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

*(Incorporated in Bermuda with limited liability)*

(Stock code: 8046)

**UPDATE ON SUSPECTED MISAPPROPRIATION OF FUNDS IN  
SHANXI ZHONGZE HENG YUAN  
BIOLOGICAL TECHNOLOGY COMPANY LIMITED**

Reference is made to the announcement of the Company dated 14 November 2016 (the “**Announcement**”) relating to the Suspected Misappropriation. Unless otherwise stated, capitalised terms used herein shall bear the same meanings as defined in the Announcement.

**SUSPECTED MISAPPROPRIATION OF FUNDS**

As stated in the Announcement, after the change of the Board members in August 2016 and October 2016, the Company carried out a review on the operation of Shanxi Zhongze and discovered that out of the total sum of RMB52 million fund injected by 北京凱僑立盛科技有限公司 (Beijing Kaiqiao Lisheng Technology Company Limited\*) (“**Beijing Kaiqiao**”), a wholly-owned subsidiary of the Company, to Shanxi Zhongze pursuant to the Capital Injection, RMB50 million (the “**Misappropriated Fund**”) was subsequently transferred by Shanxi Zhongze to a PRC company not being part of the Group (the “**First Fund Recipient**”).

After the discovery of the Suspected Misappropriation, on 19 November 2016, the Board established a special committee (the “**Special Committee**”), comprising an executive Director, namely Mr. Hu Qixian, and two independent non-executive Directors, namely Mr. Wong Chi Keung and Mr. Chau Sen Chung, to investigate into the Suspected Misappropriation. At the instruction and under the supervision of the Special Committee, the Company has now conducted the following tasks during the investigation process: (a) The Company has engaged a law firm in Hong Kong to assist the Company in the compilation of information with the

view to preparing a report to the Special Committee; (b) The Company has engaged a law firm in Hong Kong to pursue after any improper or illegal conducts of any individuals or entities involved in the Suspected Misappropriation (the “**Suspected Wrongdoers**”); (c) The Company has engaged a law firm in the PRC to commence civil and criminal actions against the Suspected Wrongdoers in the PRC; (d) The Company’s management has conducted site visits and interviews with the officers, partners and counterparties who might have more information on the relevant transactions; and (e) The Company has engaged an internal control adviser to review the internal control system of the Group, to identify any significant internal control loopholes of the Group and to make recommendations to the Company on the remedial actions to fix any loopholes identified.

Based on the preliminary findings of the investigation of the Special Committee, the Misappropriated Fund was first transferred by Shanxi Zhongze to the First Fund Recipient on 4 December 2015 (i.e. on the same day as Shanxi Zhongze received the RMB52 million Capital Injection from Beijing Kaiqiao). There is no evidence showing that this fund transfer was authorized or made known to the Board or the board of directors of Beijing Kaiqiao at the relevant time, and the Company cannot rule out the possibility that this fund transfer might have been conducted without the proper authority of the Company or Beijing Kaiqiao.

The Company conducted an interview with certain individual(s) who alleged that the fund transfer related to certain purported payment for inventory and certain purported prepayment for research and development of castor seeds. The Special Committee is not entirely convinced by these alleged explanations. In addition, the Special Committee discovered that the Misappropriated Fund was subsequently transferred by the First Fund Recipient to another PRC company (“**Second Fund Recipient**”).

#### **IMMEDIATE ACTIONS TAKEN BY THE SPECIAL COMMITTEE**

The Company has adopted the following emergency protective measures upon the recommendation of the Special Committee:

1. The Company has declared the suspension of executive duties of the relevant officers of the Group (on subsidiary level) who are suspected to be involved in the Suspected Misappropriation, and has demanded all these relevant officers to immediately hand out all company seals and chops and bank passwords.
2. The Company has instructed its legal advisers to commence legal actions against the Suspected Wrongdoers, including the filing of criminal complaints with Public Security Bureau in the PRC with the view to investigating into the illegal conducts of the Suspected Wrongdoers, if any.

3. The Company has engaged an internal control adviser to review the internal control system of the Group. As at the date of this announcement, the Company's internal control adviser is in the process of conducting its review on the Group's internal control policies. It is expected that a draft report of the results of the internal control review should be ready by end of February 2017, and the final report should be ready by mid of March 2017.

The Board will update the shareholders of the Company and potential investors in relation to any significant developments about the Suspected Misappropriation, in particular any significant developments on the legal action(s) against the Suspected Wrongdoer(s).

**Shareholders of the Company and/or potential investors are advised to exercise caution when dealing in the securities of the Company.**

By Order of the Board  
**HENG XIN CHINA HOLDINGS LIMITED**  
**Lim Tong Yong**  
*Chairman*

Hong Kong, 23 February 2017

*As at the date of this announcement, the Board comprises Tan Sri Dato' Lim Tong Yong (Chairman), Mr. Chen Rongbin (Vice Chairman and Chief Executive Officer), Mr. Qiu Bin, Mr. Gao Yang, Mr. Hu Qixian and Mr. Chen Xi as executive Directors and Mr. Wong Chi Keung, Ms. Chen Yan, Mr. Xu Haiou and Mr. Chau Sen Chung 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](http://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](http://www.hengxinchina.com.hk).*

\* For identification purposes only