



Heng Xin China Holdings Limited
恒芯中國控股有限公司*
(Incorporated in Bermuda with limited liability)
(Stock Code: 8046)

FIRST QUARTERLY RESULTS ANNOUNCEMENT
For the three months ended 30 September 2012

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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This announcement, for which the directors of Heng Xin China Holdings Limited (the “Directors”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to Heng Xin China Holdings Limited. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

* For identification purposes only

HIGHLIGHTS

- The Group recorded an unaudited revenue of approximately HK\$262.9 million for the three months ended 30 September 2012, representing an increase of approximately 50% when compared with approximately HK\$175.4 million for the corresponding period in 2011.
- The Group recorded an unaudited profit attributable to owners of the Company of approximately HK\$42.6 million for the three months ended 30 September 2012, representing approximately 31% decrease as compared to approximately HK\$61.6 million for the corresponding period in 2011.
- Earnings per share of the Company was approximately HK1.52 cents for the three months ended 30 September 2012, representing approximately 39% decrease as compared to approximately HK2.48 cents for the corresponding period in 2011.
- The Board does not recommend the payment of an interim dividend for the three months ended 30 September 2012.

RESULTS

The board of Directors (the “Board”) of Heng Xin China Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the three months ended 30 September 2012 together with the comparative unaudited figures for the corresponding period in 2011.

	<i>Note</i>	Three months ended	
		30 September	
		2012	2011
		(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
Revenue	3	262,850	175,425
Cost of sales		(201,345)	(60,245)
Gross profit		61,505	115,180
Other income	3	10,781	55
Selling and marketing expenses		(1,863)	(2,627)
Other operating expenses		(21,352)	(22,725)
Finance costs		(1,990)	(3,646)
Profit before taxation	4	47,081	86,237
Taxation	5	(4,501)	(24,591)
Profit attributable to owners of the Company for the period		42,580	61,646
Other comprehensive income			
Exchange differences on translating foreign operations		(4,236)	20,393
Total comprehensive income attributable to owners of the Company for the period		38,344	82,039
Earnings per share	6		
– basic		1.52 cents	2.48 cents
– diluted		1.52 cents	2.40 cents
Dividends	7	–	–

Notes:

1. General information

The Company was incorporated as an exempted company with limited liability in Bermuda on 9 September 2002 under the Companies Act 1981 of Bermuda (as amended). The address of the registered office of the Company is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

The Company is an investment holding company. The shares of the Company have been listed on the GEM of the Stock Exchange since 16 April 2003.

The principal activities of the Group are engaged in digital cable television business, wireless digital television value-added services, wireless digital terrestrial television network equipment integrated business, research, design, development on and manufacturing of electronic message security products, integrated circuits, and the integrated circuit solutions and the related services.

2. Basis of preparation and accounting policies

The unaudited consolidated results for the three months ended 30 September 2012 have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRSs) issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosure requirements of the GEM Listing Rules.

The unaudited consolidated accounts have been prepared on the historical cost basis except for the financial instruments, which are measured at fair value. The accounting policies and methods of computation used in the preparation of the unaudited consolidated accounts are consistent with those used in the annual financial statements for the year ended 30 June 2012. These unaudited consolidated results should be read in conjunction with the Company's annual report for the year ended 30 June 2012. Those new accounting standards, amendments to accounting standards and interpretations which are mandatory for financial year ending 30 June 2012 have no material impact on the Group.

The unaudited consolidated accounts have not been audited by the auditors of the Company, but have been reviewed by the Company's audit committee.

3. Revenue

Revenue recognised by category during the three months ended 30 September 2012 are as follows:

	Three months ended 30 September	
	2012 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)
Revenue		
Digital cable television business	79,983	48,390
Wireless digital television value-added services	–	51,565
Encrypted integrated circuits and the derived integrated business	104,183	27,519
Wireless digital audio products business	31,820	47,951
Wireless digital terrestrial television network equipment integration business	46,865	–
	<u>262,851</u>	<u>175,425</u>
Other income		
Bank interest income	45	55
Sundry income	10,736	–
	<u>10,781</u>	<u>55</u>

4. Profit for the period

The Group's profit for the period has been arrived at after (crediting)/charging:

	Three months ended 30 September	
	2012 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)
Cost of inventories recognised as expense	178,712	59,552
Depreciation	1,106	944
Exchange loss	23	423
(Gain)/loss on fair value changes of financial assets at fair value through profit or loss	(660)	4,260
Research and development costs	2,945	2,242
Staff costs (including Directors' emoluments)		
– salaries and allowances	5,945	4,610
– retirement benefits scheme contributions	955	120
	<u>188,036</u>	<u>71,141</u>

5. Taxation

	Three months ended 30 September	
	2012	2011
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current tax:		
Hong Kong		
– charge for the period	–	–
Overseas		
– charge for the period	4,501	24,591
	<u>4,501</u>	<u>24,591</u>
	<u>4,501</u>	<u>24,591</u>

The provision for Hong Kong profits tax for 2012 is calculated at 16.5% (2011: 16.5%) of the estimated assessable profits for the period.

PRC Enterprise Income Tax is calculated at 25% of the estimated assessable profit for both years. Pursuant to the relevant laws and regulations in the PRC, some of the Company's PRC subsidiaries are entitled to exemption from PRC income tax for the two years commencing from its first profit-making year of operation and thereafter, those subsidiaries will be entitled to a 50% relief from PRC income tax for the following three years.

One of the Company's PRC subsidiaries is qualified as software and integrated circuit enterprise and is entitled to preferential tax rate of 15% since 1 January 2011.

6. Earnings per share

(a) Basic

Basic earnings per share is calculated by dividing the consolidated profit attributable to the owners of the Company of HK\$42,580,000 (2011: HK\$61,646,000) by the weighted average number of 2,808,590,000 (2011: 2,487,092,000) ordinary shares in issue during the period.

(b) Diluted earnings per share

No diluted earnings per share for the three months ended 30 September 2012 has been presented because the exercise price of the Company's outstanding share options, convertible notes and warrants were higher than the average market price of the Company's shares for the three months ended 30 September 2012.

Diluted earnings per share for the three months ended 30 September 2011 is calculated by dividing the adjusted profit attributable to the owners of the Company of HK\$65,216,000 by the total of the weighted average number of ordinary shares of 2,717,488,000 outstanding during the three months ended 30 September 2011, after adjusting for the effects of all dilutive potential ordinary shares.

The adjusted profit attributable to the owners of the Company for the three months ended 30 September 2011 is calculated based on the profit attributable to the owners of the Company for the period of HK\$61,646,000 as used in the calculation of basic earnings per share plus effective interest expenses on convertible notes of HK\$3,570,000.

The weighted average number of ordinary shares used in the calculation of diluted earnings per share for the three months ended 30 September 2011 is calculated based on the weighted average of 2,487,092,000 ordinary shares in issue during the period as used in the calculation of basic earnings per share plus the weighted average of 1,573,000 ordinary shares deemed to be issued at no consideration as if all the Company's share options had been exercised and the weighted average of 228,823,000 ordinary shares deemed to be issued at no consideration as if all the Company's convertible notes had been converted. The calculation of the diluted earnings per share for the three months ended 30 September 2011 did not assume the exercise of some of the Company's outstanding share options, convertible notes and warrants as their exercise prices were higher than the average market price of the Company's shares for the period.

7. Interim dividend

The Board does not recommend the payment of an interim dividend for the three months ended 30 September 2012 (2011: Nil).

8. Reserves

	Attributable to the owners of the Company							Total HK\$'000
	Share premium HK\$'000	Capital reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Other reserve HK\$'000	Share option reserve HK\$'000	Convertible notes reserve HK\$'000	Retained earnings HK\$'000	
At 1 July 2011	1,107,946	2,325	40,861	(79,992)	11,215	134,254	444,248	1,660,857
Total comprehensive income for the period	–	–	20,393	–	–	–	61,646	82,039
At 30 September 2011	<u>1,107,946</u>	<u>2,325</u>	<u>61,254</u>	<u>(79,992)</u>	<u>11,215</u>	<u>134,254</u>	<u>505,894</u>	<u>1,742,896</u>
At 1 July 2012	1,307,760	2,325	62,492	(79,992)	10,652	14,917	597,822	1,915,976
Total comprehensive income for the period	–	–	(4,236)	–	–	–	42,580	38,344
Recognition of Share-based payments	–	–	–	–	240	–	–	240
At 30 September 2012	<u>1,307,760</u>	<u>2,325</u>	<u>58,256</u>	<u>(79,992)</u>	<u>10,892</u>	<u>14,917</u>	<u>640,402</u>	<u>1,954,560</u>

MANAGEMENT DISCUSSIONS AND ANALYSIS

Financial review

For the three months ended 30 September 2012, the Group recorded a consolidated revenue of approximately HK\$262.9 million, representing an increase of approximately 50% when compared to approximately HK\$175.4 million for the corresponding period in the last financial year.

Other operating expenses amounted to approximately HK\$21.4 million for the three months ended 30 September 2012, representing a decrease of 6% when compared to HK\$22.7 million for the three months ended 30 September 2011.

Finance costs mainly represent non-cash effective interest expenses on convertible notes of HK\$2.0 million (2011: HK\$3.6 million).

The profit attributable to owners of the Company amounted to approximately HK\$42.6 million for the three months ended 30 September 2012, representing a decrease of approximately 31% when compared to approximately HK\$61.6 million in the corresponding period in the previous financial year. Basic earnings per share was approximately HK1.52 cents, representing a decrease of approximately 39% when compared to approximately HK2.48 cents for the corresponding period of the last year.

As at 30 September 2012, the cash and bank balances of the Group amounted to approximately HK\$97.4 million (30 June 2012: HK\$149.0 million). The fund was mainly used for the implementation of the digital cable television business and wireless digital television value-added services. The gearing ratio of the Group, calculated as total borrowings over shareholders funds, was approximately 0.00 (30 June 2012: 0.00).

During the three months ended 30 September 2012, the Group has collected trade receivables amounting to approximately RMB100 million and adopted various methods on the collection of the outstanding trade receivables. In addition, as disclosed in the annual results announcement for the year ended 30 June 2012 of the Company issued on 28 September 2012, a major customer of the Group which had been deferring the settlement of trade receivable of approximately RMB88.2 million and other receivable of approximately RMB23.1 million, as a result of the management's intensified efforts and continual negotiations with the customer, the Group has finally been able to recover the full amount of the outstanding receivables from this customer subsequent to the period ended 30 September 2012.

Inventories balance has been reduced from HK\$174.4 million as at 30 June 2012 to HK\$19.7 million as at 30 September 2012. Some of the sales of inventories have been completed but lower gross profit margin was recorded under the trading business.

Business review

The Group continues to put in efforts in developing its principal businesses during the three months ended 30 September 2012. For the third quarter of 2012, total revenue increased by around 50% when compared to the corresponding period of last year. As trading business attributed to a higher portion of the total sales, gross profit margin dropped. Affected by such external factors as market condition, net profit for the quarter ended 30 September 2012 amounted to approximately HK\$42.6 million, compared to approximately HK\$61.6 million for the corresponding period of last financial year.

(i) Digital cable television business

The revenue for the three months ended 30 September 2012 generated from the digital cable television business amounted to approximately HK\$80.0 million (2011: 48.4 million) or approximately 30% (2011: 28%) of the total revenue.

The revenue comprised operational revenues from basic subscription and other value added technology as well as market service income arising from the 1 million subscribers of the Hebei rural television network of approximately RMB30 million and sales of digital cable television business related products.

Upon successfully bidding for the provision of cable MOCA products for television broadcasting in Ningxia Autonomous Region (throughout the province) in PRC, the Group also won the bid for the broadcasting television system in Shandong (throughout the province) and is now carrying out technology connection for the project and expects that the products will be available for sale in the coming quarters.

(ii) Wireless digital television value-added services

The Group did not record any revenue from the wireless television value-added services for the three months ended 30 September 2012 (2011: 51.6 million or 29% of the total revenue).

(iii) Encrypted integrated circuits and the derived integrated business

The revenue for the three months ended 30 September 2012 generated from the information safety products business and the related technical services amounted to approximately HK\$104.2 million (2011: HK\$27.5 million) or approximately 40% (2011: 16%) of the total revenue.

The Group has commenced business solicitation for its cooperation in advertising operation with Heilongjiang Agricultural Television Station (黑龍江農墾電視台) in PRC.

(iv) Wireless digital audio products business

The revenue for the three months ended 30 September 2012 generated from the wireless digital audio products business and the related technical services amounted to approximately HK\$31.8 million (2011: HK\$48.0 million) or approximately 12% (2011: 27%) of the total revenue, which was mainly attributable to the revenue from clients in Mainland.

Despite the moderate demand in domestic and overseas markets, the Group's market shares have been growing correspondingly with increasing number of projects under cooperation with the domestic and overseas clients over the past few years. This has effectively secured the Group with high prospects of revenue and profit driver in the future.

(v) Wireless digital terrestrial television network equipment integration business

During the quarter ended 30 September 2012, revenue from the construction project of the wireless digital terrestrial television operating platform amounted to approximately HK\$46.9 million (2011: HK\$Nil), representing approximately 18% (2011: Nil) of the total revenue.

The Group is exploring opportunities positively and generating cash through the utilization of its technology and assets gained from the wireless digital television operation.

Prospects

The Group will further consolidate its client base and better serve the contracted television broadcasting subscribers during the fourth quarter in 2012. In order to lay a foundation for achieving the overall objectives of development of the Group, and more importantly, seek certain new opportunities for cooperation in other provinces and expand its business considerably in the provinces where cooperation has been established.

The Group will continue to carry out joint operation for the subscribers of broadcasting television and increase long-term revenues from value-added business by taking the competitive edge of its products and technology.

The Group will also continue to increase its investment in research and development, production and sales and services of the cable digital television two-way conversion products and strive for better economic efficiencies. In addition to meeting the technical requirements of the existing clients, The Group will provide excellent services and seek to make immediate delivery of products.

The Group commits to adopt more collection methods and strengthen the efforts for the collection of the trade receivables.

As announced by the Company on 12 October 2012, the Group has entered into a non-legally binding memorandum of understanding (the “MOU”) with an independent third party to sell 100% of the equity interest in 北京中廣視通科技有限公司 (Beijing Zhongguang Shitong Technology Co., Ltd.). The consideration for the possible disposal, which is subject to further negotiations, shall be not more than RMB350 million (equivalent to approximately HK\$428.7 million). In the event that the possible disposal proceeds, the Company will comply with the relevant disclosure requirements of the GEM Listing Rules as and when appropriate.

DIRECTORS AND CHIEF EXECUTIVES’ INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 30 September 2012, the interests and short positions of the Directors, the chief executive of the Company or their respective associates (as defined in the GEM Listing Rules) in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, to be notified to the Company and the Stock Exchange were as follows:

Name	Capacity	Number of		Approximate percentage of interests in the issued share capital
		shares	underlying shares (Note)	
Mr. Xiao Yan	Beneficial owner	2,273,334	1,500,000	0.13%
Mr. Feng Yongming	Beneficial owner	–	1,500,000	0.05%
Mr. Li Tao	Beneficial owner	–	1,500,000	0.05%
Mr. Xu Lei	Beneficial owner	–	800,000	0.03%
Mr. Leung Wo Ping	Beneficial owner	–	800,000	0.03%
Mr. Dong Shi	Beneficial owner	–	800,000	0.03%
Mr. Hu Dingdong	Beneficial owner	–	800,000	0.03%

Note:

Underlying shares represent share options granted to the Directors and the chief executive of the Company pursuant to share option scheme adopted by the Company on 13 March 2003.

Save as disclosed above, at no time during the three months ended 30 September 2012 was the Company or any of its subsidiaries a party to any arrangement to enable the Directors and the chief executive of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or its associated corporation.

SUBSTANTIAL SHAREHOLDERS INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

The register of substantial shareholders maintained under Section 336 of the SFO shows that as at 30 September 2012, the Company had been notified of the following substantial shareholders interests and short positions, being 5% or more of the Company's issued share capital:

Interests in the shares and underlying shares of the Company

Name of shareholder	Number or attributable number of shares or underlying shares held	Type of interests	Approximate percentage of interests
Choi Chung Lam (<i>Note</i>)	623,690,451 (L)	Interest in controlled corporation	22.20%
Team Effort Investments Limited (<i>Note</i>)	623,690,451 (L)	Beneficial owner	22.20%

L: Long Position

Note:

Team Effort Investments Limited is wholly owned by Mr. Choi Chung Lam. Mr. Choi Chung Lam is deemed to be interested in the shares held by Team Effort Investments Limited.

Save as disclosed above, as at 30 September 2012, the Directors or the chief executive of the Company were not aware of any other person (other than the Directors or the chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company under Section 336 of the SFO.

EMPLOYEE SHARE OPTION SCHEME

Details of the employee share option schemes of the company adopted on 13 March 2003 and 30 December 2011 (jointly the “Share Option Schemes”) were disclosed in the annual report of the Company for the year ended 30 June 2012. The following shows the outstanding positions of the eligible persons as at 30 September 2012 with respect to their share options granted under the Share Option Schemes:

Participants	Number of Shares (Note)				As of 30 September 2012	Date of grant	Exercise period (dd/mm/yyyy)	Exercise price per share HK\$
	As of 1 July 2012	Granted during the period	Exercised during the period	Cancelled/ lapsed during the period				
Directors								
Mr. Xiao Yan	1,500,000	–	–	–	1,500,000	13/04/2011	14/05/2011- 12/03/2013	1.54
Mr. Feng Yongming	1,500,000	–	–	–	1,500,000	13/04/2011	14/05/2011- 12/03/2013	1.54
Mr. Li Tao	1,500,000	–	–	–	1,500,000	13/04/2011	14/05/2011- 12/03/2013	1.54
Mr. Xu Lei	800,000	–	–	–	800,000	13/04/2011	14/05/2011- 12/03/2013	1.54
Mr. Leung Wo Ping	800,000	–	–	–	800,000	13/04/2011	14/05/2011- 12/03/2013	1.54
Mr. Dong Shi	800,000	–	–	–	800,000	13/04/2011	14/05/2011- 12/03/2013	1.54
Mr. Hu Dingdong	800,000	–	–	–	800,000	13/04/2011	14/05/2011- 12/03/2013	1.54
Subtotal	7,700,000	–	–	–	7,700,000			
Other participants	22,300,000	–	–	–	22,300,000	13/04/2011	14/05/2011- 12/03/2013	1.54
	3,000,000	–	–	–	3,000,000	29/02/2012	01/03/2013- 29/02/2016	0.84
Subtotal	25,300,000	–	–	–	25,300,000			
Total	33,000,000	–	–	–	33,000,000			

Note:

Number of shares in the Company over which options granted under the Share Option Schemes are exercisable.

DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the Directors or any of their associates (as defined in the GEM Listing Rules) had any interest in a business, which competes or may compete with the business of the Group or have any other conflict of interests with the Group.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with Rules 5.28 to 5.29 of the GEM Listing Rules. The audit committee comprises three independent non-executive Directors, namely, Mr. Leung Wo Ping JP (Chairman), Mr. Dong Shi and Mr. Hu Dingdong. The duties of the audit committee include reviewing the Group's annual reports and accounts, half-yearly reports and quarterly reports and providing advice and comments thereon to the Board. The audit committee is also responsible for reviewing and supervising the financial reporting process and internal control procedures of the Company, and to review the appointment of external auditors on an annual basis as well as to ensure independence of the continuing auditor.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules as its Code of Conduct for Securities Transactions by Directors throughout the three months ended 30 September 2012. Having made specific enquiry of all Directors, the Company was not aware of any non-compliance with the required standard of dealings regarding securities transactions by Directors during the three months ended 30 September 2012.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the three months ended 30 September 2012.

By Order of the Board
HENG XIN CHINA HOLDINGS LIMITED
Xiao Yan
Chief Executive Officer

Hong Kong, 12 November 2012

As at the date of this announcement, the Board comprises Mr. Xiao Yan (CEO), Mr. Feng Yongming and Mr. Li Tao as executive Directors; Mr. Xu Lei as non-executive Director; Mr. Leung Wo Ping JP, Mr. Dong Shi and Mr. Hu Dingdong as independent non-executive Directors.