



**HENGXIN**  
恒芯中國

# **Heng Xin China Holdings Limited** **恒芯中國控股有限公司**

*(Incorporated in Bermuda with limited liability)*

(Stock Code: 8046)

## **FINAL RESULTS ANNOUNCEMENT** **For the six months ended 31 December 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.

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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.*

## HIGHLIGHTS

- The Group recorded a consolidated revenue of approximately HK\$300.3 million for the six months ended 31 December 2012, compared with that of approximately HK\$612.5 million for the year ended 30 June 2012.
- The Group recorded a profit attributable to the shareholders of the Company of approximately HK\$1.2 million for the six months ended 31 December 2012, compared to approximately HK\$152.9 million for the financial year ended 30 June 2012.
- Basic earnings per share of the Company was approximately HK0.04 cent for the six months ended 31 December 2012, compared to approximately HK6.12 cents for the financial year ended 30 June 2012.
- The Board does not recommend the payment of a final dividend in respect of the six months ended 31 December 2012.

## STATEMENT FROM CHIEF EXECUTIVE OFFICER

On behalf of the board of Directors (the “Board”) of Heng Xin China Holdings Limited (the “Company”), I am pleased to present the annual report of the Company and its subsidiaries (collectively the “Group”) for the six months ended 31 December 2012.

## FINANCIAL PERFORMANCE

For the six months ended 31 December 2012, the Group recorded a consolidated turnover of approximately HK\$300.3 million (year ended 30 June 2012: HK\$612.5 million) and a profit attributable to equity holders of the Company of approximately HK\$1.2 million (year ended 30 June 2012: HK\$152.9 million). The basic earnings per share was approximately HK0.04 cent, compared to approximately HK6.12 cents for the year ended 30 June 2012. The directors do not recommend the payment of dividend for the six months ended 31 December 2012 (year ended 30 June 2012: Nil).

## BUSINESS REVIEW AND FUTURE PROSPECTS

During this financial period, based on the progress of its business development and in response to the market condition, the Group completed the transformation from wireless digital television to digital cable television and continued to devote its effort to consolidate and drive the growth of its principal businesses according to its established overall development strategic plan, and optimize the development pattern for those principal businesses, shaping the development trend of the digital television broadcast industry, with particularly the three networks integration business in cable digital television as the principal business, laying a foundation for sustainable growth of the industry.

As for the cable digital television industry, the Group continued to implement its strategic development plan to adapt to the three networks integration policy in digital television broadcast industry and meet the huge market demand in the PRC. The Group sustained to put great effort in driving the growth of its business in contracted regions during the year, continued to improve the quality of the service of our cable digital television business, expanded and improved value added services, provided system solutions for the cable digital television two-way conversion business, actively promoted research, development and sales of products with its own intellectual properties, continued to consolidate our customer base and strategic partnership in the industrial chain of such segment, and established our position as an operator of television broadcasting integrated businesses, developing the competitive edge for the sustainable growth of the Group.

As for the wireless digital television value-added service industry, in response to the market condition and based on the progress of its business development, the Group continued to strengthen and promote the value added services for the wireless digital television business, and strive for the provision of value added services for regional wireless digital television business in contracted regions, thereby creating favourable conditions for the development of such business.

During the year, as the supplier for its traditional principal businesses in wireless audio baseband integrated circuits and information security technology products and solutions, the Group continued to consolidate its existing customer base and our cutting-edge products and technology, put great effort in exploring new domestic and overseas markets, increase our market shares, and strengthen the in-depth research and development of our own core technology products, and their application and promotion in the fields concerned. We caught up with market development, and provided advanced products and quality services to the users, thereby creating a solid and established customer base, and favourable conditions for sustainable growth.

The Group always follows and adapts to the development and demand of the market in Mainland China. We have grasped the huge business opportunities, and formulated our development strategies. We aim to grow bigger and stronger, as well as adjust and optimize the structure of our principal businesses, maintain and enhance the Group's core competitiveness, build up the comprehensive strength for the sustainable growth of the Group.

By paying attention to and coping with the domestic development and demand of the broadcasting digital television industry on an ongoing basis, the Group will be able to further grab a foothold and penetrate in the markets of three networks integration business in digital cable television and wireless digital television value-added services industry, continue to improve the digital television business in the contracted regions, expand into new markets, keep strengthening the research and development and promotion of the application of the core technology and products in this field, upgrade the overall quality of its services and the scale of operation of the digital television business, and achieve a greater and better economies of scale in order to maintain the Group's competitive advantage in the digital television broadcasting industry.

The Group will continue to maintain and enhance its technological advantages and leading position in the areas of wireless audio baseband integrated circuits and multimedia transmission as well as information security technology products, identify new markets and increase its market shares and new sources of growth in revenue.

Looking onward, the Group will continue to capitalize on the vast domestic demand in the PRC, formulate a strategic plan for sustainable development, optimize and adjust the structure of principal businesses for aggressive market expansion. By capitalizing on the established and effective business operation model, sophisticated experience in business development and long-term partnership and customer base, the Group will be able to achieve a more sustainable competitive edge for the business development for maximizing the shareholders' interests and social benefits. The Board expects that this will bring about long-term and greater benefits to the Group.

Finally, on behalf of the Board, I would like to take this opportunity to extend our sincere gratitude to our customers, business partners and shareholders for their continuous and valuable support to the Group. I would also like to express my heartfelt appreciation to our dedicated staff members for their hard work and efforts that have contributed to the sustained growth of the Group over the period.

## RESULTS

### Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 31 December 2012

		1.7.2012 to 31.12.2012 <i>HK\$'000</i>	1.7.2011 to 30.6.2012 <i>HK\$'000</i>
	<i>Notes</i>		
<b>Revenue</b>	4	<b>300,332</b>	612,460
Cost of sales		<u>(264,566)</u>	<u>(354,630)</u>
<b>Gross profit</b>		<b>35,766</b>	257,830
Other income		<b>11,723</b>	62,049
Gain on disposal of financial assets of fair value through profit or loss		<b>390</b>	—
Written back on provision for trade receivables		<b>49,294</b>	—
Selling and marketing expenses		<b>(8,560)</b>	(7,502)
Other operating expenses		<b>(74,215)</b>	(131,199)
Finance costs		<u>(4,470)</u>	<u>(14,201)</u>
<b>Profit before taxation</b>		<b>9,928</b>	166,977
Taxation	5	<u>(8,766)</u>	<u>(14,073)</u>
<b>Profit for the period/year attributable to owners of the Company</b>	6	<b>1,162</b>	152,904
<b>Other comprehensive income</b>			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		<u>4,329</u>	<u>21,631</u>
<b>Total comprehensive income for the period/year attributable to the owners of the Company</b>		<u><b>5,491</b></u>	<u>174,535</u>
EARNINGS PER SHARE	7		
<b>Basic and diluted</b>		<u><b>0.04 cent</b></u>	<u>6.12 cents</u>

## Consolidated Statement of Financial Position

At 31 December 2012

	<i>Notes</i>	<b>31.12.2012</b> <b>HK\$'000</b>	30.6.2012 <i>HK\$'000</i>
<b>Non-current assets</b>			
Property, plant and equipment		<b>265,560</b>	232,352
Goodwill		<b>753,146</b>	753,146
Intangible assets		<b>127,732</b>	123,543
Deposits for acquisition of non-current assets		<b>127,291</b>	97,594
		<hr/> <b>1,273,729</b>	<hr/> 1,206,635
<b>Current assets</b>			
Inventories		<b>29,211</b>	174,406
Trade receivables	9	<b>399,160</b>	447,951
Prepayments, deposits and other receivables		<b>188,884</b>	375,748
Financial assets at fair value through profit or loss		—	2,610
Restricted bank deposits		<b>8,786</b>	1,731
Cash and cash equivalents		<b>13,067</b>	149,044
		<hr/> <b>639,108</b>	<hr/> 1,151,490
Assets classified as held for sale	10	<b>581,152</b>	—
		<hr/> <b>1,220,260</b>	<hr/> 1,151,490
<b>Current liabilities</b>			
Trade payables	11	<b>48,579</b>	50,562
Other payables and accruals		<b>36,673</b>	12,833
Receipts in advance		<b>37,247</b>	34,159
Promissory note		—	2,000
Obligations under finance leases		<b>286</b>	406
Convertible notes payable		—	195,849
Short term loans		<b>7,596</b>	—
Tax payable		<b>49,977</b>	42,484
		<hr/> <b>180,358</b>	<hr/> 338,293
Liabilities directly associated with assets classified as held for sale	10	<b>48,048</b>	—
		<hr/> <b>228,406</b>	<hr/> 338,293
<b>Net current assets</b>		<hr/> <b>991,854</b>	<hr/> 813,197
<b>Total assets less current liabilities</b>		<hr/> <b>2,265,583</b>	<hr/> 2,019,832

	<i>Notes</i>	<b>31.12.2012</b> <b><i>HK\$'000</i></b>	30.6.2012 <i>HK\$'000</i>
<b>Non-current liabilities</b>			
Receipts in advance		73,632	73,644
Obligations under finance leases		26	105
Deferred tax liabilities		2,021	2,021
Notes payable		150,000	—
		<u>225,679</u>	<u>75,770</u>
<b>Net assets</b>		<b><u>2,039,904</u></b>	<b><u>1,944,062</u></b>
<b>Capital and reserves</b>			
Share capital	<i>12</i>	31,086	28,086
Reserves		<u>2,008,818</u>	<u>1,915,976</u>
<b>Total equity</b>		<b><u>2,039,904</u></b>	<b><u>1,944,062</u></b>

## Consolidated Statement of Changes in Equity

For the six months ended 31 December 2012

	Attributable to owners of the Company								
	Share capital	Share premium	Capital reserve	Exchange fluctuation reserve	Other reserve	Share option reserve	Convertible notes reserve	Retained profits	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 July 2011	24,871	1,107,946	2,325	40,861	(79,992)	11,215	134,254	444,248	1,685,728
Profit for the year	—	—	—	—	—	—	—	152,904	152,904
Other comprehensive income									
Exchange difference on translating foreign operations	—	—	—	21,631	—	—	—	—	21,631
Total comprehensive income	—	—	—	21,631	—	—	—	152,904	174,535
Conversion of convertible notes	3,192	198,811	—	—	—	—	(119,337)	—	82,666
Share issue expenses	—	(3)	—	—	—	—	—	—	(3)
Recognition of share-based payments	—	—	—	—	—	322	—	—	322
Share options exercised	23	1,006	—	—	—	(215)	—	—	814
Transfer to retained profits upon expiry of share options	—	—	—	—	—	(670)	—	670	—
	3,215	199,814	—	—	—	(563)	(119,337)	670	83,799
At 30 June 2012	28,086	1,307,760	2,325	62,492	(79,992)	10,652	14,917	597,822	1,944,062
Profit for the period	—	—	—	—	—	—	—	1,162	1,162
Other comprehensive income									
Exchange differences on translating foreign operations	—	—	—	4,329	—	—	—	—	4,329
Total comprehensive income	—	—	—	4,329	—	—	—	1,162	5,491
Derecognition of convertible notes	—	—	—	—	—	—	(14,917)	14,917	—
Issue of new shares	3,000	87,000	—	—	—	—	—	—	90,000
Share issue expenses	—	(319)	—	—	—	—	—	—	(319)
Recognition of share-based payments	—	—	—	—	—	670	—	—	670
	3,000	86,681	—	—	—	670	(14,917)	14,917	90,351
At 31 December 2012	31,086	1,394,441	2,325	66,821	(79,992)	11,322	—	613,901	2,039,904

Notes:

## 1. General information

The Company was incorporated in Bermuda as an exempted company with limited liability and its shares are listed on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The addresses of the registered office and principal place of business of the Company are disclosed in the “Corporate Information” section of the annual report.

The consolidated financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

The principal activity of the Company is investment holding. The Group is principally 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. Change of financial year end date

On 12 November 2012, the Company announced that the financial year end date of the Company was changed from 30 June to 31 December (the “Change”). The Change is to coincide the financial year end date of the Company with the financial year end date of its subsidiaries which were incorporated in the People’s Republic of China, the financial results of which are consolidated in the Company’s consolidated financial statements and their financial statements are statutorily required to be closed with the financial year end date of 31 December. The Change has resulted in the consolidated financial statements for the period from 1 July 2012 to 31 December 2012 covering a period of 6 months while the comparative amounts for the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and related notes for the period from 1 July 2011 to 30 June 2012 covering a period of 12 months, and therefore they may not be comparable.

## 3. Application of new and revised Hong Kong Financial Reporting Standards (“HKFRSs”)

In the current period, the Group has applied the following new and revised standards, amendments and interpretations (“new and revised HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income
HKAS 12 (Amendments)	Deferred Tax — Recovery of Underlying Assets

The application of the new and revised HKFRSs in the current period has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements, except as described below:

### **HKAS 1 (Amendments) Presentation of Items of Other Comprehensive Income**

The amendments introduce new terminology for the statement of comprehensive income. Under the amendments, the “statement of comprehensive income” is renamed as the “statement of profit or loss and other comprehensive income”. The amendments also require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis — the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the HKAS 1 (Amendments) does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.



The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective.

HKFRSs (Amendments)	Annual Improvements to HKFRSs 2009-2011 cycle <sup>1</sup>
HKFRS 1 (Amendments)	Government Loan <sup>1</sup>
HKFRS 7 (Amendments)	Disclosures — Offsetting Financial Assets and Financial Liabilities <sup>1</sup>
HKFRS 9	Financial Instruments <sup>3</sup>
HKFRS 9 and HKFRS 7 (Amendments)	Mandatory Effective Date of HKFRS 9 and Transition Disclosures <sup>3</sup>
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities — Transition Guidance <sup>1</sup>
Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (as revised in 2011)	Investment Entities <sup>2</sup>
HKFRS 10	Consolidated Financial Statements <sup>1</sup>
HKFRS 11	Joint Arrangements <sup>1</sup>
HKFRS 12	Disclosure of Interests in Other Entities <sup>1</sup>
HKFRS 13	Fair Value Measurement <sup>1</sup>
HKAS 32 (Amendments)	Presentation — Offsetting Financial Assets and Financial Liabilities <sup>2</sup>
HKAS 19 (as revised in 2011)	Employee Benefits <sup>1</sup>
HKAS 27 (as revised in 2011)	Separate Financial Statements <sup>1</sup>
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures <sup>1</sup>
HK(IFRIC) — Int 20	Stripping Costs in the Production Phase of a Surface Mine <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2013

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2014

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2015

The Group has already commenced an assessment of the impact of these new and revised HKFRSs, certain of which may be relevant to the Group's operations and may give rise to changes in accounting policies, changes in disclosures and remeasurement of certain items in the consolidated financial statements.

#### 4. Revenue and segment information

The chief operating decision-maker has been identified as the Executive Directors. The Executive Directors review the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on the reports reviewed by the Executive Directors.

The Executive Directors consider the performance of the Group from the perspective of the nature of products and services. The chief operating decision-maker assesses the performance of the operating segments based on a measure of segment profit/(loss) without allocation of finance costs which is consistent with that in the accounts.

The segment information for the six months ended and as at 31 December 2012 is as follows:

	Digital cable television business <i>HK\$'000</i>	Wireless digital television value- added services <i>HK\$'000</i>	Encrypted integrated circuits <i>HK\$'000</i>	Wireless digital audio integrated circuits <i>HK\$'000</i>	Wireless digital terrestrial television network equipment integration <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Revenue</b>						
Segment revenue from external customers	<u>65,796</u>	<u>45,796</u>	<u>2,891</u>	<u>37,130</u>	<u>148,719</u>	<u>300,332</u>
Segment results	39,892	(28,944)	36,998	(3,185)	12,702	57,463
Unallocated income						206
Unallocated expenses						(43,271)
Finance costs						(4,470)
<b>Profit before taxation</b>						<u>9,928</u>
Taxation						(8,766)
<b>Profit for the period</b>						<u><u>1,162</u></u>
<b>Assets</b>						
Segment assets	1,089,185	134,226	443,295	163,128	—	1,829,834
Unallocated assets						83,003
Assets held for sale						581,152
Consolidated total assets						<u><u>2,493,989</u></u>
<b>Liabilities</b>						
Segment liabilities	(94,487)	(103,755)	(17,271)	(2,155)	—	(217,668)
Unallocated liabilities						(188,369)
Liabilities directly associated with assets classified as held for sale						(48,048)
Consolidated total liabilities						<u><u>(454,085)</u></u>
<b>Other information</b>						
Capital expenditure	41,103	260	7	8,678	—	50,048
Unallocated capital expenditure						52
Total capital expenditure						<u><u>50,100</u></u>
Depreciation	6,340	20	75	722	143	7,300
Unallocated depreciation						785
Total depreciation						<u><u>8,085</u></u>
Allowance for doubtful debts on trade receivables, net	—	—	—	—	—	—
Allowance for inventories	—	—	—	—	—	—
Impairment loss on intangible assets	—	—	—	—	—	—
Impairment loss on prepayments, deposits and other receivables	—	—	—	—	—	—
Net loss on remeasurement of assets classified as held for sale	—	—	—	—	—	28,230
Written back on provision for trade receivables	6,417	—	39,752	231	2,894	49,294

The segment information for the year ended and as at 30 June 2012 is as follows:

	Digital cable television business <i>HK\$'000</i>	Wireless digital television value- added services <i>HK\$'000</i>	Encrypted integrated circuits <i>HK\$'000</i>	Wireless digital audio integrated circuits <i>HK\$'000</i>	Wireless digital terrestrial television network equipment integration <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Revenue</b>						
Segment revenue from external customers	153,532	48,074	101,549	183,506	125,799	612,460
Segment results	98,663	38,884	34,277	37,366	4,024	213,214
Unallocated income						8,122
Unallocated expenses						(40,158)
Finance costs						(14,201)
<b>Profit before taxation</b>						166,977
Taxation						(14,073)
<b>Profit for the year</b>						<u>152,904</u>
<b>Assets</b>						
Segment assets	670,569	103,546	466,270	488,252	585,133	2,313,770
Unallocated assets						44,355
Assets held for sale						—
Consolidated total assets						<u>2,358,125</u>
<b>Liabilities</b>						
Segment liabilities	11,751	77,427	13,520	51,009	16,966	170,673
Unallocated liabilities						243,390
Liabilities directly associated with assets classified as held for sale						—
Consolidated total liabilities						<u>414,063</u>
<b>Other information</b>						
Capital expenditure	106,488	45	36,640	23,311	45,981	212,465
Unallocated capital expenditure						1,216
Total capital expenditure						<u>213,681</u>
Depreciation	8,664	22	194	2,812	243	11,935
Unallocated depreciation						1,292
Total depreciation						<u>13,227</u>
Allowance for doubtful debts on trade receivables, net	—	—	29,639	6,024	—	35,663
Allowance for inventories	—	—	—	1,658	—	1,658
Impairment loss on intangible assets	1,710	—	2,505	—	855	5,070
Impairment loss on prepayments, deposits and other receivables	—	—	7,941	—	—	7,941
Net loss on remeasurement of assets classified as held for sale	—	—	—	—	—	—
Written back on provision for trade receivables	—	—	—	—	—	—

## Geographical information

The Group's revenue from external customers and information about non-current assets by geographical location of the customers and assets respectively are detailed below.

	Revenue from external customers		Non-current assets	
	1.7.2012 to 31.12.2012 <i>HK\$'000</i>	1.7.2011 to 30.6.2012 <i>HK\$'000</i>	1.7.2012 to 31.12.2012 <i>HK\$'000</i>	1.7.2011 to 30.6.2012 <i>HK\$'000</i>
Hong Kong	35,128	109,442	2,744	56,585
The PRC	265,204	503,018	1,270,985	1,150,050
	<u>300,332</u>	<u>612,460</u>	<u>1,273,729</u>	<u>1,206,635</u>

## 5. Taxation

	1.7.2012 to 31.12.2012 <i>HK\$'000</i>	1.7.2011 to 30.6.2012 <i>HK\$'000</i>
Current tax:		
— Hong Kong	45	315
— PRC Enterprise Income Tax	8,721	23,651
Over provision in prior year:		
— PRC Enterprise Income Tax	—	(9,893)
Deferred tax:		
— current period/year	—	—
	<u>8,766</u>	<u>14,073</u>

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both periods.

PRC Enterprise Income Tax is calculated at 25% of the estimated assessable profit for both periods. 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 the 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.

The tax charge for the period/year can be reconciled to the profit per the consolidated statement of profit or loss and other comprehensive income as follows:

	<b>1.7.2012 to 31.12.2012 HK\$'000</b>	1.7.2011 to 30.6.2012 HK\$'000
Profit before taxation	<b>9,928</b>	166,977
Tax at applicable tax rate	2,482	33,075
Tax effect of expenses not deductible for tax purpose	4,674	23,345
Tax effect of income not taxable for tax purpose	<b>(6,831)</b>	(12,394)
Tax effect of temporary difference	2,071	20
Tax effect of tax losses not recognised	12,189	2,870
Utilisation of tax losses previously not recognised	—	(11)
Effect of tax exemptions granted to PRC subsidiaries	<b>(5,819)</b>	(22,939)
Over provision in prior year	—	(9,893)
Taxation charge	<b>8,766</b>	14,073

## 6. Profit for the period/year

Profit for the period/year has been arrived at after charging:

	<b>1.7.2012 to 31.12.2012 HK\$'000</b>	1.7.2011 to 30.6.2012 HK\$'000
Allowance for doubtful debt on trade receivables, net	—	35,663
Allowance for inventories	—	1,658
Auditors' remuneration	<b>650</b>	908
Consultancy fee — share-based payment expenses	<b>268</b>	—
Cost of inventories recognised as expense	<b>264,566</b>	333,660
Depreciation — owned assets	<b>7,892</b>	12,841
— assets under finance leases	<b>193</b>	386
Exchange loss	—	2,214
Impairment loss on intangible assets	—	5,070
Impairment loss on prepayments, deposits and other receivables	—	7,941
Loss on disposal of property, plant and equipment	<b>3,549</b>	858
Loss on fair value changes of financial assets at fair value through profit or loss	—	5,940
Net loss on remeasurement of assets classified as held for sale	<b>28,230</b>	—
Research and development costs	<b>6,414</b>	6,795
Staff costs (including directors' emoluments) — salaries and allowances	<b>11,184</b>	22,722
— retirement benefits scheme contributions	<b>370</b>	2,211
— share-based payment expenses	<b>402</b>	322

## 7. Earnings per Share

### (a) Basic

The calculation of basic earnings per share is based on the consolidated profit for the period attributable to the owners of the Company of HK\$1,162,000 (30 June 2012: HK\$152,904,000) and weighted average number of 2,831,416,000 (30 June 2012: 2,497,376,000) ordinary shares in issue during the six months ended 31 December 2012.

### (b) Diluted

No diluted earnings per share has been presented as the exercise price of the Company's outstanding share options and warrants were higher than the average market price of the Company's shares for the six months ended 31 December 2012.

## 8. Dividend

The Board of the Company does not recommend the payment of a final dividend for the six months ended 31 December 2012 (30 June 2012: Nil).

## 9. Trade Receivables

	<b>31.12.2012</b> <i>HK\$'000</i>	30.6.2012 <i>HK\$'000</i>
Trade receivables	<b>399,160</b>	497,245
Less: allowance for doubtful debts	—	(49,294)
	<b>399,160</b>	447,951

The ageing analysis of trade receivables (net of allowance for doubtful debts) that were past due but not impaired are as follows:

	<b>31.12.2012</b> <i>HK\$'000</i>	30.6.2012 <i>HK\$'000</i>
Within 30 days	<b>91,467</b>	23,955
31 — 90 days	<b>23,386</b>	111,878
91 — 180 days	<b>53,076</b>	38,992
Over 180 days	<b>162,059</b>	190,774
	<b>329,988</b>	365,599

The Group generally allows credit periods ranging from 30 days to 180 days to its trade customers.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record maintained with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

The following is the movement in the allowance for bad and doubtful debts:

	<b>31.12.2012</b> <i>HK\$'000</i>	30.6.2012 <i>HK\$'000</i>
At beginning of period/year	<b>49,294</b>	13,208
Impairment loss recognised	—	48,364
Amounts written back during the period/year	<b>(49,294)</b>	(12,701)
Exchange realignment	—	423
	<hr/>	<hr/>
At end of period/year	<b>—</b>	<b>49,294</b>
	<hr/> <hr/>	<hr/> <hr/>

At the end of the reporting period, the Group has determined trade receivables of HK\$Nil (30 June 2012: HK\$48,364,000) as individual impaired. The impaired trade receivables are due from the individual customers which are in default or delinquency of payments.

#### 10. Assets classified as held for sale

As described in note 44(a) of the annual report for the six months ended 31 December 2012, the Group intended to dispose of its subsidiary, Magic Golden Limited and the disposal was completed on 24 January 2013. The major classes of assets and liabilities at the end of the reporting period are as follows:

Assets classified as held for sale comprise:

	<b>31.12.2012</b> <i>HK\$'000</i>	30.6.2012 <i>HK\$'000</i>
Inventories	<b>164,238</b>	—
Trade receivables	<b>191,086</b>	—
Prepayment, deposits and other receivables	<b>156,725</b>	—
Tax credit	<b>21,223</b>	—
Cash and cash equivalents	<b>47,880</b>	—
	<hr/>	<hr/>
Assets classified as held for sale	<b>581,152</b>	—
	<hr/> <hr/>	<hr/> <hr/>

Liabilities associated with assets classified as held for sale comprise:

	<b>31.12.2012</b> <i>HK\$'000</i>	30.6.2012 <i>HK\$'000</i>
Trade payables	<b>(47,816)</b>	—
Other payables and accruals	<b>(232)</b>	—
	<hr/>	<hr/>
Liabilities directly associated with assets classified as held for sale	<b>(48,048)</b>	—
	<hr/>	<hr/>
Net assets of the disposal group classified as held for sale	<b>533,104</b>	—
	<hr/> <hr/>	<hr/> <hr/>
Exchange fluctuation reserve relating to assets classified as held for sale	<b>25,025</b>	—
	<hr/> <hr/>	<hr/> <hr/>

## 11. Trade Payables

The ageing analysis of the trade payables as at the end of the reporting period is as follows:

	<b>31.12.2012</b> <i>HK\$'000</i>	30.6.2012 <i>HK\$'000</i>
Within 30 days	5,043	2,553
31 to 60 days	5,752	3,261
61 to 90 days	18,646	4,246
Over 90 days	19,138	40,502
	<u>48,579</u>	<u>50,562</u>

## 12. Share Capital

	31.12.2012		30.6.2012	
	<i>Number of share '000</i>	<i>HK\$'000</i>	<i>Number of share '000</i>	<i>HK\$'000</i>
<b>Authorised:</b>				
Ordinary shares of HK\$0.01 each	<u>10,000,000</u>	<u>100,000</u>	<u>10,000,000</u>	<u>100,000</u>
<b>Issued and fully paid:</b>				
At beginning of period/year	2,808,590	28,086	2,487,092	24,871
Issue of shares upon placing ( <i>Note</i> )	300,000	3,000	—	—
Issue of shares upon conversion of convertible notes	—	—	319,225	3,192
Issue of shares upon exercise of share options	—	—	2,273	23
At end of period/year	<u>3,108,590</u>	<u>31,086</u>	<u>2,808,590</u>	<u>28,086</u>

*Note:*

On 12 December 2012, the Company entered into a conditional Subscription Agreement with each of two subscribers, Mr. Yuan Hailin and Mr. Tan Zhenyu, respectively. Pursuant to the Subscription Agreements, the subscribers conditionally agreed to subscribe for and the Company conditionally agreed to allot and issue a total of 300,000,000 Subscription Shares at a price of HK\$0.30 per Subscription Share. Details of these transactions are set out in the Company's announcement dated 12 December 2012. The Subscription was completed on 18 December 2012. A total of 300,000,000 new shares were issued and approximately HK\$89.7 million was raised for the general working capital of the Group and for any possible acquisition in the future.



## MANAGEMENT DISCUSSION AND ANALYSIS

### I. THE GROUP

The Group recorded a decline in its overall results for the six months ended 31 December 2012 as compared to the overall business results for the financial year ended 30 June 2012. In response to the market structure and based on the overall plan of the Group, the Group has substantially completed the transition from the wireless television operation to the digital cable television operation.

### II. BUSINESS REVIEW

For the six months ended 31 December 2012, the Group has been operating the following major business segments:

#### **Digital cable television business**

Based on the progress of its own development, in response to the general market and under the overall business plan of the Group, and capturing the opportunity brought from the “three networks integration” policies, the Group has made a transition from the wireless television operation to the digital cable television operation and actively provided solutions for digital cable television reform projects, achieving an improvement in research and development, design, production and sales and establishing its position as an operator of integrated television broadcasting business in the industry.

With the business expansion and active operation in 2012, the Group has already obtained the operation rights on 12.2 million cable television subscribers in such provinces as Jiangxi, Anhui, Hebei and Shanxi for a term of 12 to 15 years, and the operation rights on the wireless television value-added business in Hebei province. The Group has fully completed its transformation, and has established its position as an operator of television broadcasting integrated businesses in the industry.

The Group has achieved stable progress for its network construction project in the integration of the three networks. The revenue for the six months ended 31 December 2012 amounted to approximately HK\$65.8 million (around 22% of the total revenue of the Group). The revenue comprised operational revenues from basic subscription and other value added technology as well as market service income arising from the 1,000,000 subscribers of the Hebei rural television network and sales of digital cable television business related products. The basic network construction for approximately 400,000 subscribers of broadcasting television in the rural areas is underway and expected to be completed in 2013.

With the assistance of externally engaged market and technology experts, the Group has made steady progress on the development of client channels for the technology development, products and services, which set up a solid platform for further sales of products in the cable market. The Group won the bid for supply of MOCA products in Ningxia Autonomous Region (throughout the province), and will commence the supply soon.

The Group’s existing operation right on value-added business covers areas such as Anhui and Nanchang of Jiangxi province. The Group has signed contracts on establishment and operation of value-added business for 5.5 million cable television subscribers. In Hebei province and Datong of Shanxi province, the Group has signed contracts on establishment and operation of basic television business for 3.7 million cable television subscribers. The platform construction and testing for the 301 remote medical treatment project have been completed and the sale has already commenced, with contracted units and intended contracted units located in provinces and cities such as Shaanxi, Liaoning, Guangdong and Xinjiang.

The convenience payment project throughout Hebei province cooperated with 河北省一卡通 (Hebei One-Card) and 北京海科融通 (Beijing Haikong Rongtong) stepped into the stage of implementation.

### **Wireless digital television value-added services**

The Group has signed contracts for the operation of wireless digital mobile television in Hebei province, under which 60,000 display panels will be installed in public areas and value-added advertising business will be carried out. During the first quarter of 2012, the Group has completed the construction of 1,000 display panels in public areas.

### **Wireless digital terrestrial television network equipment integration business**

Steady progress has been made on the sales of set-top boxes and related products during the six months ended 31 December 2012. This business segment made less contribution to the net profit of the Group as a result of relatively substantial impact from the weak market.

### **Information safety technology business**

As a selected enterprise of China Telecom Group, the Group has participated in the construction of telecommunication base stations in Yunnan, Jiangsu, Hebei, Heilongjiang, Henan and Zhejiang provinces in China, leading the Group to enter into a lucrative telecommunication operators' market with consumption capacity of hundreds of billions dollars every year. With the promotion of three networks integration in telecommunication, the business focuses of three largest operators have shifted to mobile internet and fiber to the home ("FTTH"). The Group's newly developed base environment-controlling products and optical fiber quick connectors are completely compatible with the business modes of these telecom operators. In addition, the Group has been listed in the suppliers' lists for centralized procurements of China Unicom and China Telecom Corporation and had already won the bid from, and commenced to make supply, to the Jilin branch of China Unicom. The telecommunication business will definitely be a new profit driver of the Group in the future.

The system integration projects have brought much contribution to such areas as medical services, plant integration, and government's centralized procurement by utilizing the Group's leading encryption technology. With the growing coverage and continuous improvement of remote medical projects, the Group will continue to provide systems and equipment, and supporting software to service providers. The Group has won the bids and been shortlisted in several large government procurements such as Beihang University, China Southern Airlines, Xinhua Airlines and University of Technology.

### **Wireless digital audio products business**

The demand from overseas customers in this business segment further increased as a result of the stronger demand from overseas market in 2012. The number of new customers in the export segment of the Group has been significantly increased. The Group's market share has been growing correspondingly with the expanding scale of cooperation with the domestic and overseas clients over the past few years.

## **III. PROSPECTS**

The development plan of the Group for the coming five years still focuses on the growth of the four major business segments, namely, digital cable television, wireless digital television value-added services, information safety technology business and wireless digital audio products business.

In response to the general market and capturing the opportunity brought from the “three networks integration” policies introduced by the State Council in January 2010, the Group has made a transition from the wireless television operation to the digital cable television operation in the past years. The accelerating urbanization and the increase in personal consumable income of the PRC residents have created stable demand for the digital television market. As a result, the demand and sale price of data transfer cables which are required for the Group to develop its last-mile network infrastructure, have been increasing significantly. The acquisition of 25% of the issued share capital of Xinmu will create synergy effect to the Group’s existing businesses in terms of accessing to a stable source of supply of high quality data transfer cables at a reasonable price.

The disposal of Beijing Zhongguang can allow the Group to focus its resources, apply the proceeds from the disposal on its principal business of cable television and wireless digital television value-added services, and improve the financial strength of the Group.

Based on the current progress of the network construction of the Group, it shall be expected to complete the construction of a network for approximately 1.4 million basic cable television broadcasting subscribers and 300,000 value-added cable television broadcasting subscribers, and the installation of 12,000 electronic advertising display panels in the contracted regions in 2013. Moreover, the management expects to sign contracts with approximately 3 million new televisions broadcasting subscribers, generating a promising growth in profit and long-term value for the Group.

The Group has won the bid and will deliver 10,000 units of MOCA core network devices and approximately 50,000 units of MOCA terminal in the coming two years. The Group has formed a partnership in Ningxia for entering the MOCA market. In Liaoning, the Group has made a breakthrough in market expansion, having sold devices with aggregated value of millions of dollars, and expects to achieve a further breakthrough in the future. The Group’s profit will be significantly benefit from the cooperation of China Mobile and the television broadcasting operators under three networks integration in the future. As low frequency technology was used by the television broadcasting operators in prior years, only high frequency technology can be used under the cooperation of China Mobile and the television broadcasting operators. Therefore, the sales of MOCA will increase to a greater extent.

For the telecommunication business, the Group, aiming at capturing more market shares and building a new profit driver, commenced to arrange its human, material and financial resources for the development of its own products and joint production with foreign manufacturers to meet the demand on solution products for mobile internet and FTTH projects from three major telecommunication operators, namely China Mobile, China Telecom and China Unicom.

For the wireless digital audio products business, orders for mass production from new projects had been secured in respect of the fourth quarter of 2012. It is expected that the Group can greatly expand its market share. Among all, Apple accessories project is a highlight to the Group’s business growth. The Group has been planning to explore the domestic market to expand the domestic market share before there is any greater impact on the export market, and has achieved remarkable results in terms of market shares and sales volume, which will be a great start for the domestic sales market. The Group will strive to enter into new consumer and automotive electronics markets in order to bring a new and rapid profit driver for the Group.

In the next three years, the Group will definitely continue to promote, upgrade and develop the Group’s technological know-how gained throughout these years, and to identify customers’ new demand and new customers. These are all essential to the sustainable growth of the Group.

## FINANCIAL REVIEW

For the six months ended 31 December 2012, the Group recorded a consolidated revenue of approximately HK\$300.3 million, while the revenue for the year ended 30 June 2012 was approximately HK\$612.5 million. Profit attributable to shareholders of the Company was approximately HK\$1.2 million, as compared to approximately HK\$152.9 million for the year ended 30 June 2012. Basic earnings per share was approximately HK0.04 cent, as compared to approximately HK6.12 cents for the year ended 30 June 2012.

### Revenue

During the six months ended 31 December 2012, the revenue of the Group was principally derived from the following business segments.

#### **(i) Digital cable television business**

The revenue for the six months ended 31 December 2012 generated from the digital cable television business amounted to approximately HK\$65.8 million (year ended 30 June 2012: HK\$153.5 million) or approximately 22% (year ended 30 June 2012: 25%) of the total revenue for this financial period, including operational revenues from basic subscription and other value added technology as well as market service income arising from the 1,000,000 subscribers of the Hebei rural television network and sales of digital cable television business related products.

#### **(ii) Wireless digital television value-added services business**

Revenue generated from the wireless digital television value-added services business for the six months ended 31 December 2012 amounted to approximately HK\$45.8 million (year ended 30 June 2012: 48.1 million) or 15% (year ended 30 June 2012: 8%) of the total revenue.

#### **(iii) Information safety technology business**

The revenue for the six months ended 31 December 2012 generated from the encrypted integrated circuits and the derived integrated business amounted to approximately HK\$2.9 million (year ended 30 June 2012: HK\$101.5 million) or approximately 1% (year ended 30 June 2012: 17%) of the total revenue.

#### **(iv) Wireless digital audio products business**

The revenue for the six months ended 31 December 2012 generated from the wireless digital audio products business and the related technical services amounted to approximately HK\$37.1 million (year ended 30 June 2012: HK\$183.5 million) or approximately 12% (year ended 30 June 2012: 30%) of the total revenue.

(v) *Wireless digital terrestrial television network equipment integration business*

The revenue for the six months ended 31 December 2012 generated from the wireless digital terrestrial television network equipment integration business amounted to approximately HK\$148.7 million (year ended 30 June 2012: HK\$125.8 million) or approximately 50% (year ended 30 June 2012: 20%) of the total revenue.

**Gross Profit Margin**

Gross profit margin of the Group was approximately 12% (year ended 30 June 2012: 42%).

**Other Income**

Other income amounted to approximately HK\$12.1 million (year ended 30 June 2012: HK\$62.0 million).

**Other Operating Expenses**

Other operating expenses were approximately HK\$74.2 million for the six months ended 31 December 2012, compared to approximately HK\$131.2 million for the year ended 30 June 2012. Other operating expenses included net loss on remeasurement of assets classified as held for sale of approximately HK\$28.2 million.

**Finance Costs**

Finance costs amounted to approximately HK\$4.5 million (year ended 30 June 2012: HK\$14.2 million), of which approximately HK\$4.2 million (year ended 30 June 2012: HK\$14.0 million) represented non-cash effective interest expenses on convertible notes issued by the Company before their full conversions.

**Property, plant and equipment**

Property, plant and equipment amounted to approximately HK\$265.6 million, representing an increase of approximately 14% compared to HK\$232.4 million as at 30 June 2012. The increase was mainly due to the purchases of components, such as underground cable lines, optical transmission equipment and other equipment to enable the delivery of the intended digital cable television services in different target regions and pilot cities, which were purchased from the local television operators and other suppliers selected by the Group.

**Intangible assets**

Intangible assets amounted to approximately HK\$127.7 million, representing an increase of approximately 3% compared to HK\$123.5 million as at 30 June 2012. As the wireless television business of the Group was shrinking, the Group disposed some of its idol proprietary technology and intangible assets developed within this business for higher considerations during the six months ended 31 December 2012.

## **Inventories**

Inventories amounted to approximately HK\$29.2 million, representing an decrease of approximately 83% compared to HK\$174.4 million as at 30 June 2012. The inventories comprised set-top boxes, software and equipment for trading.

## **Trade receivables**

Total trade receivables (net of allowance for doubtful debts) amounted to approximately HK\$399.2 million, representing a decrease of approximately 11% compared to HK\$448.0 million as at 30 June 2012. Based on past experience, the directors of the Company are of the opinion that no provision (year ended 30 June 2012: HK\$48.4 million) for impairment is necessary in respect of individual balance of trade receivables as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

According to current government policy in China, there is usually only one state-owned broadcasting entity in each province or region that has the authority to operate television broadcasting. Typically such a state-owned broadcasting entity will delegate responsibilities to its subsidiaries or its business partners to perform such work as digital television network construction, conversion, digitalisation and related technical standard setting in the province or region. As such the broadcasting entity has a virtual monopolistic status in the relevant province or region, free from competition from foreign or other domestic television operators. With such special status, these state-owned broadcasting entities benefit from the growth in demand in television digitalisation and value added services in their respective areas. In this industry, the payment terms of the subscribers for the services are predominantly on a cash/pay in advance basis. Taking into consideration the aforesaid special status of the state-owned broadcasting entities in each province or region, the room for expansion of their businesses and their practice of requiring advance cash payment from subscribers, the Directors consider that the risk of bad debts relating to these trade receivables to be extremely low.

## **Prepayments, deposits and other receivables**

Prepayment, deposits and other receivables amounted to approximately HK\$188.9 million as at 31 December 2012, a decrease of approximately 50% when compared to HK\$375.7 million as at 30 June 2012. The increase was mainly due to prepayments to suppliers for purchase of goods and services as a result of the Group's increased engagements for implementation of its businesses during the period under review. The prepayment was made in the Group's ordinary and usual course of business.

## **Trade payables**

Trade payables amounted to approximately HK\$48.6 million as at 31 December 2012, a decrease of approximately 4% when compared to HK\$50.6 million as at 30 June 2012.

## **Other payables and accruals**

Other payables and accruals amounted to approximately HK\$36.7 million as at 31 December 2012, an increase of approximately 187% when compared to HK\$12.8 million as at 30 June 2012.

## **Bonds**

On 28 December 2010, an aggregate of HK\$200,000,000 principal amount of redeemable convertible bonds (“Convertible Bonds”) were issued to Sandmartin International Holdings Limited (“Sandmartin”). Further details are set out in the Company’s announcement dated 17 December 2010.

On 27 December 2012, the Company redeemed the Convertible Bonds upon their maturity.

On the same day, the Company and Sandmartin entered into a subscription agreement pursuant to which Sandmartin subscribed for the bond in an aggregate principal amount of HK\$100 million. The bond carries interest at the rate of 6% per annum and will mature for redemption on 26 December 2014. Details are set out in the Company’s announcement dated 27 December 2012.

On 22 November 2012, the Company entered into a conditional placing and underwriting agreement (the “Placing Agreement”) with Emperor Securities Limited (the “Placing Agent”) pursuant to which the Placing Agent agreed to act as placing agent for the purposes of arranging subscribers for the issue of (i) the First Tranche Bonds in an aggregate principal amount of HK\$50 million on a fully underwritten basis; and (ii) the Second Tranche Bonds in an aggregate principal amount of up to HK\$100 million on a best effort basis. The Placing of the First Tranche Bonds was completed on 21 December 2012 in accordance with the terms and conditions of the Placing Agreement. The bond carries interest at the rate of 6% per annum and will mature for redemption on 20 December 2014. Details are set out in the Company’s announcements dated 22 November 2012 and 21 December 2012.

## **Grant of Options**

To capture the growth in the digital television market in the PRC, the Company has engaged the services of two consultants to provide marketing services and financial services to the Group and conditionally granted to each of the consultants the option to subscribe for 20,000,000 shares at an exercise price of HK\$0.32 per share. Details of the agreements are set out in the Company’s announcement dated 20 November 2012.

## **CHANGE OF FINANCIAL YEAR END DATE**

The Board announced on 12 November 2012 the change of financial year end date of the Company from 30 June to 31 December to align the financial year end date of the Company with that of its subsidiaries which were incorporated in the People’s Republic of China. The consolidated financial statements presented, therefore, covered a six-month period from 1 July 2012 to 31 December 2012.

## **PLACING OF NEW SHARES**

On 18 December 2012, the Company completed a placing of shares to two independent investors and net proceeds amounted to approximately HK\$89.7 million, thereby providing the Group with additional cash resources for its operations and expansion initiatives.

## **EMPLOYEE INFORMATION**

As at 31 December 2012, the Group had 166 full-time employees in Hong Kong and the PRC (30 June 2012: 188). The total employees' remuneration, including that of the Directors, amounted to approximately HK\$11.9 million (year ended 30 June 2012: HK\$25.3 million).

The Group continues to provide remuneration packages to employees according to market practices, their experience and performance. Remuneration policy is basically determined with reference to individual performance as well as the financial results of the Group. Remuneration to staff will be revised from time to time when warranted considering the performances of staff. Other benefits include medical insurance scheme and contribution of statutory mandatory provident fund for the employees. The Group also has a share option scheme whereby qualified participants may be granted options to acquire shares of the Company. There has been no major change in staff remuneration policies during the six months ended 31 December 2012.

## **CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES**

The Group primarily financed its operations with internally generated cash flows. As at 31 December 2012, the cash and bank balances of the Group amounted to approximately HK\$13.1 million (30 June 2012: HK\$149.0 million). The Renminbi denominated balances of approximately HK\$8.1 million (30 June 2012: HK\$128.1 million) were placed with licensed banks in the PRC and the conversion of these balances into foreign currencies is subject to the rules and regulation of foreign exchange control promulgated by the PRC government.

During the six months ended 31 December 2012, the Group has net cash outflow of approximately HK\$48.6 million (year ended 30 June 2012: cash inflow of HK\$50.5 million) from its operating activities, net cash outflow of approximately HK\$89.0 million (year ended 30 June 2012: HK\$176.0 million) from its investing activities and net cash inflow of approximately HK\$45.1 million (year ended 30 June 2012: outflow of HK\$17.8 million) from its financing activities.

As at 31 December 2012, the Group had current assets of approximately HK\$1,220.3 million (30 June 2012: HK\$1,151.5 million), while its current liabilities were approximately HK\$228.4 million (30 June 2012: HK\$338.3 million). The current ratio (current assets to current liabilities) of the Group was approximately 5.34 (30 June 2012: 3.40); and its gearing ratio (total borrowings over shareholders' funds) was approximately 0.08 (30 June 2012: 0.00). Net asset value per share was approximately HK\$0.66 as at 31 December 2012 (30 June 2012: HK\$0.69).

During the six months ended 31 December 2012, an aggregate of 300,000,000 new shares were issued by the Company.

## **FOREIGN EXCHANGE EXPOSURE**

During the six months ended 31 December 2012, the majority of the Group's income and expenses were denominated in Renminbi and Hong Kong dollars. Up to 31 December 2012, the management of the Company is of the opinion that the Group has insignificant exposure to foreign exchange risk. As a result, the Group did not use any financial instruments for hedging against fluctuation in foreign exchange for the six months ended 31 December 2012. Nevertheless, the management of the Company will closely monitor and from time to time reassess the exchange risk exposures of the Group and enter into non-speculative hedging arrangements if considered necessary.



## **CHARGES ON GROUP ASSETS**

As at 31 December 2012, bank deposits amounting to HK\$7,055,000 (30 June 2012: Nil) have been pledged to banks for short term loans amounting to HK\$7,596,000 (30 June 2012: Nil) granted to subsidiaries. The Company has also provided guarantee to the extent of HK\$4,000,000 (30 June 2012: Nil).

## **CONTINGENT LIABILITIES**

As at 31 December 2012, the Group had no significant contingent liabilities (30 June 2012: Nil).

## **ACQUISITIONS, DISPOSALS AND SIGNIFICANT INVESTMENT**

On 20 November 2012, America Assets Holding Group Limited (“America Assets”) and Star Hub Investments Limited (“Star Hub”), an indirect wholly-owned subsidiary of the Company, entered into a sale and purchase agreement, pursuant to which Star Hub conditionally agreed to sell to America Assets, and America Assets conditionally agreed to purchase from Star Hub, the entire issued share capital of Magic Golden Limited, at a cash consideration of RMB328 million (equivalent to approximately HK\$403.4 million). The disposed group includes 北京中廣視通科技有限公司 (Beijing Zhongguang Shitong Technology Co., Ltd (“Beijing Zhongguang”)) which engages principally in the wireless digital terrestrial television network equipment integrated business, and research, design, manufacturing and trading of information safety products. Details of the disposal are set out in the Company’s circular dated 17 December 2012. The disposal was completed on 24 January 2013. Details of assets classified as held for sale and the net loss at the disposal based on the figures as at 31 December 2012 are set out in notes to the consolidated financial statements 25 and 44(a) of the annual report for the six months ended 31 December 2012.

On 7 December 2012, 北京金橋恒泰科技有限公司 (Beijing Jinqiao Hengtai Technology Co., Ltd (“Beijing Jinqiao”)), an indirect wholly owned subsidiary of the Company, and 煙台新潮實業股份有限公司 (Yantai Xinchao Industry Co., Ltd (“Xinchao”)) entered into a sale and purchase agreement, pursuant to which Xinchao agreed to sell to Beijing Jinqiao, and Beijing Jinqiao agreed to purchase from Xinchao, 25% equity interests in 煙台新牟電纜有限公司 (Yantai Xinmu Cable Co., Ltd (“Xinmu”)) at a cash consideration of RMB139 million (equivalent to approximately HK\$170.97 million). Xinmu is principally engaged in (i) production and sales of small physical foamed cable, small coaxial cable, access network, and high-speed data transfer cable for broadband transmission cable television (CATV) and (ii) property development in the PRC. Details of the acquisition are set out in the Company’s announcement dated 17 December 2012. The acquisition is yet to be completed.

Save as disclosed above, the Group had no material acquisitions or disposals of subsidiaries or significant investment during the six months ended 31 December 2012.

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

As at 31 December 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 of Directors and the chief executive	Capacity	Number of		Approximate percentage of interests in the issued share capital
		Shares	underlying Shares (Note 1)	
Mr. Xiao Yan	Beneficial owner	2,273,334	1,500,000	0.12%
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%
Mr. Feng Yongming (Note 2)	Beneficial owner	—	1,500,000	0.05%

Notes:

- (1) Underlying shares represent share options granted to the Directors and the chief executive of the Company pursuant to the share option scheme of the Company.
- (2) Mr. Feng Yongming resigned as a Director with effect from 1 January 2013.

Save as disclosed above, at no time during the six months ended 31 December 2012 was the Company or any of its subsidiaries a party to any arrangement to enable the Directors and chief executives 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 maintained by the Company pursuant to section 336 of the SFO recorded that, as at 31 December 2012, the following persons (not being a Director, chief executive or substantial shareholder of the Company) had an interest or short position in the Shares, underlying Shares or debentures which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was expected, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of the Company or any other members of the Group or held any option in respect of such capital and recorded in the register kept by the Company pursuant to section 336 of the SFO:

### Long positions in 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> )	623,542,451 (L)	Interest in controlled corporation	20.06%
Team Effort Investments Limited ( <i>Note</i> )	623,542,451 (L)	Beneficial owner	20.06%

*L: Long Position*

*Note:*

Mr. Choi Chung Lam (“Mr. Choi”) is the legal and beneficial owner of the entire issued share capital of Team Effort Investments Limited. Hence, Mr. Choi is deemed to be interested in 623,542,451 Shares through the shareholding interest of Team Effort Investments Limited in the Company.

Save as disclosed above, the Directors or the chief executive of the Company were not aware that there was any person (not being a Director or chief executive of the Company) who had, or was deemed to have, interests or short positions in the Shares, underlying Shares or debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was expected, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of the Company or any other members of the Group or held any option in respect of such capital and recorded in the register kept by the Company pursuant to section 336 of the SFO.

## CORPORATE GOVERNANCE PRACTICES

The corporate governance principles of the Company emphasize a quality board, sound internal controls, transparency and accountability to all shareholders. The Company has applied the principles set out in the Corporate Governance Code and Corporate Governance Report (“CG Code”) contained in Appendix 15 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (“GEM Listing Rules”). Except for the deviations from code provisions A.2.1, A.6.7 and E.1.2 which are explained below, the Company was in compliance with all code provisions set out in the CG Code during the period from 1 July 2012 to 31 December 2012.

## **Distinctive Roles of Chairman and Chief Executive Officer**

The code provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing.

Mr. Xiao Yan as the Chief Executive Officer of the Company, supported by the senior management, is responsible for managing the Group's businesses and responsibilities, implementing major strategies, executing the Board decisions and coordinating the daily operations of the Group. Up to the date of this announcement, the position of Chairman remained vacant. In view of the current operations of the Group, the management considered that there is no imminent need to change the arrangement.

## **Attendance of general meeting**

The code provision A.6.7 requires that independent non-executive directors and other non-executive directors shall attend general meetings and develop a balanced understanding of the views of shareholders. The code provision E.1.2 requires that the chairman of the board should attend the annual general meeting. He should also invite the chairmen of the audit, remuneration, nomination and any other committees (as appropriate) to attend.

Due to their temporary business activities and unexpected engagement, the non-executive Director and two independent non-executive Directors (including the chairman of the audit, remuneration and nomination committee) were unable to attend the annual general meeting held on 17 December 2012 which did not comply with the code provisions A.6.7 and E.1.2.

## **DIRECTORS' INTEREST IN COMPETING BUSINESS**

No contracts of significance (as defined in Rule 18.25 of the GEM Listing Rules) to which the Company or its subsidiaries were a party and in which a director and substantial shareholder of the Company has a material interest, whether directly or indirectly, subsisted at the end of the period or at any time during the six months ended 31 December 2012.

## **AUDIT COMMITTEE**

The Board established an audit committee with written terms of reference in accordance with Rule 5.28 of the GEM Listing Rules. The audit committee comprises three members who are 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 5.49 to 5.67 of the GEM Listing Rules as its Code of Conduct for Securities Transactions by Directors throughout the six months ended 31 December 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 six months ended 31 December 2012.

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

During the six month ended 31 December 2012, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

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

Hong Kong, 25 March 2013

*As at the date of this announcement, the Board comprises Mr. Xiao Yan (CEO), Mr. Li Tao and Mr. Qiu Bin 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.*

*This announcement will remain on the GEM website on the "Latest Company Announcement" page for at least 7 days from the date of its posting and on the website of the Company at [www.hengxinchina.com.hk](http://www.hengxinchina.com.hk).*