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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)

MAJOR TRANSACTION

DISPOSAL OF ASSETS

Financial Adviser to the Company

AMASSE CAPITAL
寶 積 資 本

In November 2010, as part of its digital cable television business, the Vendor, an indirect wholly-owned subsidiary of the Company, entered into a business cooperation agreement with Hebei TV, a State-owned television broadcasting company in Hebei Province, PRC, to develop and construct digital cable television broadcasting networks in the rural areas of Hebei for a term of 15 years. Under the said agreement, the Vendor would provide to Hebei TV among other things the necessary telecommunication equipment and technical services for constructing the cable digital television networks in rural Hebei in return for a share of the revenue received by Hebei TV from its television subscribers. Subsequently, various subsidiary contracts were entered into between the Vendor and the Purchaser, a wholly-owned subsidiary of Hebei TV which was designated by Hebei TV to perform the cooperation agreement, with detailed terms on the technical cooperation and the construction and operation of the networks between the parties.

On 31 December 2013, the Vendor and the Purchaser entered into the Termination Agreement, pursuant to which the Vendor conditionally agreed to sell to the Purchaser, and the Purchaser conditionally agreed to purchase from the Vendor, the Assets in three tranches at a total consideration of RMB108 million (equivalent to approximately HK\$138.2 million), which will be satisfied in full by cash upon completion of each of the tranches.

Upon the Final Completion, (i) the Vendor will waive all its rights to the accounts receivable accrued up to the date of the Final Completion due from the Purchaser, representing the Vendor's share of the revenue from the subscribers in Hebei under the Cooperation Agreement and (ii) the Cooperation Agreement shall forthwith terminate and none of the Vendor, the Purchaser and Hebei TV will have any further rights and obligations thereunder.

* For identification purposes only

As at 31 October 2013, the total amount of accounts receivable due from the Purchaser was approximately RMB120.5 million (equivalent to approximately HK\$154.2 million).

As the Disposal, together with the waiver of accounts receivable, exceeds 25% but does not exceed 75% of one or more of the applicable percentage ratios (as defined in the GEM Listing Rules), it constitutes a major disposal for the Company under the GEM Listing Rules and is therefore subject to the approval of the Shareholders at the SGM.

Reference is made to the announcement of the Company dated 26 November 2010 regarding the business cooperation agreement made on the same date between the Vendor as part of its digital cable television business and Hebei TV in respect of the development and construction of digital cable television broadcasting networks in the rural areas of Hebei. Under the said agreement, which has a term of 15 years, the Vendor would provide to Hebei TV among other things the necessary telecommunication equipment and technical services for constructing the cable digital television networks in rural Hebei in return for a share of the revenue received by Hebei TV from its television subscribers. Subsequently, various subsidiary contracts were entered into between the Vendor and the Purchaser, a wholly-owned subsidiary of Hebei TV which was designated by Hebei TV to perform the cooperation agreement, with detailed terms on the technical cooperation and the construction and operation of the networks between the parties.

As at 31 October 2013, the total amount of accounts receivable due from the Purchaser, representing the Vendor's share of revenue from television subscribers in Hebei under the Cooperation Agreement, was approximately RMB120.5 million (equivalent to approximately HK\$154.2 million). Owing to certain disputes between the Purchaser and the Vendor in relation to their respective obligations under the Cooperation Agreement as further described under the section headed "Reasons for the Disposal" below, the Vendor and the Purchaser agreed to terminate their cooperation and settle their accrued rights and obligations under the Cooperation Agreement. Accordingly, they entered into the Termination Agreement on 31 December 2013.

THE TERMINATION AGREEMENT

On 31 December 2013 (after trading hours of the Stock Exchange), the Vendor and the Purchaser entered into the Termination Agreement, pursuant to which the Vendor conditionally agreed to sell to the Purchaser, and the Purchaser conditionally agreed to purchase from the Vendor, the Assets in three tranches at a total consideration of RMB108 million (equivalent to approximately HK\$138.2 million), which will be satisfied in full by cash upon completion of each of the tranches.

Termination Agreement

Date: 31 December 2013

Parties

Vendor: Shenzhen Champion Maxiumic Group Co., Limited* (深圳中澤明芯集團有限公司), an indirect wholly-owned subsidiary of the Company

Purchaser: Hebei Guangdian Network Investment Limited* (河北廣電網絡投資有限公司)

To the best knowledge, information and belief of the Directors having made all reasonable enquiry and so far as the Directors are aware, the Purchaser is an Independent Third Party.

Assets to be disposed of

The Assets represent the telecommunication equipment previously provided by the Vendor under the Cooperation Agreement for the purpose of constructing the cable digital television networks in rural Hebei with an aggregate net book value as at 31 October 2013 of RMB88.3 million (equivalent to approximately HK\$113.0 million).

The disposal of the Assets shall be completed in three tranches. Upon the Final Completion, the Vendor will waive all its rights to the accounts receivable accrued up to the date of the Final Completion due from the Purchaser, representing the Vendor's share of the revenue from the subscribers in Hebei under the Cooperation Agreement.

Consideration

The total consideration for the sale and purchase of the Assets is RMB108 million (equivalent to approximately HK\$138.2 million). The consideration will be paid in cash by the Purchaser in the following manner:

- (i) as to RMB30 million (equivalent to approximately HK\$38.4 million) as a refundable deposit (the "**Deposit**") within five days from the date of the Termination Agreement;
- (ii) as to RMB30 million (equivalent to approximately HK\$38.4 million) as the first completion payment (to be satisfied by the application of the Deposit) (the "**First Payment**") immediately after the Shareholders' approval of the Disposal on the SGM. Upon the settlement of the First Payment, the Company shall pass the title to a portion of the Assets (as specified in the Termination Agreement) with a book value of approximately RMB30 million to the Purchaser (the "**First Completion**");
- (iii) subject to the First Completion having taken place, as to RMB20 million (equivalent to approximately HK\$25.6 million) as the second completion payment (the "**Second Payment**") within 180 days after the First Payment or on 30 June 2014, whichever is earlier. Upon the settlement of the Second Payment, the Company shall pass the title to a portion of the Assets (as specified in the Termination Agreement) with a book value of approximately RMB20 million to the Purchaser (the "**Second Completion**"); and
- (iv) subject to the First Completion and Second Completion having taken place, as to RMB58 million (equivalent to approximately HK\$74.2 million) as the third and final completion payment (the "**Third Payment**") within 180 days after the Second Payment or on 31 December 2014, whichever is earlier. Upon the settlement of the Third Payment and the delivery by the Purchaser of a confirmation signed by Hebei TV confirming the termination of the Cooperation Agreement, the Vendor shall pass the title to the balance of the Assets (as specified in the Termination Agreement) with a book value of approximately RMB58 million to the Purchaser (the "**Final Completion**").

In the event the Disposal is not approved by Shareholders at the SGM, the Deposit (without interest) shall be refunded to the Purchaser on the next business day after the SGM and the Termination Agreement shall then be terminated.

Subject to the Final Completion having taken place, the Company shall waive all its rights to the accounts receivable accrued up to the date of the Final Completion due from the Purchaser, representing the Vendor's share of the revenue from the subscribers in Hebei under the Cooperation Agreement. As at 31 October 2013, the total amount of the accounts receivable was approximately RMB120.5 million (equivalent to approximately HK\$154.2 million).

The consideration was arrived at after arm's length negotiations between the Vendor and the Purchaser, with reference to (i) the net book value of the Assets of approximately RMB88.3 million as at 31 October 2013; (ii) the balance of accounts receivable of approximately RMB120.5 million attributable to the Assets as at 31 October 2013; and (iii) the reasons for the Disposal as set out below.

The Directors consider the consideration of the Disposal to be fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

Conditions precedent

Completion of the Disposal is conditional upon, among other things, the satisfaction of the following conditions:

- (a) the receipt by the Vendor of the Deposit; and
- (b) the passing by the Shareholders at the SGM of an ordinary resolution approving the transactions under the Termination Agreement in accordance with the requirements of the Listing Rules.

INFORMATION OF THE COMPANY, VENDOR AND PURCHASER

The Company is an investment holding company. The Group is principally engaged in the 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.

The Vendor is an indirect wholly-owned subsidiary of the Company established in Shenzhen, PRC. The Vendor is principally engaged in the digital cable television business and the provision of technical services.

The Purchaser is a wholly-owned subsidiary of Hebei Television Broadcasts and Information Network Group Co., Ltd (河北廣電信息網絡集團股份有限公司). The Purchaser is principally engaged in digital television network construction, conversion, digitalisation and related technical standard setting in the rural area.

INFORMATION OF THE ASSETS

The Assets are telecommunication equipment in relation to digital cable television broadcasting network comprising set-top boxes, coaxial cables, optic fiber cables, optical transmitters and other peripheral equipment.

Financial information on the Assets

The unaudited net book value of the Assets as at 31 October 2013 is approximately RMB88.3 million (equivalent to approximately HK\$113.0 million).

The unaudited net profits attributable to the Assets before and after taxation and extraordinary items for financial years ended 30 June 2011, 30 June 2012 and 31 December 2013 are set out below:

	Six month ended 31 December 2012	Year ended 30 June 2012	2011
Net profit before taxation and extraordinary items	RMB19 million (equiv. to HK\$24.3 million)	RMB39 million (equiv. to HK\$49.9 million)	RMB49 million (equiv. to HK\$62.7 million)
Net profit after taxation and extraordinary items	RMB19 million (equiv. to HK\$24.3 million)	RMB39 million (equiv. to HK\$49.9 million)	RMB49 million (equiv. to HK\$62.7 million)

REASONS FOR THE DISPOSAL

When the Vendor and Hebei TV entered into the Cooperation Agreement, it was contemplated that the initial subscriber base of the digital cable television under the Cooperating Agreement would be at least 0.5 million to be phased in over three years. It was expected that the Vendor would be able to provide the relevant telecommunication equipment in an aggregate amount of RMB275 million (equivalent to HK\$350.9 million) over the three years. To date, the Vendor has provided equipment in an aggregate amount of RMB104 million (equivalent to HK\$133.1 million). As such, the Purchaser, at the direction of Hebei TV, withheld payment of the Vendor's share of the revenue from subscribers in Hebei accrued over the years, resulting in an aggregate amount of accounts receivable of approximately RMB120.5 million (equivalent to HK\$154.2 million) as at 31 October 2013.

Given the uncertainty regarding the dispute resolution provision under the Cooperation Agreement, the time and costs of initiating legal actions against the Purchaser and subsequently enforcing any judgment obtained in Hebei, and the availability of other business opportunities which may be available to the Company, the Directors consider the entering into of the Termination Agreement, with the expected receipt of the Consideration for the Disposal, to be in the best interest of the Company and its shareholders as a whole.

Owing to the specific industry feature of the digital television business with long credit period and huge upfront capital commitment, it is the strategic plan of the Company to gradually diversify its business to other areas. For example, the Company entered into two discloseable transactions in July and September 2013 respectively for the purpose of diversifying the Company's business into project investment and management, and ore processing and trading of mineral products. The Directors are of the opinion that the business environment in the Group's new businesses is more healthy and predictable as compared to that of the telecommunication sector, in which a few dominant players could manipulate the market or impose unfair trade practices.

After considering the business opportunities in other areas, the Directors consider that entering into the Termination Agreement could provide the Company with the certainty of a positive cashflow in a foreseeable future such that it could utilise the cash in other profitable investment in an effective way.

The Directors consider that the terms of the Termination Agreement are fair and reasonable and in the interest of the Company and Shareholders as a whole.

FINANCIAL EFFECT OF THE DISPOSAL

The actual financial effect from the Disposal and to be accounted for in the consolidated financial statements of the Company for the financial year ending 31 December 2013 will be computed basing on the financial information of the Disposal as at Completion and which is subject to audit.

For illustrative purposes, there is an estimated loss of approximately RMB100.8 million (equivalent to approximately HK\$129.0 million) arising on the Disposal based on the consideration of RMB108 million (equivalent to approximately HK\$138.2 million), the net book value of the Assets as at 31 October 2013 of approximately RMB88.3 million (equivalent to approximately HK\$113.0 million), and the balance of accounts receivable of approximately RMB120.5 million (equivalent to approximately HK\$154.2 million) as at 31 October 2013 in relation to the digital cable television operation due from the Purchaser.

The proceeds from the Disposal will be used for general working capital purposes and possible acquisition opportunities in the future.

IMPLICATIONS OF THE DISPOSAL UNDER THE GEM LISTING RULES

As the Disposal, together with the waiver of accounts receivable, exceeds 25% but does not exceed 75% under one or more of the applicable percentage ratios (as defined in the GEM Listing Rules), it constitutes a major disposal for the Company under the GEM Listing Rules and is therefore subject to the approval of the Shareholders at the SGM. To the best knowledge, information and belief of the Directors having made all reasonable enquires, no shareholder of the Company is required to abstain from voting for the resolution to be proposed at the SGM to approve the Termination Agreement.

A circular containing, among other things, (i) further information regarding the Disposal, (ii) a notice of SGM, and (iii) other information as required under the GEM Listing Rules will be despatched to the Shareholders on or before 22 January 2014.

As Completion is subject to the fulfillment of conditions precedent, the issue of this announcement should not be regarded in any way as implying that the Disposal will be completed. Therefore, the Shareholders and investors in general should exercise caution when dealing in the Shares.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions shall have the following respective meanings:

“Assets”	being telecommunication equipment in relation to digital cable television broadcasting network
“Board”	board of Directors
“BVI”	the British Virgin Islands
“Company”	Heng Xin China Holdings Limited, a company incorporated in the Bermuda with limited liability, whose Shares are listed on the GEM (Stock Code: 8046)
“Completion”	completion of the Disposal under the Termination Agreement

“Cooperation Agreement”	the business cooperation agreement dated 26 November 2010 between the Vendor and Hebei TV together with the subsequent subsidiary contracts made between the Vendor and the Purchaser (which will perform the cooperation agreement for Hebei TV) with detailed terms on the technical cooperation and the construction and operation of the networks between the parties
“Directors”	director(s) of the Company
“Disposal”	disposal of the Assets pursuant to the provisions of the Termination Agreement
“GEM”	the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited
“GEM Listing Rules”	Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries
“Hebei TV”	Hebei Television Broadcasts and Information Network Group Co., Ltd* (河北廣電信息網絡集團股份有限公司), a State-owned enterprise established in Hebei and the sole government authorized digital cable television network constructor and operator in Hebei Province
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Third Party”	a party and, if applicable, the ultimate beneficial owner of the party who is not fallen into the definition of connected persons of the Company under Chapter 20 of the GEM Listing Rules and independent of the connected persons of the Company and their associates (as defined in the GEM Listing Rules)
“Purchaser”	Huabei Guangdian Network Investment Limited* (河北廣電網絡投資有限公司), a wholly-owned subsidiary of Hebei TV
“Shareholders”	holders of Shares
“Shares”	ordinary shares of HK\$0.01 each in the share capital of the Company
“SGM”	the special general meeting of the Company to be convened for the purpose of considering and, if thought fit, approving, among other things, the Termination Agreement and the transactions contemplated thereunder
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Termination Agreement”	the conditional Termination agreement dated 31 December 2013 entered into between, among others, the Vendor and the Purchaser in relation to, among others, the sale and purchase of the Assets, and the termination of the Cooperation Agreement

“Vendor”	Shenzhen Champion Maxiumic Group Co., Limited* (深圳中澤明芯集團有限公司), an indirect wholly-owned subsidiary of the Company
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the People’s Republic of China
“%”	per cent.

** For identification purposes only*

For the purpose of this announcement, conversion of RMB into HK\$ is based on the exchange rate of RMB1.00 to HK\$1.28. The exchange rates have been used, where applicable, for the purposes of illustration only and do not constitute a representation that any amounts were or may have been exchanged at this or any other rates or at all.

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

Hong Kong, 31 December 2013

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

This announcement, for which the directors of the Company (the “Directors”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Company. 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.

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