with owners of the Company		–	–	–	–	–	(9,972)	(9,972)
Transfer to statutory reserves	22(C)	–	16,790	–	–	–	(16,790)	–
Balance at 31 December 2017		295,000	217,391	(6,017)	170	(1,117)	975,518	1,480,945
At 1 January 2018		295,000	217,391	(6,017)	170	(1,117)	975,518	1,480,945
Total comprehensive income for the year								
Profit for the year		–	–	–	–	–	118,276	118,276
Other comprehensive income for the year					–	(306)	–	(306)
Total comprehensive income for the year		–	–	–	–	(306)	118,276	117,970
Transactions with owners of the Company								
Contributions and distributions								
Dividends paid	22(D)	–	–	–	–	–	(11,407)	(11,407)
Total transactions with owners of the Company		–	–	–	–	–	(11,407)	(11,407)
Transfer to statutory reserves	22(C)	–	16,267	–	–	–	(16,267)	–
Balance at 31 December 2018		295,000	233,658	(6,017)	170	(1,423)	1,066,120	1,587,508

The notes on pages 69 to 144 are an integral part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
Cash flows from operating activities			
Profit before tax		140,593	135,026
Adjustments for:			
– Impairment losses/(Reversal of) impairment loss on trade and other receivables	16(A)	(19,183)	(1,045)
– Amortisation of lease prepayment	19(A)	1,355	1,355
– Deferred income		(1,029)	(1,028)
– Depreciation of property, plant and equipment	18(A)	25,233	22,207
– Interest expense	9	1,042	62
– Interest income	8(A)	(8,311)	(6,469)
– Gain on disposal of property, plant and equipment	8(A)	(18)	(58)
– Share of loss of associate, net of tax	20	12,440	8,152
– Write-down/(Write-back) of inventory	15	38	(335)
– Write-off of property, plant and equipment		–	3
		190,526	157,870
Changes in:			
– Inventories		42,316	(41,609)
– Trade and other receivables		(29,403)	(161,907)
– Trade and other payables		(19,466)	40,044
Cash generated from/(used in) operating activities		183,973	(5,602)
Interest received		6,963	4,860
Income tax paid		(23,235)	(15,199)
Net cash from/(used in) operating activities		167,701	(15,941)
Cash flows from investing activities			
Acquisition of property, plant and equipment	18(A)	(15,033)	(16,159)
Proceeds on maturity of other investment		50,000	–
Interest received from other investments		1,348	1,609
Proceeds from disposal of property, plant and equipment		116	422
Changes in pledged bank deposits		(4,948)	(20,734)
Acquisition of other investments		–	(21,000)
Net cash from/(used in) investing activities		31,483	(55,862)
Cash flows from financing activities			
Dividends paid to owners of the Company	22(D)	(11,407)	(9,972)
Interest paid		(1,042)	(62)
Proceeds from short-term bank loans		315,000	–
Repayment of short-term bank loans		–	(27,000)
Net cash from/(used in) financing activities		302,551	(37,034)
Net increase/(decrease) in cash and cash equivalents		501,735	(108,837)
Cash and cash equivalents at 1 January		445,120	554,209
Effects of movements in exchange rates on cash held		48	(252)
Cash and cash equivalents at 31 December	17	946,903	445,120

The notes on pages 69 to 144 are an 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 138 Robinson Road, #26-03, Oxley Tower, Singapore 068906. The Company is listed on the Main Board of the Stock Exchange of Hong Kong Limited ("**SEHK**"). On 5 February 2018, the Company was delisted from the SGX-ST. After the delisting 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 2018 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 28 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 2019.

Details of the Group's accounting policies are included in Note 33.

This is the first set of the Group's annual financial statements in which IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* have been applied. Changes to significant accounting policies are described in Note 5.

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.

4 USE OF JUDGEMENTS AND ESTIMATES (cont'd)

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 ended 31 December 2018 is included in the following notes:

- Note 16 – Measurement of ECL allowance for trade receivables: key assumptions in determining the weighted-average loss rate;
- Note 20 – Recoverable amount of investment in associate; and
- Note 27 – Determination of fair value of investment in unquoted security.

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 27 – Financial instruments.

5 CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

The Group has initially applied IFRS 15 (see A) and IFRS 9 (see B) from 1 January 2018. A number of other new standards are also effective from 1 January 2018 but they do not have a material effect on the Group's financial statements.

A. IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue and related interpretations. Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control over time requires judgement.

The Group has adopted IFRS 15 using the cumulative effect method (without practical expedients), with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 January 2018). Accordingly, the information presented for 2017 has not been restated – i.e. it is presented, as previously reported, under IAS 18 and related interpretations. Additionally, the disclosure requirements in IFRS 15 have not generally been applied to comparative information.

For additional information about the Group's accounting policies relating to revenue recognition, see Note 7.

B. IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement*.

As a result of the adoption of IFRS 9, the Group has adopted consequential amendments to IAS 1 *Presentation of Financial Statements*, which require impairment of financial assets to be presented in a separate line item in the statement of profit or loss and OCI. Previously, the Group's approach was to include the impairment of trade receivables in administrative expenses. Consequently, the Group reclassified the reversal of impairment losses amounting to RMB1,045,000, recognised under IAS 39, from 'administrative expenses' to '(impairment losses)/ reversal of impairment loss on trade and other receivables' in the statement of profit or loss and OCI for the year ended 31 December 2017.

Additionally, the Group has adopted consequential amendments to IFRS 7 *Financial Instruments: Disclosures* that are applied to disclosures about 2018 but have not been generally applied to comparative information.

The new standard contain exemptions from full retrospective application, including an exemption from the requirement to restate comparative information about classification and measurement, including impairment.

The Group has used the exemption not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9, but rather those of IAS 39.

i. Classification and measurement of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous 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 separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

5 CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (cont'd)

B. IFRS 9 Financial Instruments (cont'd)

i. Classification and measurement of financial assets and financial liabilities (cont'd)

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

The adoption of IFRS 9 does not have a significant effect on the Group's accounting policies related to financial liabilities.

For an explanation of how the Group classifies and measures financial instruments and accounts for related gains and losses under IFRS 9, see Note 33(M).

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets and financial liabilities as at 1 January 2018.

The effect of adopting IFRS 9 on the carrying amounts of financial assets at 1 January 2018 relates solely to the new impairment requirements.

	Note	Original classification under IAS39	New classification under IFRS 9	Original carrying amount under IAS 39 RMB'000	New carrying amount under IFRS 9 RMB'000
Group					
Financial assets					
Equity securities	(a)	Available-for-sale	FVOCI – equity instrument	10,847	10,847
Wealth management products		Loans and receivables	Amortised cost	50,000	50,000
Trade and other receivables		Loans and receivables	Amortised cost	779,405	779,405
Cash and cash equivalents		Loans and receivables	Amortised cost	471,873	471,873
Total financial assets				1,312,125	1,312,125
Company					
Financial assets					
Trade and other receivables		Loans and receivables	Amortised cost	39,105	39,105
Cash and cash equivalents		Loans and receivables	Amortised cost	11,281	11,281
Total financial assets				50,386	50,386

a. These equity securities represent investments that the Group intends to hold for the long term for strategic purposes. As permitted by IFRS 9, the Group has designated these investments at the date of initial application as measured at FVOCI. Unlike IAS 39, the accumulated fair value reserve related to these investments will never be reclassified to profit or loss.

5 CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (cont'd)

B. IFRS 9 Financial Instruments (cont'd)

ii. Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39 — see Note 33(O).

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Additional information about how the Group measures the allowance for impairment is described in Note 27(C)(i).

6 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 2017 and 2018 and have therefore been combined.

As there were no information on assets or liabilities being reported to the Executive Directors regularly to assess for performance and to make resource allocation decisions, no segment assets or liabilities are disclosed for each reporting segment.

6 OPERATING SEGMENTS (cont'd)

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						
2018						
Revenue	727,243	359,018	433,103	1,519,364	67,586	1,586,950
Segment profit before tax[1]	55,578	59,208	27,715	142,501	(1,135)	141,366
Interest income	3,796	1,874	2,261	7,931	380	8,311
Interest expense	(478)	(236)	(284)	(998)	(44)	(1,042)
Amortisation of lease prepayment	(621)	(306)	(370)	(1,297)	(58)	(1,355)
Allowance for stock obsolescence	–	–	(38)	(38)	–	(38)
Depreciation expense	(11,561)	(5,707)	(6,884)	(24,152)	(1,074)	(25,226)

Notes to the Financial Statements (cont'd)

6 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						
2017						
Revenue	952,553	441,687	205,463	1,599,703	33,624	1,633,327
Segment profit before tax[1]	72,848	67,959	5,602	146,409	1,243	147,652
Interest income	3,770	1,748	813	6,331	138	6,469
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)

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.

Notes to the Financial Statements (cont'd)

6 OPERATING SEGMENTS (cont'd)

C. Reconciliations of information on reportable segments to IFRS measures

	Group	
	2018 RMB'000	2017 RMB'000
Profit before tax		
Total profit before tax for reportable segments	142,501	146,409
Profit before tax for other segments	(1,135)	1,243
Unallocated amounts:		
– Other income	21,737	5,984
– Other expenses	(1,905)	(863)
– Share of loss of associate	(12,440)	(8,152)
– Other unallocated amounts	(8,165)	(9,595)
Consolidated profit before tax	140,593	135,026

6 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
2018			
Depreciation expense	(25,226)	(7)	(25,233)
2017			
Depreciation expense	(22,197)	(10)	(22,207)

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]	
	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000
PRC	1,261,818	1,399,456	176,362	217,508
India	101,742	74,086	1,003	1,339
Other countries	223,390	159,785	11	14
	1,586,950	1,633,327	177,376	218,861

[1] Excluding other investments and deferred tax assets

6 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	
	2018 RMB'000	2017 RMB'000
Customer A	474,417	347,278
Customer B	166,454	301,719
Customer C	–	198,922
	640,871	847,919

7 REVENUE

The following table provides information about the nature and timing of the satisfaction of performance obligation in contracts with customers, including significant payment terms and the related revenue recognition policies:

Radio frequency coaxial cables, telecommunication equipment and accessories and antennas segment

Nature of goods or services	The Group principally generates revenue from manufacturing radio frequency coaxial cables, telecommunication equipment and accessories. The contracts with its customers are received on ad hoc basis. Goods may be sold separately or in bundled packages. For the bundled contracts, the Group accounts for individual goods separately if they are distinct i.e, if a good is separately identifiable from other items in the bundled package and if a customer can benefit from it.
When revenue is recognised	The consideration for bundled sales is allocated to the separate goods based on their relative stand-alone selling prices. The stand-alone selling prices are determined based on individual prices that the Group would have charged if the services were contracted for separately. Revenue is recognised at point in time when customer obtains control, based on the relative stand-alone selling prices of each of the goods.
Significant payment terms	Payment is due when the goods are delivered to the customers.

7 REVENUE (cont'd)

Radio frequency coaxial cables, telecommunication equipment and accessories and antennas segment (cont'd)

Disaggregation of revenue from contracts with customers

In the following table, revenue from contracts with customers is disaggregated by primary geographical markets, major products and service lines and timing of revenue recognition. The table also includes a reconciliation of disaggregated revenue with the Group's reportable segments (see note 6).

	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
Primary geographical markets						
PRC	543,530	239,412	415,553	1,198,495	63,323	1,261,818
India	92,740	8,959	5	101,704	38	101,742
Other countries	90,973	110,647	17,545	219,165	4,225	223,390
	727,243	359,018	433,103	1,519,364	67,586	1,586,950
Major products line/service line						
Sale of goods	727,243	359,018	433,103	1,519,364	67,149	1,586,513
Services	–	–	–	–	437	437
Major customers[1]						
Customer A	166,827	44,335	263,255	474,417	–	474,417
Customer B	48,504	33,986	83,964	166,454	–	166,454
Other customers	511,912	280,697	85,884	878,493	67,586	946,079
	727,243	359,018	433,103	1,519,364	67,586	1,586,950
Timing of revenue recognition						
Products transferred at a point in time	727,243	359,018	433,103	1,519,364	67,149	1,586,513
Products and services transferred over time	–	–	–	–	437	437

[1] Revenue from the major customers which accounts for 10% or more of the Group's revenue.

Notes to the Financial Statements (cont'd)

8 INCOME AND EXPENSE

A. *Other operating income*

	Group	
	2018 RMB'000	2017 RMB'000
Compensation claims received	1,620	691
Government grants	11,527	14,775
Interest income	8,311	6,469
Net foreign exchange gain	5,648	–
Rental income	2,803	23
Net gain on disposal of property, plant and equipment	18	58
Others	121	536
	30,048	22,552

B. *Other operating expenses*

	Group	
	2018 RMB'000	2017 RMB'000
Donation	650	750
Net foreign exchange loss	–	10,122
Research and development expenses	72,501	55,737
Write-off of property, plant and equipment	–	3
Penalty expenses from customers	1,256	86
	74,407	66,698

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.

Penalty expenses from customers mainly represents compensation to customer relating to product quality issue.

8 INCOME AND EXPENSE (cont'd)

C. Profit for the year

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

	Note	Group 2018 RMB'000	Group 2017 RMB'000
Amortisation of lease prepayment	19(A)	1,355	1,355
Audit and related services fees paid to:			
– auditors of the Company		544	406
– other member firms of KPMG International		858	745
– other auditors		189	164
Depreciation of property, plant and equipment	18(A)	25,233	22,207
Employee benefit expenses	11	134,581	131,882
Operating lease expense		1,729	1,676
Impairment losses/(Reversal of) impairment loss on trade and other receivables	16	19,183	(1,045)
Write-down/(Write-back) of inventory	15	38	(335)

9 INTEREST EXPENSE

	Group 2018 RMB'000	Group 2017 RMB'000
Interest expense on short-term bank loans	1,042	62

10 EARNINGS PER SHARE

A. *Basic earnings per share*

The calculation of basic earnings per share at 31 December 2018 was based on the profit attributable to ordinary equity shareholders of RMB118,276,000 (2017: RMB114,057,000), and a weighted average number of ordinary shares outstanding of 388,000,000 (2017: 388,000,000), calculated as follows:

Weighted average number of ordinary shares:

	Group	
	2018	**2017**
	'000	**'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 2018 and 2017. The calculated diluted earnings per share equals the basic earnings per share at 31 December 2018 and 2017.

11 EMPLOYEE BENEFIT EXPENSES

	Note	Group	
		2018	**2017**
		RMB'000	**RMB'000**
Staff costs		124,344	120,978
Contributions to defined contribution plans		6,540	7,146
Executive directors' remuneration		2,129	2,147
Non-executive directors' fees		1,568	1,611
	8(C)	134,581	131,882

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 2018, the contributions due in respect of the year that had not been paid over to the schemes were approximately RMB487,000 (2017: RMB507,000). The amounts were paid subsequent to the end of the reporting period.

12 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				
2018				
Executive directors				
Du Xiping	–	852	212	1,064
Xu Guoqiang	–	611	454	1,065
Non-executive directors				
Cui Wei	405	–	–	405
Zhang Zhong	319	–	–	319
Independent non-executive directors				
Tam Chee Kwan Michael	338	–	–	338
Dr. Li Jun	253	–	–	253
Pu Hong	253	–	–	253
	1,568	1,463	666	3,697
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

During 2018 and 2017, there were no amounts paid or payable by the Group to the directors or any of the highest paid individuals set out in Note 13 as an inducement to join or upon joining the Group or as compensation for loss of office.

Notes to the Financial Statements (cont'd)

13 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2017: two) are directors whose emoluments are disclosed in Note 12. The aggregate of the emoluments in respect of the other three (2017: three) individuals are as follows:

	Group	
	2018 RMB'000	2017 RMB'000
Salaries, allowances and benefits in kind	2,110	1,493
Performance related bonuses	780	780
Retirement scheme contributions	46	43
	2,936	2,316

The emoluments of the three (2017: three) individuals with the highest emoluments are within the following bands:

	Group Number of employees	
	2018	2017
HKD Nil to HKD1,000,000	2	3
HKD1,000,001 to HKD1,500,000	1	–
	3	3

14 INCOME TAXES

A. *Amounts recognised in profit or loss*

		Group	
	Note	2018 RMB'000	2017 RMB'000
Current tax expense			
Current year		30,284	24,709
Over provision in prior years		(2,471)	(2,988)
		27,813	21,721
Deferred tax expense			
Origination and reversal of temporary differences	14(D)	(5,496)	(752)
Income tax expense		22,317	20,969

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.

14 INCOME TAXES (cont'd)

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

	2018			2017		
	Before tax RMB'000	Tax expense RMB'000	Net of tax RMB'000	Before tax RMB'000	Tax expense RMB'000	Net of tax RMB'000
Group						
Equity investments – available-for-sale	–	–	–	(22,100)	3,315	(18,785)

C. *Reconciliation of effective tax rates*

	Group			
	2018		2017	
	%	RMB'000	%	RMB'000
Reconciliation of effective tax rate				
Profit before tax		140,593		135,026
Add: Share of loss of associate, net of tax		12,440		8,152
		153,033		143,178
Tax using the PRC statutory tax rate of 25% (2017: 25%)	25.0%	38,258	25.0%	35,795
Effect of concessionary tax rate	(11.2%)	(17,159)	(10.4%)	(14,945)
Effect of tax rates in foreign jurisdictions	0.3%	418	0.4%	543
Recognition of tax effect of previously unrecognised tax losses	(1.3%)	(2,004)	–	–
Tax effect of:				
– Non-taxable income	–	–	(0.2%)	(261)
– Non-deductible expenses	3.4%	5,275	2.0%	2,825
Over provision in prior years	(1.6%)	(2,471)	(2.1%)	(2,988)
	14.6%	22,317	14.6%	20,969

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.

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.

14 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	Deferred tax assets RMB'000	Deferred tax liabilities RMB'000
Group						
2018						
Impairment loss for trade and other receivables	2,008	2,878	–	4,886	4,886	–
Allowance for inventory obsolescence	15	5	–	20	20	–
Equity investments at FVOCI	(30)	–	–	(30)	–	(30)
Deferred income	626	896	–	1,522	1,522	–
Impairment loss on associate	765	1,600	–	2,365	2,365	–
Unrealised exchange loss/(gain)	16	(1)	–	15	15	–
Unrealised profit on sale of inventory	940	770	–	1,710	1,710	–
Dividend from subsidiary	(5,701)	(652)	–	(6,353)	–	(6,353)
Tax assets/(liabilities) before set-off	(1,361)	5,496	–	4,135	10,518	(6,383)
Set-off of tax				–	(30)	30
Net tax assets/(liabilities)				4,135	10,488	(6,353)
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 profit on sale of inventory	–	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)

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

14 INCOME TAXES (cont'd)

E. Unrecognised deferred tax liabilities

The total undistributed profits of the PRC subsidiaries are RMB697,339,000 (2017: RMB824,426,000). No deferred tax liability has been recognised for undistributed profits of RMB570,225,000 (2017: RMB710,329,000) 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.

15 INVENTORIES

	Group	
	2018 RMB'000	2017 RMB'000
Raw materials	57,388	45,164
Work-in-progress	11,771	18,637
Finished goods	99,694	148,245
	168,853	212,046

In 2018, inventories of RMB1,210,021,000 (2017: RMB1,286,701,000) 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 RMB38,000 (2017: RMB Nil), and the write-back amounted to RMB Nil (2017: RMB335,000), which is based on the inventory life cycles, expected future sales level and recoverable value. The write-back and the write-downs are included in "cost of sales".

Notes to the Financial Statements (cont'd)

16 TRADE AND OTHER RECEIVABLES

		Group		Company	
	Note	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000
Trade receivables from:					
– third parties		673,819	633,322	–	–
– affiliated corporation		1,449	1,364	–	–
Bills receivables		72,134	83,774	–	–
Less: Impairment losses		(9,705)	(13,393)	–	–
		737,697	705,067	–	–
Loans to the associate	A	21,191	24,872	–	–
Non-trade amounts due from associate	B	1,680	1,680	–	–
		22,871	26,552	–	–
Less: Impairment losses		(22,871)	–	–	–
		–	26,552	–	–
Non-trade amounts due from subsidiaries	C	–	–	19,421	38,802
Advances to suppliers	D	6,143	13,316	–	–
Advances to staff	E	2,218	1,804	–	–
Refundable deposits	F	7,349	6,396	144	152
Tax recoverables	G	34,212	23,125	–	–
Others		17	202	–	–
		787,636	776,462	19,565	38,954
Prepayments		921	2,943	112	151
		788,557	779,405	19,677	39,105
Non-current		–	17,371	4,421	23,802
Current		788,557	762,034	15,256	15,303
		788,557	779,405	19,677	39,105

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.

16 TRADE AND OTHER RECEIVABLES (cont'd)

A. Loans to the associate

In 2017, 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. During the year, the Group has fully impaired the loans to associate.

B. Non-trade amounts due from the associate

In 2017, the non-trade amounts due from the associate are unsecured, interest-free and repayable on demand. During the year, the Group has fully impaired the non-trade amounts due from the associate.

C. 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 28).

D. Advances to suppliers

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

E. Advances to staff

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

F. 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.

G. Tax recoverables

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

H. Credit and currency risks

Information about the Group's exposure to credit and currency risks, and impairment losses for trade and other receivables and non-trade amounts from subsidiaries are included in Note 27(C).

17 CASH AND CASH EQUIVALENTS

	Group		Company	
	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000
Bank balances	941,694	444,649	11,668	11,281
Short-term deposits	5,209	471	–	–
Pledged bank deposit	31,701	26,753	–	–
Cash and cash equivalents in the statements of financial position	978,604	471,873	11,668	11,281
Less: pledged bank deposit	(31,701)	(26,753)	–	–
Cash and cash equivalents in the statements of cash flows	946,903	445,120	11,668	11,281

Deposits amounting to RMB9,400,000 (2017: RMB9,301,000) were pledged to banks as guarantees for bidding of customer contracts. Pledged bank deposits bear interest at an average effective interest rates at 0.971% (2017: 0.923%) per annum and for a tenure of approximately 4 to 60 months (2017: 6 to 36 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.

Notes to the Financial Statements (cont'd)

18 PROPERTY, PLANT AND EQUIPMENT

A. Reconciliation of carrying amount

	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
Cost							
Balance at 1 January 2018		89,309	186,166	35,027	5,216	1,731	317,449
Additions		261	6,480	2,789	25	5,478	15,033
Transfers		1,847	2,167	1,296	–	(5,310)	–
Disposals		–	(21)	(1,094)	–	–	(1,115)
Effect of movements in exchange rates		–	(38)	(17)	–	–	(55)
Balance at 31 December 2018		91,417	194,754	38,001	5,241	1,899	331,312
Accumulated depreciation							
Balance at 1 January 2017		27,939	103,770	20,170	4,564	–	156,443
Depreciation	6(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
Balance at 1 January 2018		32,598	116,985	24,016	4,140	–	177,739
Depreciation	6(C)	4,671	12,888	7,353	321	–	25,233
Disposals		–	(19)	(998)	–	–	(1,017)
Effect of movements in exchange rates		–	(22)	(12)	–	–	(34)
Balance at 31 December 2018		37,269	129,832	30,359	4,461	–	201,921
Carrying amounts							
At 1 January 2017		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
At 31 December 2018		54,148	64,922	7,642	780	1,899	129,391

18 PROPERTY, PLANT AND EQUIPMENT (cont'd)

A. Reconciliation of carrying amount (cont'd)

	Office equipment RMB'000
Company	
Cost	
Balance at 1 January 2017	54
Additions	19
Write-off	(38)
Balance at 31 December 2017	35
Additions	4
Balance at 31 December 2018	39
Accumulated depreciation	
Balance at 1 January 2017	46
Depreciation	10
Write-off	(35)
Balance at 31 December 2017	21
Depreciation	7
Balance at 31 December 2018	28
Carrying amounts	
At 1 January 2017	8
At 31 December 2017	14
At 31 December 2018	11

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

19 LEASE PREPAYMENT

A. *Reconciliation of carrying amount*

	Note	Group 2018 RMB'000	Group 2017 RMB'000
Cost			
Balance at beginning and end of the year		61,256	61,256
Accumulated amortisation			
Balance at beginning of the year		10,561	9,206
Amortisation	8(C)	1,355	1,355
Balance at end of the year		11,916	10,561
Carrying amount at end of the year		49,340	50,695
Non-current asset		47,985	49,340
Current asset		1,355	1,355
		49,340	50,695

The lease prepayment represent payments for 5 (2017: 5) land use rights located in the PRC. The leases run for a period of 42 to 48 years.

20 ASSOCIATE

	Group 2018 RMB'000	Group 2017 RMB'000
Interests in associate	–	12,440

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 2018 %	Effective equity held by the Group 2017 %
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

20 ASSOCIATE (cont'd)

	Mianyang Xin Tong	
	2018 RMB'000	2017 RMB'000
Revenue	4,239	27,535
Loss from continuing operations	(7,393)	(12,719)
Total comprehensive income	(7,393)	(12,719)
Non-current assets	27,135	114,099
Current assets	5,004	35,270
Non-current liabilities	(290)	(397)
Current liabilities	(62,861)	(77,929)
Net assets	(31,012)	71,043
Group's interest in net assets of associate at beginning of the year	12,440	20,592
Group's share of loss from continuing operations	(1,774)	(3,052)
Total comprehensive income	(1,774)	(3,052)
Impairment loss recognised during the year	(10,666)	(5,100)
Carrying amount of interest in associate at end of the year	–	12,440

20 ASSOCIATE (cont'd)

Impairment loss

During the year, the operations of the associate continued to incur operating losses and is expected to continue its downward trends. Accordingly, the Group performed an impairment assessment to determine the recoverable amount of the investment in associate. The Group has engaged an external valuer to assess the recoverable amount of the investment in associate. The recoverable amounts of investment in associate were estimated based on its fair value less cost to sell.

The following table shows the key assumptions used by the valuer to assess the recoverable amount of the investment in associate:

	Group 2018
Residual values of plant and equipment	5.0% of carrying amount
Recoverable amount of trade receivables	22.0% of carrying amount
Net realisable value of inventory	Nil
Recoverable amount of goodwill and intangible assets	Nil

In addition, the building is valued based on current replacement costs method that were derived from market quotes of similar property types and comparable locations. The land use right is valued based on prevailing market rates of similar land in terms of nature, size and comparable locations.

Any adverse change in assumptions would not have any impact on fair value as the investment has been fully impaired. Conversely, an increase in residual values of plant and equipment, recoverable amount of trade receivables, net realisable value of inventory and recoverable amount of goodwill and intangible assets would result in a higher recoverable amount. All assumptions are in line with the management's understanding of the business environment in which the associate operates. The key assumptions would be reviewed periodically in accordance with IAS 36 Impairment of Assets.

In 2017, 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.

Based on the above, the estimated recoverable amount of the associate amounted to approximately RMB Nil (2017: RMB12,440,000) which is lower than its carrying amount. This has resulted in an additional impairment loss of RMB10,666,000 (2017: RMB5,100,000) being recognised in profit or loss.

There were no contingent liability provided by the Group on behalf of the associate.

21 OTHER INVESTMENTS

The effect of initially applying IFRS 9 in the Group's financial instruments is described in Note 5.

	Group	
	2018 RMB'000	2017 RMB'000
Non-current investments		
Equity investments – available-for-sale (unquoted)	–	10,200
Equity investments – available-for-sale (quoted)	–	647
Equity investments – at FVOCI	10,847	–
	10,847	10,847
Current investment		
Wealth management products	–	50,000

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.

Equity securities designated as at FVOCI

At 1 January 2018, the Group designated the investments shown below as equity securities at FVOCI because these equity securities represent investments that the Group intends to hold for the long term for strategic purposes. In 2017, these investments were classified as available-for-sale – see Note 5.

	Fair value at 31 December 2018	Dividend income recognised during 2018
Investment in Anosi Telecom Technologies Co., Ltd.	10,200	–
Investment in Shanghai International Trust Corp., Ltd.	647	–
	10,847	–

No strategic investments were disposed of during 2018, and there were no transfers of any cumulative gain or loss within equity relating to these investments.

22 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 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	22(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
Balance at 1 January 2018		295,000	150,230	445,230
Loss and total comprehensive income for the year		–	(7,267)	(7,267)
Transactions with owners of the Company				
Contributions and distributions				
Dividends paid	22(D)	–	(11,407)	(11,407)
Total transactions with owners of the Company		–	(11,407)	(11,407)
Balance at 31 December 2018		295,000	131,556	426,556

22 CAPITAL AND RESERVES (cont'd)

B. Share capital

	Group and Company			
	2018 No. of shares ('000)	2018 RMB'000	2017 No. of shares ('000)	2017 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.

22 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	
	2018 RMB'000	2017 RMB'000
RMB0.0294 per qualifying ordinary share (2017: RMB0.0257)	11,407	9,972

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	
	2018 RMB'000	2017 RMB'000
RMB0.0457 per qualifying ordinary share (2017: RMB0.0294)	17,732	11,407

23 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.

23 CAPITAL MANAGEMENT (cont'd)

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

	Group	
	2018 RMB'000	2017 RMB'000
Cash and cash equivalents	946,903	445,120
Less: Short-term loans	(315,000)	–
Net cash borrowings	631,903	445,120
Total equity	1,587,508	1,480,945
Net debt to equity ratio	40%	30%

24 SHORT-TERM LOANS

	2018 RMB'000	2017 RMB'000
Unsecured bank loans	315,000	–

Terms and debt repayment schedule

Terms and conditions of outstanding short-term loans are as follows:

	Currency	Nominal interest rate %	Year of maturity	Face Value RMB'000	Carrying amount RMB'000
2018					
Unsecured bank loans	RMB	4.35%	2019	315,000	315,000

At 31 December 2018, the Group had RMB1,271,013,000 (2017: RMB1,576,931,000) of unutilised bank borrowing facilities.

25 TRADE AND OTHER PAYABLES

	Group		Company	
	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000
Trade payables from:				
– third parties	116,490	136,127	–	–
– affiliated corporation	1,277	3,223	–	–
	117,767	139,350	–	–
Accrued operating expenses	59,681	68,803	1,098	1,496
Advanced receipts	16,404	9,543	–	–
Tender deposit	6,405	3,928	–	–
Value added tax, business tax and other taxes payable	6,047	5,294	–	–
Other payables	1,142	1,568	87	59
	207,446	228,486	1,185	1,555

Advanced receipts mainly pertaining to receipts in advanced from customers. During the year, included in the advanced receipts is an upfront government grant of RMB7,000,000. The grant is recognised as deferred income when the grant's conditions have been fulfilled.

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 payables, is as follows:

	Group	
	2018 RMB'000	2017 RMB'000
0 – 90 days	113,417	135,635
91 – 180 days	1,442	2,013
181 – 360 days	1,508	547
Over 360 days	1,400	1,155
	117,767	139,350

Notes to the Financial Statements (cont'd)

25 TRADE AND OTHER PAYABLES (cont'd)

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

	Liabilities		Equity	
	Short-term loans RMB'000	Interest payable RMB'000	Retained earnings RMB'000	Total RMB'000
Balance at 1 January 2017	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
Balance at 1 January 2018	–	–	975,518	975,518
Changes from financing cash flows				
Proceeds from borrowings	315,000	–	–	315,000
Dividend paid to owners of the Company	–	–	(11,407)	(11,407)
Interest paid	–	(1,042)	–	(1,042)
Total changes from financing cash flows	315,000	(1,042)	(11,407)	302,551
Other changes				
Liability-related				
Interest expense	–	1,042	–	1,042
Total liability-related other changes	–	1,042	–	1,042
Total equity-related other changes	–	–	102,009	102,009
Balance at 31 December 2018	315,000	–	1,066,120	1,381,120

26 DEFERRED INCOME

	Group	
	2018 RMB'000	2017 RMB'000
Deferred income	3,146	4,175

Movement of deferred income:

	2018 RMB'000	2017 RMB'000
At beginning of year	4,175	5,203
Recognised during the year	(1,029)	(1,028)
At end of year	3,146	4,175

At 31 December 2018, the amount represents deferred income arising as a result of the special fund received from local government to support the Group's project on the transformation of science and technology achievements in the People's Republic of China. The grants are conditional whereby the grants received are for acquisitions of plant and equipment. Grants received are initially recognised as deferred income, which are then amortised and recognised in profit or loss as other income over the useful life of the related assets.

27 FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT

The effect of initially applying IFRS 9 on the Group's financial statements is described in Note 5. Due to the transition method chosen, comparative information has not been restated to reflect the new requirements.

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	FVOCI – equity instruments RMB'000	Amortised cost 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 2018									
Financial assets measured at fair value									
Equity securities	21	10,847	–	–	10,847	647	–	10,200	10,847
Financial assets not measured at fair value									
Trade and other receivables[#]	16	–	747,281	–	747,281				
Cash and cash equivalents	17	–	978,604	–	978,604				
		–	1,725,885	–	1,725,885				
Financial liabilities not measured at fair value									
Short-term loans	24	–	–	315,000	315,000				
Trade and other payables[##]	25	–	–	191,042	191,042				
		–	–	506,042	506,042				

Notes to the Financial Statements (cont'd)

27 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 2017									
Financial assets measured at fair value									
Available-for-sales equity securities	21	–	10,847	–	10,847	647	–	10,200	10,847
Financial assets not measured at fair value									
Wealth management products	21	50,000	–	–	50,000				
Loans to the associate	16	24,872	–	–	24,872	–	–	23,386	23,386
Trade and other receivables#	16	715,149	–	–	715,149				
Cash and cash equivalents	17	471,873	–	–	471,873				
		1,261,894	–	–	1,261,894				
Financial liabilities not measured at fair value									
Trade and other payables##	25	–	–	218,943	218,943				

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

\## Exclude advanced receipts

Notes to the Financial Statements (cont'd)

27 FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT (cont'd)

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

		Carrying amount			Fair value			
	Note	Amortised cost 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 2018								
Financial assets not measured at fair value								
Non-trade amounts due from subsidiaries	16	19,421	–	19,421	–	–	19,285	19,285
Refundable deposits	16	144	–	144				
Cash and cash equivalents	17	11,668	–	11,668				
		31,233	–	31,233				
Financial liabilities not measured at fair value								
Trade and other payables	25	–	1,185	1,185				

		Carrying amount			Fair value			
	Note	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
31 December 2017								
Financial assets not measured at fair value								
Non-trade amounts due from subsidiaries	16	38,802	–	38,802	–	–	38,720	38,720
Refundable deposits	16	152	–	152				
Cash and cash equivalents	17	11,281	–	11,281				
		50,235	–	50,235				
Financial liabilities not measured at fair value								
Trade and other payables	25	–	1,555	1,555				

27 FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT (cont'd)

B. Measurement of fair value of unquoted equity security

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 valuation model considers the present value of net cash flows to be generated from the investment. The expected net cash flows are discounted using risk adjusted discount rates.	Revenue growth : 30.0% to 33% (2017: 30% to 33%) Discount rate: 19.0% (2017: 19.0%) Operating margin: 12.2% to 14.4% (2017: 15.5% to 18.0%)	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.

As at reporting date, 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.

Sensitivity analysis

The calculation of the fair value of the unquoted equity security to sensitive to the assumptions set out above. The following table summarises how the impact on the fair value of the unquoted equity security at the end of the reporting period would have increased or decreased as a result of a change in one of the assumptions, holding other assumptions consistent.

	Group	
	Increase RMB'000	Decrease RMB'000
2018		
Revenue growth rate (increase or decrease by 1%)	**3,607**	**(3,454)**
Discount rate (increase or decrease by 1%)	**(364)**	**412**
Operating margin (increase or decrease by 1%)	**200**	**(200)**
2017		
Revenue growth rate (increase or decrease by 1%)	2,058	(1,970)
Discount rate (increase or decrease by 1%)	(305)	346
Operating margin (increase or decrease by 1%)	173	(173)

27 FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT (cont'd)

B. Measurement of fair value of unquoted equity security (cont'd)

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.

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.

27 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 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. 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 6(D) – (E).

More than 70% (2017: 81%) of the Group's customers have been transacting with the Group for over four years. In monitoring customer credit risk, customers are grouped according to their geographic location.

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 expected credit loss in respect of trade receivables (see Note 33(O)(i)).

Exposure to credit risk

As at reporting date, the maximum exposure to credit risk for trade receivables by geographical region was as follows.

	Group	
	2018 RMB'000	2017 RMB'000
PRC	663,643	656,598
India	17,194	25,434
Other countries	56,860	23,035
	737,697	705,067

27 FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT (cont'd)

C. Financial risk management (cont'd)

i. Credit risk (cont'd)

Exposure to credit risk (cont'd)

The exposure of credit risk for trade receivables at the reporting date by type of counterparty was:

	Group	
	2018 RMB'000	2017 RMB'000
Customers in PRC		
Main telecommunication operators	380,000	393,360
Other customers	283,643	263,238
	663,643	656,598
Others	74,054	48,469
	737,697	705,067

At 31 December 2018, 4 (2017: 5) major customers accounted for 53% (2017: 63%) of gross trade receivables. There are no other customers who represent more than 5% of the total balance of trade receivables.

A summary of the Group's exposure to credit risk for trade receivables is as follows:

	Group		
	2018		2017
	Not credit impaired RMB'000	Credit-impaired RMB'000	RMB'000
– Four or more years' trading history with the Group	457,857	8,823	479,385
– Less than four years' trading history with the Group	279,840	882	239,075
	737,697	9,705	718,460
Total gross carrying amount	–	(9,705)	(13,393)
Loss allowance	737,697	–	705,067

27 FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT (cont'd)

C. Financial risk management (cont'd)

i. Credit risk (cont'd)

Impairment losses

Expected credit loss assessment for trade receivables as at 1 January and 31 December 2018

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. For the purpose of determining ECLs, the Group has analysed the trade receivables based on different geographical region.

The following table provides information about the exposure to credit risk and ECLs for trade receivables as at 31 December 2018:

	Group			
	Weighted average loss rate %	Gross carrying amount RMB'000	Impairment loss allowance RMB'000	Net carrying amount RMB'000
Current (not past due)	–	614,491	–	614,491
Past due 1 – 180 days	4.51%	111,661	(5,039)	106,622
Past due 181 – 360 days	17.67%	18,784	(3,320)	15,464
Past due 361 – 540 days	50.36%	701	(353)	348
Past due over 540 days	56.26%	1,765	(993)	772
		747,402	(9,705)	737,697

Loss rates are calculated based on the historical data set over the past 3 years, through the summation of each average bands and applied the expected loss rate. These rates are adjusted by scalar factors to reflect differences between economic conditions during the period over the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables. Scalar factors are based on forecast GDP growth figure.

27 FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT (cont'd)

C. Financial risk management (cont'd)

i. Credit risk (cont'd)

Impairment losses (cont'd)

Expected credit loss assessment for trade receivables as at 1 January and 31 December 2018 (cont'd)

The following table provides information about the Group's exposure to credit risk and ECLs by type of counterparty as at 31 December 2018:

	Weighted average loss rate %	Gross carrying amount RMB'000	Impairment loss allowance RMB'000	Net carrying amount RMB'000
People's Republic of China ("PRC")				
Main telecommunication operators				
Current (not past due)	–	299,786	–	299,786
Past due 1 – 180 days	–	67,626	–	67,626
Past due 181 – 360 days	20.0%	15,353	(3,064)	12,289
Past due 361 – 540 days	–	299	–	299
Past due over 540 days	–	–	–	–
		383,064	(3,064)	380,000
Other customers				
Current (not past due)	–	245,789	–	245,789
Past due 1 – 180 days	–	34,384	–	34,384
Past due 181 – 360 days	8.8%	2,905	(256)	2,649
Past due 361 – 540 days	87.8%	402	(353)	49
Past due over 540 days	56.3%	1,765	(993)	772
		285,245	(1,602)	283,643
India				
Current (not past due)	–	11,330	–	11,330
Past due 1 – 180 days	13.6%	5,338	(726)	4,612
Past due 181 – 360 days	–	526	–	526
Past due 361 – 540 days	–	–	–	–
Past due over 540 days	–	–	–	–
		17,194	(726)	16,468
Others				
Current (not past due)	–	57,586	–	57,586
Past due 1 – 180 days	100.0%	4,313	(4,313)	–
Past due 181 – 360 days	–	–	–	–
Past due 361 – 540 days	–	–	–	–
Past due over 540 days	–	–	–	–
		61,899	(4,313)	57,586
Total		747,402	(9,705)	737,697

27 FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT (cont'd)

C. Financial risk management (cont'd)

i. Credit risk (cont'd)

Movements in allowance for impairment in respect of trade receivables

The movement in the allowance for impairment in respect of trade receivables during the year was as follows. Comparative amounts for 2017 represent the allowance account for impairment losses under IAS 39.

	Group	
	2018	2017
RMB'000		
Balance at 1 January under IAS 39	(13,393)	(14,438)
Adjustment on initial application of IFRS 9	–	–
Balance at 1 January under IFRS 9	(13,393)	(14,438)
Reversal of impairment loss on trade receivables	13,393	1,045
Impairment loss on trade receivables	(9,705)	–
	(9,705)	(13,393)

Comparative information under IAS 39

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 judgment 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 judgment 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.

27 FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT (cont'd)

C. Financial risk management (cont'd)

i. Credit risk (cont'd)

Movements in allowance for impairment in respect of trade receivables (cont'd)

Comparative information under IAS 39 (cont'd)

The ageing of trade receivables as at 31 December 2017 is as follows:

	Group	
	Gross	Impairment losses
	RMB'000	RMB'000
Group		
Not past due	607,492	–
Past due 1 – 180 days	88,004	(88)
Past due 181 – 360 days	15,145	(6,531)
Past due 361 – 540 days	1,860	(815)
Past due over 540 days	5,959	(5,959)
	718,460	(13,393)

The trade receivables that neither past due nor impaired are receivables from customers with long standing relationship and are of sound credit quality. Based on past experience, management considers these receivables to be still recoverable and no impairment loss required.

27 FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT (cont'd)

C. Financial risk management (cont'd)

i. Credit risk (cont'd)

Non-trade amounts due from subsidiaries

The Company held non-trade receivables from its subsidiaries of RMB19,421,000 (2017: RMB39,699,000). These balances are amounts lent to subsidiaries to satisfy short term funding requirements. The Company uses similar approach for assessment of ECL for these receivables to those used for cash and cash equivalents. Impairment on these balances has been measured on the 12-month expected loss basis which reflects the low credit risk of the exposures. The amount of the allowance on these balances is insignificant.

Cash and cash equivalents

The Group held cash and cash equivalents of RMB978,604,000 at 31 December 2018 (2017: RMB471,873,000). The cash and cash equivalents are held with banks, which are regulated.

Impairment on cash and cash equivalents has been measured on a 12-month expected loss basis and reflects the short maturities of the exposures. The Group considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties. The amount of the allowance on cash and cash equivalents was negligible.

Loans to the associate and non-trade amount due from the associate

The Group adopted the ECL approach to estimate credit losses over the expected life of these receivables. As the amounts are assessed to be not probable of recovery, the Group impaired the loans to associate and non-trade amount due from the associate as at 31 December 2018 amounting to RMB21,191,000 and RMB1,680,000, respectively.

ii. 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 24. Management monitors the utilisation of bank loans and ensures compliance with the loan covenants, if any.

27 FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT (cont'd)

C. *Financial risk management (cont'd)*

ii. Liquidity 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				
2018				
Non-derivative financial liabilities				
Short-term loans	315,000	(315,000)	(315,000)	–
Trade and other payables#	191,042	(191,042)	(191,042)	–
	506,042	(506,042)	(506,042)	–
2017				
Non-derivative financial liabilities				
Trade and other payables#	218,943	(218,943)	(218,943)	–
Company				
2018				
Non-derivative financial liabilities				
Trade and other payables	1,185	(1,185)	(1,185)	–
2017				
Non-derivative financial liabilities				
Trade and other payables	1,555	(1,555)	(1,555)	–

Exclude advanced receipts

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.

27 FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT (cont'd)

C. Financial risk management (cont'd)

iii. 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				
2018				
Cash and cash equivalents	93,297	3,105	3,332	478
Trade and other receivables	40,048	234	22	732
Trade and other payables	(103)	(830)	(243)	(5)
Net exposure	133,242	2,509	3,111	1,205

27 FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT (cont'd)

C. *Financial risk management (cont'd)*

iii. Market risk (cont'd)

Currency risk (cont'd)

Exposure to currency risk (cont'd)

	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

	2018			2017		
	USD RMB'000	SGD RMB'000	HKD RMB'000	USD RMB'000	SGD RMB'000	HKD RMB'000
Company						
Cash and cash equivalents	4,602	3,105	3,332	1,245	1,136	3,895
Trade and other receivables	–	234	22	–	153	137
Trade and other payables	(15)	(830)	(243)	–	(875)	(647)
Net exposure	4,587	2,509	3,111	1,245	414	3,385

The following significant exchange rates have been applied.

	Average rate		Year-end spot rate	
	2018 RMB	2017 RMB	2018 RMB	2017 RMB
USD1	6.6118	6.7547	6.8632	6.5342
SGD1	4.8999	4.8944	5.0490	4.8649
HKD1	0.8438	0.8675	0.8814	0.8328
EUR1	7.8024	7.6216	7.8473	7.8023

27 FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT (cont'd)

C. Financial risk management (cont'd)

iii. 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 2017.

	Group Profit or loss		Company Profit or loss	
	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000
USD	(13,324)	(23,571)	(459)	(124)
SGD	(251)	(41)	(251)	(41)
HKD	(311)	(339)	(311)	(339)
EUR	(121)	(37)	–	–

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 2018 RMB'000	2017 RMB'000
Fixed-rate instruments			
Pledged bank deposits	17	31,701	26,753
Short-term deposits	17	5,209	471
Short-term investment fund		–	50,000
Short-term loans	24	(315,000)	–
		(278,090)	77,224

27 FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT (cont'd)

C. *Financial risk management (cont'd)*

iii. 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 2018, 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% (2017: 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	
	2018 RMB'000	2017 RMB'000
Quoted equity investments	32	32
Unquoted equity investment	510	510
	542	542

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

28 SUBSIDIARIES

		Company	
	Note	2018 RMB'000	2017 RMB'000
Equity investment, at cost		392,544	392,544
Discount on amounts due from subsidiary	16(C)	3,841	3,841
		396,385	396,385

28 SUBSIDIARIES (cont'd)

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	Effective equity held by the Group	
					2018	2017
				RMB	%	%
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	100

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

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

29 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 4 years (2017: 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	
	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000
Less than one year	1,186	989	527	628
Between one and five years	663	341	327	194
	1,849	1,330	854	822

ii. Amounts recognised in profit or loss

	Group	
	2018 RMB'000	2017 RMB'000
Lease expense	1,417	1,356

30 COMMITMENTS

A. *Capital commitments*

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

	Group	
	2018 RMB'000	2017 RMB'000
Contracted for but not provided for		
Property, plant and equipment	1,250	868

31 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 2018 RMB'000	Group 2017 RMB'000
Short-term employee benefits	6,910	7,021
Retirement benefits scheme contributions	61	137
	6,971	7,158
Key management personnel compensation comprised amounts paid to:		
– directors of the Group	2,129	2,147
– other key management personnel	4,842	5,011
	6,971	7,158

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 2018 RMB'000	Group 2017 RMB'000
Transactions with Suzhou Hengli Telecommunications Materials Co., Ltd[1]		
Sale of finished goods	5,998	6,767
Purchases of raw materials	23,420	43,985
Transactions with Jiangsu Hengtong Sell Electricity Co., Ltd.[2]		
Purchase of electricity power	5,209	–

31 RELATED PARTIES (cont'd)

B. Other related party transactions (cont'd)

[1] Suzhou Hengli Telecommunication Materials Co., Ltd is a subsidiary of Hengtong Group Co., Ltd. ("**Hengtong Group**"), 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 24.97% of the total issued shares in the Company and has significant influence over the Company.

[2] Hengtong SE is a company incorporated in the PRC and a wholly-owned subsidiary of Hengtong Group. It is principally engaged in the business of sales of electricity, design and construction of electrical works, operation and maintenance of electrical equipment.

The related party transactions in respect of sales of finished goods, purchases of raw materials and purchase of electricity power 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 (the "**Listing Rules of SEHK**").

32 BASIS OF MEASUREMENT

The financial statements have been prepared on the historical cost basis except as otherwise described in Note 33.

33 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.

33 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

A. Basis of consolidation (cont'd)

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.

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.

33 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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.

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.

33 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

C. Revenue

Policy applicable from 1 January 2018

i. Goods and services sold

Revenue from sale of goods and services in the ordinary course of business is recognised when the Group satisfies a performance obligation (PO) by transferring control of a promised good or service to the customer. The amount of revenue recognised is the amount of the transaction price allocated to the satisfied PO.

The transaction price is allocated to each PO in the contract on the basis of the relative stand-alone selling prices of the promised goods or services. The individual standalone selling price of a good or service that has not previously been sold on a stand-alone basis, or has a highly variable selling price, is determined based on the residual portion of the transaction price after allocating the transaction price to goods and/or services with observable stand-alone selling prices. A discount or variable consideration is allocated to one or more, but not all, of the performance obligations if it relates specifically to those performance obligations.

The transaction price is the amount of consideration in the contract to which the Group expects to be entitled in exchange for transferring the promised goods or services. The transaction price may be fixed or variable and is adjusted for time value of money if the contract includes a significant financing component. Consideration payable to a customer is deducted from the transaction price if the Group does not receive a separate identifiable benefit from the customer. When consideration is variable, the estimated amount is included in the transaction price to the extent that it is highly probable that a significant reversal of the cumulative revenue will not occur when the uncertainty associated with the variable consideration is resolved.

Revenue may be recognised at a point in time or over time following the timing of satisfaction of the PO. If a PO is satisfied over time, revenue is recognised based on the percentage of completion reflecting the progress towards complete satisfaction of that PO.

ii. Interest income

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

33 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

C. Revenue (cont'd)

Policy applicable before 1 January 2018

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.

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.

33 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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.

The 'effective interest rate' is the rate that exactly discounts estimated future cash payments through the expected life of the financial instrument to the amortised cost of the financial liability.

In calculating interest expense, the effective interest rate is applied to the amortised cost of the liability.

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.

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.

The Group has determined that interest and penalties related to income taxes, including uncertain tax treatments, do not meet the definition of income taxes, and therefore accounted for them under IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

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

33 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

H. Income tax (cont'd)

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.

33 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 Group'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.

33 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

i. Recognition and initial measurement

Trade receivables are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

ii. Classification and subsequent measurement

Financial assets – Policy applicable from 1 January 2018

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

33 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

M. Financial instruments (cont'd)

ii. Classification and subsequent measurement (cont'd)

Financial assets – Policy applicable from 1 January 2018 (cont'd)

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets – Business model assessment: Policy applicable from 1 January 2018

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;

- how the performance of the portfolio is evaluated and reported to the Group's management;

- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;

- how managers of the business are compensated — e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and

- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Group's continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

33 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

M. Financial instruments (cont'd)

ii. Classification and subsequent measurement (cont'd)

Financial assets – Assessment whether contractual cash flows are solely payments of principal and interest: Policy applicable from 1 January 2018

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features; and
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

33 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

M. Financial instruments (cont'd)

ii. Classification and subsequent measurement (cont'd)

Financial assets – Subsequent measurement and gains and losses: Policy applicable from 1 January 2018

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gain and losses, including any interest to dividend income, are recognised in profit or loss.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

Financial assets – Policy applicable before 1 January 2018

The Group classified its financial assets into one of the following categories:

– loans and receivables; and

– available for sale;

33 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

M. Financial instruments (cont'd)

ii. Classification and subsequent measurement (cont'd)

Financial assets – Subsequent measurement and gains and losses: Policy applicable before 1 January 2018

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.

Financial liabilities – Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

iii. Derecognition

Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial 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 in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

33 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

M. Financial instruments (cont'd)

iii. Derecognition (cont'd)

Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

iv. Offsetting

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 set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

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 instruments

The Group recognises loss allowances for ECLs on financial assets measured at amortised cost. The Group measures loss allowances at an amount equal to lifetime ECLs, except for bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition, which are measured at 12-month ECLs.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 180 days past due.

33 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

O. Impairment (cont'd)

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

Financial instruments (cont'd)

The Group considers a financial asset to be in default when:

– the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or

– the financial asset is more than 180 days past due.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

– significant financial difficulty of the borrower or issuer;

– a breach of contract such as a default or being more than 180 days past due;

– the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise; or

– it is probable that the borrower will enter bankruptcy or other financial reorganisation;

33 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

O. Impairment (cont'd)

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

Credit-impaired financial assets (cont'd)

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Write-off

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For corporate customers, the Group individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Policy applicable before 1 January 2018

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.

33 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

O. Impairment (cont'd)

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

Write-off (cont'd)

Policy applicable before 1 January 2018 (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.

33 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.

33 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.

34 STANDARDS ISSUED BUT NOT YET EFFECTIVE

A number of new standards are effective for annual periods beginning after 1 January 2018 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

Of those standards that are not yet effective, IFRS 16 is expected to have impact on the Group's financial statements in the period of initial application.

A. IFRS 16 Leases

The Group is required to adopt IFRS 16 Leases from 1 January 2019. The Group has assessed the estimated impact that initial application of IFRS 16 will have on its consolidated financial statements, as described below.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 *Determining whether an Arrangement contains a Lease,* SIC-15 *Operating Leases – Incentives* and SIC 27 *Evaluating the Substance of Transactions involving the Legal Form of Lease.*

34 STANDARDS ISSUED BUT NOT YET EFFECTIVE (cont'd)

A. IFRS 16 Leases (cont'd)

i. Leases in which the Group is a lessee

The Group will recognise new assets and liabilities for its office and workshop properties. The nature of expenses related to those leases will now change because the Group will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Previously, the Group recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between the actual lease payments and the expense recognised.

No significant impact is expected for the Group's finance leases.

ii. Leases in which the Group is a 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.

iii. Transition

The Group plans to apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

The Group plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

The Group has performed a preliminary assessment of the impact on its financial statements based on its existing operating lease arrangements (refer to note 29).

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.

34 STANDARDS ISSUED BUT NOT YET EFFECTIVE (cont'd)

B. Other standards

The following amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements.

– IFRIC 23 Uncertainty over Tax Treatments.

– Prepayment Features with Negative Compensation (Amendments to IFRS 9).

– Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28).

– Plan Amendment, Curtailment or Settlement (Amendments to IAS 19).

– Annual Improvements to IFRS Standards 2015-2017 Cycle- various standards.

– Amendments to References to Conceptual Framework in IFRS Standards.

– IFRS 17 Insurance Contracts.

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