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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)

DISCLOSEABLE TRANSACTION

CAPITAL INJECTION IN SHANXI ZHONGZE HENG YUAN BIOLOGICAL TECHNOLOGY COMPANY LIMITED*

Financial Adviser to the Company

AMASSE CAPITAL
寶 積 資 本

THE CAPITAL INJECTION

The Board is pleased to announce that on 26 January 2015, Beijing Kaiqiao, a wholly-owned subsidiary of the Company, entered into the Capital Injection Agreement with Zhong Xiang and Hu Guosheng, being the existing shareholders of the Target Company, in relation to the Capital Injection.

Immediately prior to the Completion, the total registered capital of the Target Company amounted to RMB30 million (equivalent to approximately HK\$37.5 million) and the Target Company is owned as to 50% by Zhong Xiang and as to 50% by Hu Guosheng.

Upon the Completion, the registered capital of the Target Company will be increased to RMB61.23 million (equivalent to approximately HK\$76.54 million) and the Target Company will be owned as to 51% by Beijing Kaiqiao, as to 24.5% by Zhong Xiang and as to 24.5% by Hu Guosheng respectively.

IMPLICATIONS OF THE GEM LISTING RULES

As one or more of the applicable percentage ratios (as defined in the GEM Listing Rules) in respect of the Capital Injection exceeds 5% but does not exceed 25%, the Capital Injection constitutes a discloseable transaction for the Company under the GEM Listing Rules and is therefore subject to reporting and announcement requirements under the GEM Listing Rules.

THE CAPITAL INJECTION AGREEMENT

Date: 26 January 2015 (after trading hours of the Stock Exchange)

Parties: (i) Beijing Kaiqiao;
(ii) Zhong Xiang; and
(iii) Hu Guosheng

To the best knowledge, information and belief of the Directors having made all reasonable enquiry, Hu Guosheng, and Zhong Xiang and its ultimate beneficial owners are Independent Third Parties.

Capital Injection

Pursuant to the Capital Injection Agreement, Beijing Kaiqiao has conditionally agreed to inject the sum of RMB52 million (equivalent to approximately HK\$65 million) in cash into the Target Company, of which RMB31.23 million (equivalent to approximately HK\$39.04 million) and RMB20.77 million (equivalent to approximately HK\$25.96 million) will be recognized as the registered capital and capital reserve of the Target Company respectively.

Immediately prior to the Completion, the total registered capital of the Target Company amounted to RMB30 million (equivalent to approximately HK\$37.5 million) and the Target Company is owned as to 50% by Zhong Xiang and as to 50% by Hu Guosheng.

Upon the Completion, the registered capital of the Target Company will be increased to RMB61.23 million (equivalent to approximately HK\$76.54 million), and the Target Company will be owned as to 51% by Beijing Kaiqiao, as to 24.5% by Zhong Xiang and as to 24.5% by Hu Guosheng respectively.

The amount of the Capital Injection, which will be satisfied by internal resources of the Group, was determined after arm's length negotiation among the parties with the reference to, the post capital injection net asset value of the Target Company of approximately RMB81.82 million and the aggregate Guaranteed Profits for the three years ending 30 June 2018 of RMB109.2 million.

Composition of the board of directors of the Target Company

Upon the Completion, the board of directors of the Target Company shall consist of five directors, three of whom will be appointed by Beijing Kaiqiao, one of whom will be appointed by Zhong Xiang and one of whom will be appointed by Hu Guosheng. Hu Guosheng will be appointed as the Chairman of the board of the Target Company.

In addition, Beijing Kaiqiao shall be entitled to nominate the Chief Financial Officer of the Target Company and designate personnel for finance and capital management of the Target Company.

Conditions Precedent

Completion of the Capital Injection shall be conditional upon:

- (i) completion of the due diligence exercise on the Target Company to the reasonable satisfaction of Beijing Kaiqiao;
- (ii) necessary internal approval (including approval of the board of directors and shareholders of the Target Company) having been obtained for the change of registered capital and the corresponding amendment on the articles of association of the Target Company;
- (iii) Zhong Xiang and Hu Guosheng having fully disclosed the business, operation, assets and liabilities of the Target Company;
- (iv) no material adverse change having occurred to the business, operation, assets and liabilities of the Target Company after 31 December 2014, being the date on which the unaudited accounts of the Target Company have been made up;
- (v) (if necessary) all other approvals or consents of the relevant parties and authorities and all necessary procedures for the transactions contemplated under the Capital Injection Agreement having been obtained or completed; and
- (vi) there shall be no breach by Hu Guosheng of any terms of the Capital Injection Agreement and all representations and warrants given by Hu Guosheng under the Capital Injection Agreement remaining valid.

If the conditions above are not fulfilled on or before the Long Stop Date or such later date as may be agreed between by the parties to the Capital Injection Agreement in writing, the Capital Injection Agreement shall cease and terminate and thereafter, Beijing Kaiqiao shall have no obligations and liabilities to make capital injection under the Capital Injection Agreement.

Profit Guarantee

Pursuant to the Capital Injection Agreement and assuming the Completion is on or before 30 May 2015, Hu Guosheng and Zhong Xiang have guaranteed that the audited net profit after tax of the Target Company (the “**Actual Profit**”), as prepared in accordance with the HKFRS, for the three years ending 30 June 2016, 2017 and 2018 shall not be less than RMB30.00 million (“**2016 Guaranteed Profit**”), RMB36.00 million (“**2017 Guaranteed Profit**”) and RMB43.20 million (“**2018 Guaranteed Profit**”) (collectively, the “**Guaranteed Profits**”) respectively. However, if the Completion is beyond 30 May 2015, the cut-off date of the three years guaranteed period shall be redetermined by the parties and further announcement shall be made by the Company in this regard.

In the event that the Guaranteed Profits have not been achieved, Hu Guosheng and Zhong Xiang shall pay the shortfall in respect of each of the Guaranteed Profits for 2016, 2017 and 2018 as calculated below:-

$$\text{Shortfall} = \text{the Guaranteed Profit} - \text{the Actual Profit}$$

For the avoidance of doubt and for illustration purpose, if the Actual Profit is negative, say loss RMB10.00 million for the year ending 30 June 2016, according to the above formula, the shortfall shall be calculated as:

$$\text{“RMB30.00 million} - (-\text{RMB10.00 million}) = \text{RMB40.00 million”}$$

If any shortfall exists for the years ending 30 June 2016, 2017 and 2018, Hu Guosheng and Zhong Xiang shall compensate the Target Company for the shortfall amount by cash payment within 10 business days after the issue of the audited financial statements (which shall be prepared in accordance with HKFRS) of the Target Company for the relevant year. Hu Guosheng and Zhong Xiang further agree to use their respective 24.5% interest in the Target Company as security in support of satisfaction of their obligation to compensate the shortfall by way of cash.

In addition, in the event that the three years aggregate Actual Profits (without taking into account the above compensation of shortfall) falls below RMB109.2 million (being the three years aggregate Guaranteed Profits), Zhong Xiang and Hu Guosheng jointly and severally agree and undertake to repurchase Beijing Kaiqiao's equity interest in the Target Company at a compensation at the sole discretion of Beijing Kaiqiao at a consideration as follows:

$$\text{Repurchasing consideration} = \text{RMB52 million} \times (1+30\%)$$

Non-competition undertaking

Zhong Xiang and Hu Guosheng have undertaken that, each of them will not directly or indirectly engage in, or assist any other party to engage in, any business that may be identical or similar to that of the Company and its subsidiaries or that of the Target Company and its subsidiaries.

Other arrangements

Upon the Completion, Beijing Kaiqiao shall be entitled to the pre-emptive right to acquire the 49% equity interest held by the existing shareholders of the Target Company at the fair and reasonable price, which shall be subject to further negotiation and determined by the parties and compliance with the relevant requirements of the GEM Listing Rules.

Hu Guosheng and Zhong Xiang are not allowed to transfer their equity interest in the Target Company to any other third parties without the consent in writing from Beijing Kaiqiao.

Completion

Upon the Completion, the Target Company will become a non-wholly-owned subsidiary of the Company and its financial results and assets and liabilities will be consolidated in the financial statements of the Group.

INFORMATION ON THE GROUP

The Company is an investment holding company. 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.

INFORMATION ON THE TARGET COMPANY

The Target Company is a company incorporated in the PRC with limited liability and principally engaged in research and development, manufacturing and selling of castor seeds, manufacturing and selling of castor beans, research and development of technology of biological products, research and development of technology of new technology of castor industry, promotion of technology, application of technology and selling of castor oil.

Financial information on the Target Company

The unaudited net asset of the Target Company as at 31 December 2014 is approximately RMB29.82 million (equivalent to approximately HK\$37.28 million).

Set out below are the financial information of the Target Company for the financial years ended 31 December 2013 and 2014 as extracted from its financial statements:-

	Year ended 31 December	
	2013	2014
Net loss before taxation and extraordinary items	Nil	RMB0.18 million (equivalent to approximately HK\$0.23 million)
Net loss after taxation and extraordinary items	Nil	RMB0.18 million (equivalent to approximately HK\$0.23 million)

REASONS FOR AND BENEFITS OF THE CAPITAL INJECTION

Whilst the Group remains focused on developing its existing businesses, the Board considers that it is beneficial for the Group to seek suitable investment opportunities from time to time to develop its existing business portfolio and engage in a new line of business with growth potential and broaden its source of income. The Board is of the view that the Capital Injection provides a prime opportunity for the Group to enter into the business of castor industry and diversify the revenue stream of the Group which is expected to increase the Shareholders' value and benefit the Company and the Shareholders as a whole.

The Board considers that the terms of the Capital Injection Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

IMPLICATIONS UNDER THE GEM LISTING RULES

As one or more of the applicable percentage ratios (as defined in the GEM Listing Rules) in respect of the Capital Injection exceeds 5% but does not exceed 25%, the Capital Injection constitutes a discloseable transaction for the Company under the GEM Listing Rules and is therefore subject to reporting and announcement requirements under the GEM Listing Rules.

DEFINITIONS

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

“Beijing Kaiqiao”	北京凱僑立盛科技有限公司 (Beijing Kaiqiao Lisheng Technology Company Limited*), a company incorporated in the PRC with limited liability and a wholly-owned subsidiary of the Company
“Board”	board of Directors

“business day”	a day (other than a Saturday, Sunday or public holiday in Hong Kong) on which banks in Hong Kong are generally open for business
“Capital Injection”	the capital injection of RMB52 million by Beijing Kaiqiao to the Target Company pursuant to the Capital Injection Agreement
“Capital Injection Agreement”	the agreement dated 26 January 2015 and entered into between Beijing Kaiqiao, Zhong Xiang and Hu Guosheng in relation to the Capital Injection
“Company”	Heng Xin China Holdings Limited, a company incorporated in Bermuda with limited liability, whose shares are listed on the GEM (Stock Code: 8046)
“Completion”	the completion of the Capital Injection
“connected person(s)”	has the meaning ascribed to it in the GEM Listing Rules
“Directors”	director(s) of the Company
“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
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“HKFRS”	Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Hu Guosheng”	胡國勝(Hu Guosheng), one of the existing shareholders of the Target Company
“Independent Third Party(ies)”	a party(ies) independent of and not connected with the Company and its connected persons
“Long Stop Date”	30 May 2015 (or such later date as agreed amongst the parties)
“PRC”	the People’s Republic of China which, for the purpose of this announcement, excludes Hong Kong, Taiwan and the Macau Special Administrative Region of the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the People’s Republic of China
“Shareholders”	holders of Shares

“Shares”	ordinary shares in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	山西中澤恒遠生物科技有限公司 (Shanxi Zhongze Heng Yuan Biological Technology Company Limited*), a limited company established in the PRC with limited liability
“Zhong Xiang”	中祥恒遠投資管理有限公司 (Zhong Xiang Heng Yuan Investment Management Company Limited*), a company incorporated in the PRC with limited liability and one of the existing shareholders of the Target Company
“%”	per cent.

For the purpose of this announcement, conversion of RMB into HK\$ is based on the exchange rate of RMB1.00 to HK\$1.25. 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 LIMITED
Xiao Yan
Chief Executive Officer

Hong Kong, 26 January 2015

As at the date of this announcement, the Board comprises Mr. Xiao Yan (Chief Executive Officer), Mr. Qiu Bin, Mr. Li Tao and Mr. Wang Kun as executive Directors; Mr. Xu Lei as non-executive Director; and Mr. Leung Wo Ping JP, Mr. Dong Shi, Mr. Hu Dingdong and Mr. Lei Yong as independent non-executive Directors.

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules 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 at www.hkgem.com 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.

* For identification purpose only