



HENGXIN TECHNOLOGY LTD.

亨鑫科技有限公司*

(carrying on business in Hong Kong as HX Singapore Ltd.)

(incorporated in Singapore with limited liability)

(Stock Code: 1085)

INTERIM REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2019

FINANCIAL HIGHLIGHTS

1. Revenue for the six months ended 30 June 2019 decreased by approximately RMB32.5 million or 4.0% to approximately RMB781.5 million
2. Gross profit increased by approximately RMB0.6 million or 0.3% to approximately RMB188.1 million
3. Net profit attributable to owners of the Company increased by approximately RMB2.3 million or 3.2% to approximately RMB73.4 million
4. Basic earnings per share was approximately RMB0.189, representing an increase of approximately RMB0.006 or 3.3%
5. No payment of interim dividend for the six months ended 30 June 2019 has been recommended

* For identification purposes only

The board (the “**Board**”) of directors (the “**Director(s)**”) of Hengxin Technology Ltd. (the “**Company**”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively hereinafter referred as the “**Group**”) for the six months ended 30 June 2019 together with the comparative figures for the corresponding period in 2018 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND COMPREHENSIVE INCOME

For the six months ended 30 June (“**1H**”)

	<i>Notes</i>	1H2019 RMB’000 (unaudited)	1H2018 RMB’000 (unaudited)
Revenue	5	781,485	814,009
Cost of sales		(593,352)	(626,483)
Gross profit		188,133	187,526
Other income	6	12,224	13,048
Selling and distribution expenses		(54,388)	(53,603)
Administrative expenses		(22,790)	(25,619)
Other operating expenses		(31,347)	(36,318)
Other net loss		(466)	(1,280)
Operating profit		91,366	83,754
Finance costs	7	(7,432)	–
Share of loss of an associate, net of tax		–	(1,278)
Profit before tax	8	83,934	82,476
Income tax expense	9	(10,504)	(11,382)
Net profit attributable to owners of the Company		73,430	71,094
Other comprehensive income			
<i>Items that may be classified subsequently classified to profit or loss:</i>			
Foreign operations – foreign currency translation differences		(49)	(649)
Total comprehensive income attributable to owners of the Company		73,381	70,445
Earnings per share attributable to owners of the Company			
Basic (RMB)	12	0.189	0.183
Diluted (RMB)		0.189	0.183
Dividends per share (RMB)	10	N/A	N/A

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2019	31 December 2018
	<i>Notes</i>	<i>RMB'000</i> (unaudited)	<i>RMB'000</i> (audited)
ASSETS			
Non-current assets			
Property, plant and equipment	13	131,030	129,391
Lease prepayment		47,308	47,985
Associate		–	–
Other investments		10,847	10,847
Deferred tax assets		9,606	10,488
		<hr/>	<hr/>
Total non-current assets		198,791	198,711
Current assets			
Lease prepayment		1,355	1,355
Inventories		137,298	168,853
Trade and other receivables	14	1,002,172	788,557
Cash and cash equivalents		819,121	978,604
		<hr/>	<hr/>
Total current assets		1,959,946	1,937,369
		<hr/>	<hr/>
TOTAL ASSETS		2,158,737	2,136,080
LIABILITIES AND EQUITY			
Current liabilities			
Income tax payable		5,930	16,627
Short-term loans		315,000	315,000
Trade and other payables	15	182,084	207,446
		<hr/>	<hr/>
Total current liabilities		503,014	539,073
		<hr/>	<hr/>
NET CURRENT ASSETS		1,456,932	1,398,296
		<hr/>	<hr/>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

		30 June 2019	31 December 2018
	<i>Note</i>	RMB'000	RMB'000
		(unaudited)	(audited)
Non-current liabilities			
Deferred income		5,817	3,146
Deferred tax liabilities		6,749	6,353
		<hr/>	<hr/>
Total non-current liabilities		12,566	9,499
		<hr/>	<hr/>
TOTAL LIABILITIES		515,580	548,572
		<hr/>	<hr/>
NET ASSETS		1,643,157	1,587,508
		<hr/> <hr/>	<hr/> <hr/>
Equity attributable to owners of the Company			
Share capital	11	295,000	295,000
General reserves		233,658	233,658
Special reserve		(6,017)	(6,017)
Fair value reserve		170	170
Translation reserves		(1,472)	(1,423)
Accumulated profits		1,121,818	1,066,120
		<hr/>	<hr/>
TOTAL EQUITY		1,643,157	1,587,508
		<hr/> <hr/>	<hr/> <hr/>
TOTAL EQUITY AND LIABILITIES		2,158,737	2,136,080
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STATEMENT OF FINANCIAL POSITION – COMPANY LEVEL

	30 June 2019 RMB'000 (unaudited)	31 December 2018 RMB'000 (audited)
ASSETS		
Non-current assets		
Property, plant and equipment	190	11
Subsidiaries	396,385	396,385
Trade and other receivables	–	4,421
Total non-current assets	<u>396,575</u>	<u>400,817</u>
Current assets		
Trade and other receivables	43,518	15,256
Cash and bank balances	15,064	11,668
Total current assets	<u>58,582</u>	<u>26,924</u>
TOTAL ASSETS	<u>455,157</u>	<u>427,741</u>
LIABILITIES AND EQUITY		
Current liabilities		
Trade and other payables	872	1,185
Total current liabilities	<u>872</u>	<u>1,185</u>
NET CURRENT ASSETS	<u>57,710</u>	<u>25,739</u>
TOTAL LIABILITIES	<u>872</u>	<u>1,185</u>
NET ASSETS	<u>454,285</u>	<u>426,556</u>
Equity attributable to owners of the Company		
Share capital	295,000	295,000
Accumulated profits	159,285	131,556
TOTAL EQUITY	<u>454,285</u>	<u>426,556</u>
TOTAL EQUITY AND LIABILITIES	<u>455,157</u>	<u>427,741</u>

CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June

	1H2019 RMB'000 (unaudited)	1H2018 <i>RMB'000</i> (unaudited)
Operating activities		
Profit before tax	83,934	82,476
Adjustments for:		
Depreciation of property, plant and equipment	8,666	11,819
Amortisation of lease prepayment	677	677
Write-off of trade and other receivables	641	–
(Reversal of)/allowance for stock obsolescence	(38)	97
Net losses/(gains) on disposal of property, plant and equipment	89	(24)
Finance costs	7,432	–
Interest income	(3,174)	(3,191)
Share of loss of an associate, net of tax	–	1,278
Investment income	–	(1,348)
Unrealised foreign exchange gains	(170)	(2,335)
	98,057	89,449
Changes in:		
Trade receivables	(193,913)	(200,284)
Other receivables and prepayments	(20,343)	(14,920)
Inventories	31,593	30,856
Trade payables	(11,293)	(10,820)
Other payables	(11,398)	(19,316)
Cash used in operating activities	(107,297)	(125,035)
Interest paid	(7,432)	–
Interest income received	3,174	3,191
Income tax paid	(19,923)	(14,033)
Net cash outflow from operating activities	(131,478)	(135,877)

CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)*For the six months ended 30 June*

	1H2019 RMB'000 (unaudited)	1H2018 <i>RMB'000</i> (unaudited)
Investing activities		
Acquisition of property, plant and equipment	(10,486)	(8,839)
Proceeds from disposal of property, plant and equipment	87	39
Proceeds from disposal of other investments	–	51,348
	<hr/>	<hr/>
Net cash (outflow)/inflow from investing activities	(10,399)	42,548
	<hr/> <hr/>	<hr/> <hr/>
Financing activities		
Decrease in pledged bank deposits	5,555	2,509
Dividends paid	(17,732)	(11,407)
	<hr/>	<hr/>
Net cash outflow from financing activities	(12,177)	(8,898)
	<hr/> <hr/>	<hr/> <hr/>
Net decrease in cash and cash equivalents	(154,054)	(102,227)
Effects of movements in exchange rates on cash held	127	2,316
Cash and cash equivalents at the beginning of the period	946,903	445,120
	<hr/>	<hr/>
Cash and cash equivalents at the end of the period	792,976	345,209
	<hr/> <hr/>	<hr/> <hr/>

STATEMENT OF CHANGES IN EQUITY

Consolidated Statement of Changes in Equity for the six months ended 30 June 2019

GROUP – RMB'000	Share capital	General reserves	Special reserve	Fair value reserve	Translation reserves	Accumulated profits	Total
Balance at 1 January 2019	295,000	233,658	(6,017)	170	(1,423)	1,066,120	1,587,508
Total comprehensive income for the period	-	-	-	-	(49)	73,430	73,381
Dividends paid	-	-	-	-	-	(17,732)	(17,732)
Balance at 30 June 2019	295,000	233,658	(6,017)	170	(1,472)	1,121,818	1,643,157

Consolidated Statement of Changes in Equity for the six months ended 30 June 2018

GROUP – RMB'000	Share capital	General reserves	Special reserve	Fair value reserve	Translation reserves	Accumulated profits	Total
Balance at 1 January 2018	295,000	217,391	(6,017)	170	(1,117)	975,518	1,480,945
Total comprehensive income for the period	-	-	-	-	(649)	71,094	70,445
Dividends paid	-	-	-	-	-	(11,407)	(11,407)
Balance at 30 June 2018	295,000	217,391	(6,017)	170	(1,766)	1,035,205	1,539,983

Statement of Changes in Equity of the Company for the six months ended 30 June 2019

COMPANY – RMB'000	Share capital	Accumulated profits	Total
Balance at 1 January 2019	295,000	131,556	426,556
Total comprehensive income for the period	-	45,461	45,461
Dividends paid	-	(17,732)	(17,732)
Balance at 30 June 2019	295,000	159,285	454,285

Statement of Changes in Equity of the Company for the six months ended 30 June 2018

COMPANY – RMB'000	Share capital	Accumulated profits	Total
Balance at 1 January 2018	295,000	147,286	442,286
Total comprehensive income for the period	-	(1,771)	(1,771)
Dividends paid	-	(11,407)	(11,407)
Balance at 30 June 2018	295,000	134,108	429,108

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

The Company is a limited liability company incorporated in Singapore on 18 November 2004 under the Singapore Companies Act and its shares are listed on Main Board of The Stock Exchange of Hong Kong Limited (the “SEHK”). The registered office of the Company is located at 55 Market Street, #08-01, Singapore 048941. The principal place of business of the Group is located at No. 138 Taodu Road, Dingshu Town, Yixing City, Jiangsu Province, the People’s Republic of China (the “PRC”).

The Company is an investment holding company, and the principal activities of the subsidiaries are 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. The Group’s operations are principally conducted in the PRC.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements have been prepared in accordance with the Singapore Financial Reporting Standards (International) (“SFRS(I)”) issued by the Accounting Standards Council and International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (“IASB”) that are effective for annual reporting periods beginning on or after 1 January 2019.

All references to SFRS(I)s and IFRSs are subsequently referred to as IFRSs in these financial statements unless otherwise specified.

These are the Group’s first financial statement prepared in accordance with SFRS(I) and there are no impact arising from first time adoption as the financial statements were prepared in accordance with IFRSs in previous years.

These financial statements have been prepared on a historical cost basis. The consolidated financial statements are presented in Renminbi (“RMB”), being the functional currency of the Company and the presentation currency of the Group. All values are rounded to the nearest thousand except when otherwise indicated.

Accounting policies

The Group has applied the same accounting policies and methods of computation in the financial statements for the current financial period reported on, as in the recently audited consolidated financial statements for the financial year ended 31 December 2018.

3. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

The IASB has issued a new IFRS and a number of amendments to IFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group’s financial statements.

- IFRS 16, Leases
- Amendments to IAS 19, Plan amendment, curtailment or settlement
- Amendments to IAS 28, Long-term interests in associates and joint ventures
- Annual improvement to IFRSs 2015–2017 Cycle
- IFRIC 23, Uncertainty over income tax treatments

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim financial report. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

4. SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products, and currently has four operating segments as follows:

- Manufacturing and sale of radio frequency coaxial cable for mobile communications (“**RF Coaxial Cables**”)
- Telecommunication equipment and accessories (“**Accessories**”)
- Manufacturing and sale of antennas (“**Antennas**”)
- Others (includes high temperature resistant cables (“**HTRC**”) and antenna testing services)

An analysis by principal activity of contribution to the results is as follows:

Segment revenues and results

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 the segment information reported to the Executive Directors, the Group is organised into three product lines – RF Coaxial Cables, Accessories and Antennas.

Information related to each reportable segment is set out below. Segment profit before tax is used to measure performance because management believes that this 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			Total reportable segments RMB'000	All other segments RMB'000	Total RMB'000
	RF Coaxial Cables RMB'000	Accessories RMB'000	Antennas RMB'000			
Group						
Six months ended						
30 June 2019						
Revenue	<u>310,619</u>	<u>179,769</u>	<u>241,915</u>	<u>732,303</u>	<u>49,182</u>	<u>781,485</u>
Segment profit before tax (<i>Note 1</i>)	23,778	25,975	31,970	81,723	(1,155)	80,568
Interest income	1,247	722	971	2,940	234	3,174
Interest expense	(2,954)	(1,710)	(2,301)	(6,965)	(467)	(7,432)
Amortisation of lease prepayment	(269)	(156)	(210)	(635)	(42)	(677)
Reversal of stock obsolescence	–	–	38	38	–	38
Depreciation expenses	<u>(3,433)</u>	<u>(1,987)</u>	<u>(2,673)</u>	<u>(8,093)</u>	<u>(573)</u>	<u>(8,666)</u>

	Reportable segments					
	RF Coaxial			Total	All other	Total
	Cables	Accessories	Antennas	reportable	segments	
			segments			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Group						
Six months ended						
30 June 2018						
Revenue	370,055	189,828	221,648	781,531	32,478	814,009
Segment profit before						
tax (<i>Note 1</i>)	35,323	34,097	9,398	78,818	506	79,324
Interest income	1,440	738	862	3,040	151	3,191
Amortisation of lease						
prepayment	(308)	(158)	(184)	(650)	(27)	(677)
Allowance for stock						
obsolescence	–	–	(97)	(97)	–	(97)
Depreciation expenses	(5,372)	(2,755)	(3,217)	(11,344)	(471)	(11,815)

Note 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.

Reconciliation of information on reportable segments to IFRS measures

	Group	
	For the six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Profit before tax		
Total profit before tax for reportable segments	81,723	78,818
Profit before tax for other segments	(1,155)	506
Unallocated amounts:		
– Other income	8,898	9,857
– Other operating expenses	(1,185)	(1,344)
– Share of loss of an associate, net of tax	–	(1,278)
– Other unallocated amounts	(4,347)	(4,083)
Consolidated profit before tax	83,934	82,476

Other material items

	Reportable and all other segment totals <i>RMB'000</i>	Adjustments <i>RMB'000</i>	Consolidated totals <i>RMB'000</i>
For the six months ended			
30 June 2019			
Depreciation expense	<u>8,636</u>	<u>30</u>	<u>8,666</u>
For the six months ended			
30 June 2018			
Depreciation expense	<u>11,815</u>	<u>4</u>	<u>11,819</u>

Geographical segment

The segment information for geographical regions is based on the locations of customers and the location of the assets. In line with the group's business strategy, the market is currently grouped into three geographical regions, namely People's Republic of China, India and others.

	Revenue from external customer		Non-current assets*	
	For the six months ended		As at	
	30 June		30 June	31 December
	2019	2018	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
People's Republic of China	689,949	634,508	177,158	176,362
India	10,727	70,209	990	1,003
Other countries	<u>80,809</u>	<u>109,292</u>	<u>190</u>	<u>11</u>
Total	<u>781,485</u>	<u>814,009</u>	<u>178,338</u>	<u>177,376</u>

* *excludes other investments and deferred tax assets*

5. REVENUE

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold and services rendered, after deduction of relevant taxes and allowances for returns and trade discounts. An analysis of the Group's revenue is as follows:

	For the six months ended 30 June	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Sale of goods	780,872	814,009
Service income	<u>613</u>	<u>–</u>
	<u>781,485</u>	<u>814,009</u>

6. OTHER INCOME

	For the six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Government grants	6,426	5,262
Interest income	3,174	3,191
Consultancy income	1,377	–
Compensation claims received	736	910
Gains on disposal of property, plant and equipment	11	25
Rental income	–	2,102
Investment income	–	1,348
Net foreign exchange gains	–	96
Others	500	114
	<u>12,224</u>	<u>13,048</u>
Total	<u>12,224</u>	<u>13,048</u>

7. FINANCE COSTS

	For the six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Interest on short-term bank borrowings	7,432	–
	<u>7,432</u>	<u>–</u>

8. PROFIT BEFORE TAX

Profit before tax is arrived at after charging/(crediting) the following during the period:

	For the six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Cost of inventories sold	593,352	626,483
(Reversal of)/allowance for stock obsolescence	(38)	97
Depreciation of property, plant and equipment	8,666	11,819
Amortisation of lease prepayment	677	677
Write-off of trade and other receivables	641	–
Employee benefits expense	79,255	81,713
Cost of defined contribution plans	3,347	3,526
Directors' fees – directors of the Company	804	755
Directors' remuneration – directors of the Company	1,142	1,098
	<u>84,548</u>	<u>87,092</u>
Total staff costs	<u>84,548</u>	<u>87,092</u>
Net foreign exchange gains, included in other income	–	(96)
Net foreign exchange losses, included in other operating expenses	152	–
Net losses/(gains) on disposal of property, plant and equipment	89	(25)
Net loss on raw material costs hedging	466	1,280
Research and development expenses	30,476	36,254
	<u>30,476</u>	<u>36,254</u>

9. INCOME TAX EXPENSE

	For the six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(unaudited)	(audited)
Current tax expense		
Current year	12,473	13,744
Over provision in prior years	(3,260)	(2,196)
	<u>9,213</u>	<u>11,548</u>
Deferred tax expense		
Origination and reversal of temporary differences	1,291	(166)
	<u>10,504</u>	<u>11,382</u>

The Company is incorporated in Singapore and is subject to income tax rate of 17% for the six months ended 30 June 2019 (2018: 17%).

Under the law of the PRC on Enterprise Income Tax, applicable income tax rate of Jiangsu Hengxin Technology Co. Ltd., the Group's PRC incorporated wholly-owned subsidiary, in 2019 is 15% (2018: 15%).

Taxes on profits elsewhere have been calculated at the rates of tax prevailing in the country in which the Group operates.

10. DIVIDENDS

The Company did not recommend or declare any interim dividend for the six months ended 30 June 2019 and 30 June 2018.

11. SHARE CAPITAL

Details of the changes in the Company's share capital are as follows:

Share capital – Ordinary Shares	No. of shares '000	RMB'000	S\$'000
Balance as at 31 December 2018 and 30 June 2019	<u>388,000</u>	<u>295,000</u>	<u>58,342</u>

In accordance with the Constitution of the Company, treasury shares are not allowed in the Company.

12. EARNINGS PER SHARE

Earnings per share is calculated by dividing the Group's net profit attributable to owners of the Company for the period by the weighted average number of ordinary shares outstanding during the period.

	Group 6 months ended	
	30 June 2019 (unaudited)	30 June 2018 (unaudited)
Earnings per share (<i>RMB</i>)		
– Basic	<u>0.189</u>	<u>0.183</u>
– Diluted	<u>0.189</u>	<u>0.183</u>
Weighted average no. of shares applicable to basic EPS (<i>'000</i>)	388,000	388,000

There were no potential dilutive ordinary shares in existence during the six months ended 30 June 2019 and 2018.

13. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2019, the Group's capital expenditure was approximately RMB10.5 million (six months ended 30 June 2018: approximately RMB8.8 million).

14. TRADE AND OTHER RECEIVABLES

	30 June 2019 <i>RMB'000</i> (unaudited)	31 December 2018 <i>RMB'000</i> (audited)
Trade receivables	832,022	675,268
Bills receivables	108,652	72,134
Less: Impairment losses	<u>(9,705)</u>	<u>(9,705)</u>
Net trade and bills receivables	930,969	737,697
Loans to and amount from an associate	22,871	22,871
Less: Impairment losses	<u>(22,871)</u>	<u>(22,871)</u>
Other receivables	<u>71,203</u>	<u>50,860</u>
	<u>1,002,172</u>	<u>788,557</u>

The Group allows credit period of 180 days to its trade customers. The aging of trade and bills receivables based on the invoice date, net of allowance for impairment in respect of trade receivables at the end of the reporting period, is as follows:

	30 June 2019 RMB'000 (unaudited)	31 December 2018 RMB'000 (audited)
Not past due	766,453	614,491
1 – 90 days	80,389	73,794
91 – 180 days	61,550	33,560
over 180 days	22,577	15,852
	930,969	737,697

15. TRADE AND OTHER PAYABLES

	30 June 2019 RMB'000 (unaudited)	31 December 2018 RMB'000 (audited)
Trade payables	106,474	117,767
Other payables	75,610	89,679
	182,084	207,446

As at the end of the reporting period, the ageing profile of trade payables of the Group, based on invoice date, is as follows:

	30 June 2019 RMB'000 (unaudited)	31 December 2018 RMB'000 (audited)
0 to 90 days	101,744	113,417
91 to 180 days	1,430	1,442
181 to 360 days	1,622	1,508
Over 360 days	1,678	1,400
	106,474	117,767

16. NET ASSET VALUE

The net asset value per ordinary share of the Group is shown below:

	30 June 2019 (unaudited)	31 December 2018 (audited)
Net assets (<i>RMB'000</i>)	1,643,157	1,587,508
Number of ordinary shares (<i>'000</i>)	388,000	388,000
Net asset value per ordinary share (<i>RMB</i>)	4.23	4.09

17. CONNECTED TRANSACTIONS

(a) Transactions

During the Reporting Period, the Group had the following significant transactions with Suzhou Hengli Telecommunications Materials Co. Ltd.:

	For the six months ended 30 June	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Sale of finished goods	5,354	3,917
Purchase of raw materials	10,041	15,758
Purchase of power from Jiangsu Hengtong Sell Electricity Co., Ltd.	–	3,778

Suzhou Hengli Telecommunication Materials Co., Ltd. is a subsidiary of Hengtong Group Co., Ltd., a company in which the father of Cui Wei, the non-executive director 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.

Jiangsu Hengtong Sell Electricity Co., Ltd is a company incorporated in the PRC and a wholly-owned subsidiary of Hengtong Group Co., Ltd. It is principally engaged in the business of sales of electricity, design and construction of electrical works, operation and maintenance of electrical equipment.

The Company was informed by Hengtong Sell Electricity Co., Ltd. that its controlling shareholder Hengtong Group Co., Ltd. has disposed of its entire equity interests in Hengtong Sell Electricity Co., Ltd. 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 Rules Governing the Listing of Securities on SEHK (the “**Listing Rules**”), thus, the related continuing connected transaction in respect of the Power Purchase Agreement has ended on 17 August 2018.

(b) Compensation of key management personnel

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

	For the six months ended 30 June	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Short term benefits	3,408	3,485
Retirement benefits scheme contribution	43	30
	<hr/>	<hr/>
Total	3,451	3,515
	<hr/> <hr/>	<hr/> <hr/>

18. CAPITAL COMMITMENTS

	As at	
	30 June	31 December
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(audited)
Contracted but not provided for:		
Property, plant and equipment	6,058	1,250
	<hr/>	<hr/>
	<hr/> <hr/>	<hr/> <hr/>

(I) MANAGEMENT DISCUSSION AND ANALYSIS

Half year performance – for the six months ended 30 June 2019

Material changes are explained below:

Revenue

The Group's revenue for the six months ended 30 June 2019 (“**1H2019**” or the “**Reporting Period**”) decreased by approximately RMB32.5 million, or approximately 4.0% from approximately RMB814.0 million for the six months ended 30 June 2018 (“**1H2018**”) to approximately RMB781.5 million in 1H2019.

RF Coaxial Cables

Revenue generated from the segment of RF Coaxial Cables decreased by approximately RMB59.5 million or approximately 16.1% from approximately RMB370.1 million in 1H2018 to approximately RMB310.6 million in 1H2019. In particular, the decrease in sales for this segment is due to the decrease in sales of feeder cables of approximately RMB105.9 million from 1H2018's approximately RMB336.9 million to approximately RMB231.0 million in 1H2019 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 RMB79.6 million for 1H2019, representing an increase of approximately RMB46.4 million or 139.8% from approximately RMB33.2 million in 1H2018. 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. The Group has increased its effort in business transformation on promoting leaky cables relating to usage in tunnels and underground mobile communications during 1H2019 and has successfully obtained several tenders on railway projects.

Accessories

Revenue generated from the segment of Accessories decreased by approximately RMB10.0 million or approximately 5.3% from approximately RMB189.8 million in 1H2018 to approximately RMB179.8 million in 1H2019. 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 1H2019 was approximately RMB241.9 million and the revenue of Antennas during 1H2018 was approximately RMB221.6 million, representing an increase of approximately 9.2%. The increase in revenue for Antennas is the results of the Group's business transformation plan to strengthen its Antennas products in view of 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 RMB16.7 million or approximately 51.4% from approximately RMB32.5 million during 1H2018 to approximately RMB49.2 million during 1H2019, of which the increase was mostly attributable to the increase in sales of HTRC during 1H2019. Such increase was mainly because the Group has managed to establish favourable business relationships with a number of domestic antennas and equipment companies in 1H2019 and thus can boost revenue for this business segment.

Gross profit margin

The Group achieved an overall gross profit margin of approximately 24.1% during 1H2019 compared to approximately 23.0% during 1H2018, representing an increase of approximately 1.1 percentage point year-on-year. The higher than average gross profit margin for leaky cables in 1H2019 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 remain stable in 1H2019 as compared with the same period of last year. Gross profit margin for feeder cable in 1H2019 is approximately 19.3% representing a slight decrease of approximately 0.1 percentage point year-on-year. 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 7.6 percentage points from 1H2018's approximately 21.5% to approximately 29.1% in 1H2019. Such increase is because the Antennas sold in 1H2019 generally have higher profitability than that of 1H2018.

Other income

Other income decreased by approximately RMB0.8 million or approximately 6.2% from approximately RMB13.0 million in 1H2018 to approximately RMB12.2 million in 1H2019. The decrease is primarily due to:

- (i) increase in government grants received;

- (ii) decrease in rental income earned from the lease of the Group's testing facilities;
- (iii) decrease in investment income; and
- (iv) the change from net foreign exchange gains in 1H2018 to net foreign exchange losses in 1H2019.

Selling and distribution expenses

Selling and distribution expenses increased slightly by approximately RMB0.8 million or approximately 1.5% from approximately RMB53.6 million in 1H2018 to approximately RMB54.4 million in 1H2019 mainly due to the offsetting effects of (i) the decrease in staff costs as a result of the decrease in headcount of the Group during 1H2019 and accruals for year-end staff incentives due to the decrease in revenue and (ii) the increase in marketing efforts to promote the businesses of leaky cables and Antennas during 1H2019.

Administrative expenses

Administrative expenses decreased by approximately RMB2.8 million or approximately 10.9% from approximately RMB25.6 million in 1H2018 to approximately RMB22.8 million in 1H2019. The decrease is mainly due to the decrease in staff costs as a result of the decrease in headcount of the Group during 1H2019 and accruals for year-end staff incentives due to the decrease in revenue.

Other operating expenses

Other operating expenses decreased by approximately RMB5.0 million or approximately 13.8% from approximately RMB36.3 million in 1H2018 to approximately RMB31.3 million in 1H2019. The decrease is due to (i) the decrease in research and development (“**R&D**”) expenses incurred from continuing R&D activities undertaken for the modifications and improvements to the Group's products in 1H2019 and (ii) the net foreign exchange losses incurred in 1H2019 of approximately RMB0.2 million (compared with a net foreign exchange gains of approximately RMB0.1 million incurred in 1H2018 recorded as other income).

Share of loss of an associate

No share of loss of an associate was recorded in 1H2019 as the Group has fully impaired the equity interest in Mianyang City Siemax Industrial Co., Ltd. (“**Mianyang Xintong**”) during the year ended 31 December 2018.

Finance costs

Finance costs for 1H2019 is approximately RMB7.4 million (nil for 1H2018) as the Group has no short-term bank borrowings during 1H2018.

Profit before tax

Profit before tax increased by approximately RMB1.4 million or approximately 1.7% from approximately RMB82.5 million in 1H2018 to approximately RMB83.9 million in 1H2019.

Income tax expense

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

Income tax expense decreased by approximately RMB0.9 million or approximately 7.9% from approximately RMB11.4 million in 1H2018 to approximately RMB10.5 million in 1H2019, mainly due to the movement in deferred taxes during the Reporting Period.

Net profit

In view of the above, net profit attributable to equity holders of the Company increased approximately RMB2.3 million or approximately 3.2% from approximately RMB71.1 million in 1H2018 compared to approximately RMB73.4 million in 1H2019.

Statement of financial position

Material fluctuations of balance sheet items are explained below:

Cash and cash equivalents

Cash and cash equivalents decreased by approximately RMB159.5 million or approximately 16.3% from approximately RMB978.6 million as at 31 December 2018 to approximately RMB819.1 million as at 30 June 2019. The decrease is mainly due to the increase in trade and other receivables of approximately RMB213.6 million during the Reporting Period.

Trade and bills receivables

Trade and bills receivables increased by approximately RMB193.3 million or approximately 25.9% from approximately RMB747.4 million as at 31 December 2018 to approximately RMB940.7 million as at 30 June 2019.

Average trade and bills receivables turnover days was 197 days as at 30 June 2019 compared to 169 days as at 31 December 2018. The increase in trade and bills receivables turnover by approximately 28 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 and bills receivable collection cycle, the average trade and bills receivables turnover days is expected to improve during the second half of 2019 and no significant credit loss is expected during the second half of 2019.

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 30 June 2019, approximately 81.5% of the trade and bills receivable were within the credit period given as compared with that of approximately 82.2% as at 31 December 2018.

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

Other receivables increased by approximately RMB20.3 million or approximately 39.9% from approximately RMB50.9 million as at 31 December 2018 to approximately RMB71.2 million as at 30 June 2019. The increase was mainly due to the increase in advance payment to suppliers for the purchase of raw materials in anticipation of the increase in purchase costs and the tender guarantee fund paid for certain projects during 1H2019.

Inventories

Inventories (comprising raw materials, work-in-progress and finished goods) decreased by approximately RMB31.6 million or approximately 18.7% from approximately RMB168.9 million as at 31 December 2018 to approximately RMB137.3 million as at 30 June 2019. The decrease was mainly due to the Group's measure to control inventory level on implementing business transformation in 1H2019.

Other investments (non-current assets)

Other investments (non-current assets) relates to an equity investment held by the Group. As at 30 June 2019, there was no change in the valuation of that equity investment as compared with 31 December 2018.

Property, plant and equipment

Property, plant and equipment increased by approximately RMB1.6 million or approximately 1.2% from approximately RMB129.4 million as at 31 December 2018 to approximately RMB131.0 million as at 30 June 2019. The increase was mainly due to normal charges of depreciation, which was offset by additions during 1H2019.

Associate

The interest in associate represented the 24% equity interest in Mianyang Xintong. Due to the poor operating results of Mianyang Xintong in 2018 and the deteriorating business operations, an impairment loss on the entire equity interest in Mianyang Xintong of approximately RMB10.7 million was made in 2018.

Short-term loans

During the second half of 2018, the Group has raised funds of approximately RMB315.0 million from short-term loans provided by banks in the PRC carrying fixed interest rate of 4.35% per annum for enhancing the working capital position of the Group. The short-term bank borrowings will be due for repayment in the fourth quarter of 2019.

Trade payables

Trade payables decreased by approximately RMB11.3 million or approximately 9.6% from approximately RMB117.8 million as at 31 December 2018 to approximately RMB106.5 million as at 30 June 2019. The decrease is mainly due to the gradual decrease in revenue throughout 1H2019 and is in line with the decrease in the inventory levels.

(II) LIQUIDITY, FINANCIAL RESOURCES

As at 30 June 2019, the Group's total assets were approximately RMB2,158.737 million (31 December 2018: RMB2,136.08 million) (of which current assets were approximately RMB1,959.946 million (31 December 2018: RMB1,937.369 million) and non-current assets were approximately RMB198.791 million (31 December 2018: RMB198.711 million)), the total liabilities were approximately RMB515.58 million (31 December 2018: RMB548.572 million) (of which current liabilities were approximately RMB503.014 million (31 December 2018: RMB539.073 million) and non-current liabilities were approximately RMB12.565 million (31 December 2018: RMB9.499 million)), and shareholder's equity reached approximately RMB1,643.157 million (31 December 2018: RMB1,587.508 million).

As at 30 June 2019, the Group has short-term bank borrowings due within one year of RMB315.0 million (31 December 2018: RMB315.0 million) carrying fixed interest rate.

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

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

The management of the Group monitors capital based on the Group's gearing ratio. The Group's gearing ratio is calculated as net cash borrowings divided by total equity.

	As at	
	30 June 2019 RMB'000 (unaudited)	31 December 2018 RMB'000 (audited)
Net cash borrowings	(477,976)	(631,903)
Total equity	1,643,157	1,587,508
Net debt to equity (gearing) ratio (%)	(29.09)	(39.80)

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

As at 30 June 2019		As at 31 December 2018	
Secured RMB'000 (unaudited)	Unsecured RMB'000 (unaudited)	Secured RMB'000 (audited)	Unsecured RMB'000 (audited)
–	315,000	–	315,000

There is no amount repayable after one year.

(III) OUTLOOK (IN RELATION TO THE COMPETITION IN THE INDUSTRY IN WHICH THE GROUP IS ENGAGED IN AS AT THE REPORTING DATE AND THE COMMENTS THAT MAY AFFECT ANY KNOWN FACTORS OR EVENTS OF THE GROUP IN THE NEXT REPORTING PERIOD AND IN THE NEXT 12 MONTHS)(2019 INTERIM REPORT)

During 1H2019, China's domestic real economy moved forward despite difficult challenges. Insufficient investment demands, weak consumption and stagnant or decreasing exports contributed to the continuance of a slow GDP growth. The escalating Sino-US trade war has greatly impacted the market confidence in investments and trades. At the industrial level, the Group's business operation is adversely affected by decreasing profits of telecommunication operators, sustained network speed upgrade amid tariff reduction, and less investments due to delayed licensing of 5G business operations.

In such case, the Group's revenue in 1H2019 decreased by approximately 4.0% as compared to the same period of the previous year, specifically due to the adverse impact on the Group's revenue from sales of RF Coaxial Cables of the Group as a result of the significant decrease in the centralized purchase price by operators caused by the increased competition among domestic counterparts in the PRC and the lower copper prices remained for a long period of time. Despite the above-mentioned harsh business environment, the Group has successfully increased its revenue from its Antennas, Accessories and leaky cables for 1H2019 by approximately RMB56.7 million or approximately 12.8% as compared to 1H2018 due to the gratifying results from the structural adjustments made by the Group in recent years. For the overseas market, the Group's sales from overseas market decreased from approximately RMB109.3 million in 1H2018 to approximately RMB80.8 million in 1H2019, due to the fact that the relevant customers, who have a strong wait-and-see attitude affected by the trade war, are not in a hurry to place orders upon entering into the sales framework agreement.

To cope with the above-mentioned adverse impacts, the Group has increased its efforts in the development and sales of new products. With the strong technical skills and sound financial strength, strict and effective management, and the aggressive spirit of staff of the Group, the business of new products with high profit margin recorded a rapid growth in 1H2019 as compared to 1H2018. The successful bid for Antennas recorded a significant increase in 1H2019 as compared to the same period of the previous year, among which, the centralized procurement of Antennas for China Mobile's narrowband Internet of Things overall ranked third, with a bid amount of approximately RMB34.0 million. The shipments of high temperature resistant cables in 1H2019 increased by more than 113.53% as compared to 1H2018; and the shipments of leaky cables and Accessories in 1H2019 amounted to approximately RMB87.3 million, representing an increase of approximately 7.94% as compared to 1H2018. As the Group's product structure is continuously optimized due to such positive changes, the net profit attributable to owners of the Company in 1H2019 increased by approximately RMB2.3 million or 3.2% as compared to 1H2018.

Looking forward to the second half of 2019, due to the weaker sentiments as a result of Sino-US trade war and the further acceleration in the pace of optic fibres over copper cables, the market demand and prices for RF Coaxial Cables are expected to continuously decline, posing tremendous challenge to our revenue and profitability. Fortunately, with the first commercial year of 5G products officially seen in China upon the grant of 5G license, the great development of the 5G industry will benefit the Group in every aspect. Over the past years, the Group has been increasing the research and development of 5G technology, and actively preparing 5G-related products, especially those products with huge future market demand, such as 5G antennas, RF components and 5G leakage cables, which are expected to become new driving force for the development of the Group.

Directors' and chief executives' interests and short positions in shares and underlying shares and debentures

As at 30 June 2019, 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 Stock Exchange of Hong Kong Limited (the "SEHK") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they 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 to the Listing Rules 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
Mr. Cui Wei ⁽¹⁾	Deemed interest and interest in controlled corporation	96,868,662	24.97%
Ms. Zhang Zhong ⁽²⁾	Deemed interest and interest in controlled corporation	28,082,525	7.24%
Mr. Du Xiping	Beneficial owner	11,468,000	2.96%

Notes:

- (1) Mr. Cui Wei beneficially owns the entire issued share capital of Kingever Enterprises Limited ("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 Holdings Limited ("Wellahead"), and Wellahead in turn holds approximately 7.24% of the total issued shares in the Company.

Short position in the Company:

Name of Director	Capacity and nature of interests	Number of ordinary shares held	Approximate percentage of the Company's issued share capital
Ms. Zhang Zhong ⁽¹⁾	Deemed interest and interest in controller corporation	12,000,000	3.09%

Note:

- (1) Ms. Zhang Zhong is deemed to have short position in the Company through her interest in the entire issued share capital of Wellahead.

Saved as disclosed above, as at 30 June 2019, none of the Directors and chief executives of the Company nor their associates had or deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which has been recorded in the register maintained by the Company pursuant to Section 352 of Part XV of the SFO or which has been notified to the Company and the SEHK pursuant to the Model Code.

Substantial shareholders' and other persons' interests in shares and underlying shares

As at 30 June 2019, insofar as is known to the Directors and chief executives of the Company, 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%
Mr. Cui Wei ⁽¹⁾	Deemed interest and interest in controlled corporation	96,868,662	24.97%
Wellahead ⁽²⁾	Beneficial owner	28,082,525	7.24%
Ms. Zhang Zhong ⁽²⁾	Deemed interest and interest in controlled corporation	28,082,525	7.24%

Short 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
Wellhead ⁽²⁾	Beneficial owner	12,000,000	3.09%
Ms. Zhang Zhong ⁽²⁾	Deemed interest and interest in controller corporation	12,000,000	3.09%

Notes:

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

Saved as disclosed above, as at 30 June 2019, no person, other than the Directors, whose interests are set out in the paragraph headed "Directors' and chief executives' 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 the SFO.

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

Neither at the end of the Reporting Period nor at any time during the Reporting Period did there subsist any arrangement whose object is to enable the Directors of the Company to acquire benefits by means of the acquisition of shares or debentures in the Company or any other body corporate, except for the share option scheme (the "**Share Option Scheme**") adopted by the Company at its extraordinary general meeting held on 27 October 2010 and the employee equity incentive scheme (the "**Incentive Scheme**") adopted by the Company at its extraordinary general meeting held on 26 April 2019.

(IV) SUPPLEMENTAL INFORMATION

1. Audit Committee and its Terms of Reference

The Company's audit committee members are Mr. Tam Chi Kwan Michael, Mr. Cui Wei, Dr. Li Jun, Mr. Pu Hong and Ms. Zhang Zhong. The audit committee, which is chaired by Mr. Tam Chi Kwan Michael, has reviewed the unaudited interim results of the Group for the six months ended 30 June 2019.

2. Compliance with Corporate Governance Code

The Company has complied with all the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules for the six months ended 30 June 2019.

3. Compliance with the Model Code for Securities Transactions by Directors of Listed Issuers

Having made specific enquiries with all the Directors, all the Directors have confirmed that they have complied with the required standards of the Model Code during the Reporting Period.

4. Dividends

No dividend has been recommended by the Company for the six months ended 30 June 2019.

5. Review of financial results

The consolidated interim results of the Group for the six months ended 30 June 2019 have not been audited or reviewed by the Company's auditors.

6. Purchase, sales or redemption of the Company's securities

During the Reporting Period, neither the Company nor its subsidiaries had purchased, sold or redeemed any of the securities of the Company.

7. Employees and remuneration practices

As at 30 June 2019, there were 818 (as at 31 December 2018: 845) employees in the Group. Staff remuneration packages are determined in consideration of market conditions and the performance of the individuals concerned, and are subject to review from time to time. The Group also provides other staff benefits including medical and life insurance, and grants discretionary incentive bonuses and share options to eligible staff based on their performance and contributions to the Group.

The Company adopted the Share Option Scheme for its employees at 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.

The Company also adopted the employee equity incentive scheme (the "**Incentive Scheme**") at its extraordinary general meeting held on 26 April 2019 to implement the long-term incentive and binding mechanism of Jiangsu Hengxin and fully mobilize the proactiveness of core and key employees of Jiangsu Hengxin to ensure the sustainable and healthy development of the Company.

8. Disclosure on the website of the Exchanges

This report is published on the website of SEHK (<http://www.hkexnews.hk>) and on the Company's website (<http://www.hengxin.com.sg>).

(V) SHARE OPTION SCHEME

The Company adopted the Share Option Scheme on 27 October 2010, as approved by its shareholders at the extraordinary general meeting held on the same date. The Share Option Scheme is valid and effective for a period of 10 years from 27 October 2010. It is a share incentive scheme and is established 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 interests with the Group's interest and 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 of the Company (the "**Remuneration Committee**"), has contributed to the Group. An option granted under the Share Option Scheme entitles the option holder to subscribe for a specific number of new ordinary shares in the Company.

The Share Option Scheme is administered by the Remuneration Committee which comprises:

Dr. Li Jun (*Chairman*)

Mr. Cui Wei

Mr. Tam Chi Kwan Michael

Mr. Xu Guoqiang

Mr. Pu Hong

The total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes must not in aggregate exceed 10% of the shares of the Company in issue on 27 October 2010 (i.e. 33,600,000 shares), representing approximately 8.66% of the total number of the issued shares of the Company as at 30 June 2019.

The total number of the shares issued and to be issued upon exercise of the options granted under the Share Option Scheme to any eligible participants (including exercised, cancelled and outstanding options) in any 12-month period must not exceed 1% of the shares of the Company in issue, unless approved by the shareholders of the Company in general meeting at which the relevant participant and his/her associates shall abstain from voting.

Pursuant to the Share Option Scheme, the option has an exercise price[#] per share determined with reference to the market price of the shares at the time of grant of the option. The consideration for the grant of an option is S\$1.00, 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.

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

- (i) the closing price of the shares as stated in the daily quotation sheet issued by SEHK on the offer date, which must be a business day; and
- (ii) the average closing price of the shares as stated in the daily quotation sheet issued by SEHK for the five consecutive business days immediately preceding the offer date.

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

During the Reporting Period, no options to take up unissued shares of any subsidiary were granted and there were no shares of any subsidiary issued by virtue of the exercise of an option to take up unissued shares.

As at the end of the Reporting Period, there were no unissued shares of the Company or of any corporation in the Group under option.

(VI) INCENTIVE SCHEME

On the extraordinary general meeting of the Company held on 26 April 2019, the Company adopted the Incentive Scheme to implement the long-term incentive and binding mechanism of Jiangsu Hengxin, a wholly-owned subsidiary of the Company, and fully mobilize the proactiveness of core and key employees of Jiangsu Hengxin to ensure the sustainable and healthy development of the Company and Jiangsu Hengxin, and for which this Incentive Scheme is formulated with reference to the actual situation of the Company and Jiangsu Hengxin. For details of the Incentive Scheme, please refer to the circular of the Company dated 29 March 2019.

Subsequent to the approval of the Incentive Scheme, the Company is still in the process of obtaining the approval from the relevant regulatory authorities.

By Order of the Board
Hengxin Technology Ltd.
Cui Wei
Chairman

Singapore, 16 August 2019

As at the date of this report, the executive Directors of the Company are Mr. Du Xiping and Mr. Xu Guoqiang; the non-executive Directors of the Company are Mr. Cui Wei and Ms. Zhang Zhong; and the independent non-executive Directors of the Company are Mr. Tam Chi Kwan Michael, Dr. Li Jun and Mr. Pu Hong.