



**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)

## **THIRD QUARTERLY RESULTS ANNOUNCEMENT** **For the nine months ended 31 March 2010**

### **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 the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (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: (1) the information contained in this announcement is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

\* For identification purposes only

## HIGHLIGHTS

- The Group recorded an unaudited turnover of approximately HK\$455.7 million for the nine months ended 31 March 2010, representing an increase of approximately 1.6 times when compared with that of the corresponding period in 2009.
- The Group recorded an unaudited profit attributable to the owners of the parent of approximately HK\$140.8 million for the nine months ended 31 March 2010, representing an increase of 1 time as compared to approximately HK\$70.4 million for the corresponding period in 2009.
- The Group enters into the cable digital TV two-way conversion and the related value-added services market in PRC and gains its presence as an operator. The Group enjoys profit sharing in the next 12 to 15 years after the conversions shall have been completed.
- Earnings per share of the Company was approximately HK\$0.0939 for the nine months ended 31 March 2010, representing an increase of approximately 23% as compared to approximately HK\$0.0766 for the corresponding period in 2009.
- The Board does not recommend the payment of an interim dividend for the nine months ended 31 March 2010.

## RESULTS

The board of Directors (the “Board”) of Heng Xin China Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the three months and nine months ended 31 March 2010 together with the comparative unaudited figures for the corresponding periods in 2009.

	Note	Three months ended 31 March		Nine months ended 31 March	
		2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Turnover	3	115,331	106,977	455,681	172,065
Cost of sales		(48,365)	(52,388)	(263,536)	(67,966)
Gross profit		66,966	54,589	192,145	104,099
Other income	3	22	48	568	9,179
Selling and marketing expenses		(611)	(870)	(2,975)	(1,820)
Other operating expenses		(8,009)	(15,020)	(28,688)	(34,199)
<b>Profit from operations</b>		<b>58,368</b>	<b>38,747</b>	<b>161,050</b>	<b>77,259</b>
Impairment loss on available-for-sale investments		—	288	—	(2,174)
Loss on disposal of available-for-sale investments		—	(791)	—	(791)
Finance costs	4	(3,792)	(12)	(7,551)	(61)
<b>Profit before taxation</b>	5	<b>54,576</b>	<b>38,232</b>	<b>153,499</b>	<b>74,233</b>
Taxation	6	(98)	3,945	(951)	(151)
<b>Profit for the period</b>		<b>54,478</b>	<b>42,177</b>	<b>152,548</b>	<b>74,082</b>
<b>Other comprehensive income:</b>					
Exchange differences on translating foreign operations		675	(1,031)	1,240	(756)
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>55,153</b>	<b>41,146</b>	<b>153,788</b>	<b>73,326</b>
<b>Profit attributable to:</b>					
Owners of the parent		50,043	39,398	140,813	70,356
Non-controlling interests		4,435	2,779	11,735	3,726
<b>Profit for the period</b>		<b>54,478</b>	<b>42,177</b>	<b>152,548</b>	<b>74,082</b>
<b>Total comprehensive income attributable to:</b>					
Owners of the parent		50,683	38,416	141,990	69,643
Non-controlling interests		4,470	2,730	11,798	3,683
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>55,153</b>	<b>41,146</b>	<b>153,788</b>	<b>73,326</b>
Earnings per share ( <i>expressed in HK cent</i> )	7				
— basic		3.26	3.57	9.39	7.66
— diluted		3.26	2.92	9.38	6.50
Dividends	8	—	—	—	—

*Notes:*

## **1. General information**

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

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

The principal activities of the subsidiaries of the Company are engaged in wireless digital terrestrial television (“DTT”) network equipment integrated business, research, design, development on and manufacturing of electronic message security products, integrated circuits, and the integrated circuit solutions and the related services.

## **2. Basis of preparation and accounting policies**

The unaudited consolidated results for the nine months ended 31 March 2010 have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosure requirements of the GEM Listing Rules.

The unaudited consolidated accounts have been prepared on the historical cost basis except for the financial instruments, which are measured at fair value. The accounting policies and methods of computation used in the preparation of the unaudited consolidated accounts are consistent with those used in the annual financial statements for the year ended 30 June 2009. These unaudited consolidated results should be read in conjunction with the Company’s annual report for the year ended 30 June 2009. Those new accounting standards, amendments to accounting standards and interpretations which are mandatory for financial year ending 30 June 2010 have no material impact on the Group.

The unaudited consolidated accounts have not been audited by the auditors of the Company, but have been reviewed by the Company’s audit committee and were approved for issue by the Board.

### 3. Turnover and revenue

Turnover and revenue recognised by category during the three months and nine months ended 31 March 2010 are as follows:

	Three months ended		Nine months ended	
	31 March		31 March	
	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Turnover				
Wireless digital terrestrial television network equipment integration business	55,913	—	261,342	—
Encrypted integrated circuits and the derived integrated business	50,063	90,610	126,957	113,395
Wireless digital audio products business	9,355	16,367	67,382	53,972
Sales of computer parts	—	—	—	4,698
	<u>115,331</u>	<u>106,977</u>	<u>455,681</u>	<u>172,065</u>
Other income				
Bank interest income	22	3	44	60
Other interest income	—	—	206	—
Gain on disposal of a subsidiary	—	20	—	20
Realised gain on disposal of available-for-sale investments	—	—	—	7,295
Other income	—	25	318	1,804
	<u>22</u>	<u>48</u>	<u>568</u>	<u>9,179</u>

### 4. Finance costs

	Three months ended		Nine months ended	
	31 March		31 March	
	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Effective interest expenses on convertible bonds	3,213	—	6,146	—
Interest on loan from a shareholder	388	—	1,182	—
Interest on other loans	191	12	223	61
	<u>3,792</u>	<u>12</u>	<u>7,551</u>	<u>61</u>

## 5. Profit before taxation

The Group's profit before taxation is arrived at after charging/(crediting):

	Three months ended		Nine months ended	
	31 March		31 March	
	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Cost of inventories sold	<b>47,540</b>	52,388	<b>260,788</b>	67,966
Depreciation	<b>526</b>	309	<b>1,347</b>	815
Impairment loss on available-for-sale investments	—	(288)	—	2,174
Loss on disposal of available-for-sale investments	—	791	—	791
Operating lease charges on premises	<b>726</b>	721	<b>2,286</b>	2,122
Research and development costs	<b>354</b>	—	<b>2,203</b>	—
Staff costs (including Directors' remuneration)				
— salaries and allowances	<b>2,396</b>	1,974	<b>8,111</b>	6,758
— pension scheme contributions	<b>214</b>	94	<b>562</b>	258
— share-based payment expenses	—	7,823	—	13,648
	<b><u>          </u></b>	<b><u>          </u></b>	<b><u>          </u></b>	<b><u>          </u></b>

## 6. Taxation

	Three months ended		Nine months ended	
	31 March		31 March	
	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Current tax:				
Hong Kong				
— charge for the period	—	—	<b>310</b>	—
Overseas				
— charge/(credit) for the period	<b>98</b>	(3,945)	<b>641</b>	151
	<b><u>          </u></b>	<b><u>          </u></b>	<b><u>          </u></b>	<b><u>          </u></b>

The provision for Hong Kong profits tax for the nine months ended 31 March 2010 is calculated at 16.5% (2009: 16.5%) of the estimated assessable profits for the period.

Taxation arising in other jurisdictions, mainly the PRC, is calculated at the rates prevailing in the respective jurisdictions. The applicable enterprise income tax rate for the PRC is 25%.

In accordance with the approval from the relevant tax authorities, Beijing Jinqiao Hengtai Technology Company Limited ("Beijing Jinqiao"), a 93% owned subsidiary of the Group operating in the PRC, is entitled to two years' exemption from the PRC corporate income tax ("CIT") followed by three years' 50% relief from the CIT. The year ended 31 December 2008 is the first profit-making year of Beijing Jinqiao for the purpose of CIT exemption. CIT provided for the nine months ended 31 March 2010 is calculated at 12.5% of the estimated assessable profits.

## 7. Earnings per share

### (a) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of the parent by the weighted average number of ordinary shares in issue during the period.

	Three months ended		Nine months ended	
	31 March		31 March	
	2010	2009	2010	2009
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Profit attributable to the owners of the parent ( <i>HK\$'000</i> )	<u>50,043</u>	<u>39,398</u>	<u>140,813</u>	<u>70,356</u>
Weighted average number of ordinary shares in issue ( <i>thousands</i> )	<u>1,533,587</u>	<u>1,103,022</u>	<u>1,498,955</u>	<u>918,658</u>
Basic earnings per share ( <i>HK cent</i> )	<u><u>3.26</u></u>	<u><u>3.57</u></u>	<u><u>9.39</u></u>	<u><u>7.66</u></u>

### (b) Diluted earnings per share

Diluted earnings per share is calculated by dividing the profit attributable to the owners of the parent by the total of the weighted average number of ordinary shares in issue during the period and the weighted average number of ordinary shares assumed to have been issued on the deemed conversion of all convertible notes and exercise of all share options outstanding during the period.

	Three months ended		Nine months ended	
	31 March		31 March	
	2010	2009	2010	2009
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Profit attributable to the owners of the parent ( <i>HK\$'000</i> )	<u>50,043</u>	<u>39,398</u>	<u>140,813</u>	<u>70,356</u>
Weighted average number of ordinary shares in issue ( <i>thousands</i> )	<u>1,533,587</u>	<u>1,103,022</u>	<u>1,498,955</u>	<u>918,658</u>
Weighted average number of ordinary shares in issue on the deemed conversion of all convertible notes and exercise of all share options outstanding during the period ( <i>thousands</i> )	<u>2,354</u>	<u>245,137</u>	<u>2,483</u>	<u>164,316</u>
	<u>1,535,941</u>	<u>1,348,159</u>	<u>1,501,438</u>	<u>1,082,974</u>
Diluted earnings per share ( <i>HK cent</i> )	<u><u>3.26</u></u>	<u><u>2.92</u></u>	<u><u>9.38</u></u>	<u><u>6.50</u></u>

## 8. Interim dividend

The Board does not recommend the payment of an interim dividend for the nine months ended 31 March 2010 (2009: Nil).

## 9. Reserves

	Attributable to the owners of the parent							Total HK\$'000
	Share premium HK\$'000	Capital reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Investment valuation reserve HK\$'000	Share options reserve HK\$'000	Convertible notes reserve HK\$'000	(Accumulated losses)/ Retained earnings HK\$'000	
Balance at 1 July 2008	110,320	(595)	45	5,834	—	—	(54,856)	60,748
Issue of new shares	186,162	—	—	—	—	—	—	186,162
Recognition of equity settled share-based payments	—	—	—	—	14,738	—	—	14,738
Transfer on disposal of available-for-sale investments	—	—	—	(5,362)	—	—	—	(5,362)
Other comprehensive income:								
Exchange difference on translating foreign operations	—	—	(714)	—	—	—	—	(714)
Profit for the nine months ended 31 March 2009	—	—	—	—	—	—	70,356	70,356
<b>Balance at 31 March 2009</b>	<b>296,482</b>	<b>(595)</b>	<b>(669)</b>	<b>472</b>	<b>14,738</b>	<b>—</b>	<b>15,500</b>	<b>325,928</b>
Balance at 1 July 2009	396,560	702	(274)	—	4,512	—	61,667	463,167
Issue of new shares	69,000	—	—	—	—	—	—	69,000
Recognition of equity component of convertible notes issued	—	—	—	—	—	265,302	—	265,302
Recognition of share-based payments	—	—	—	—	650	—	—	650
Share options exercised	17,698	—	—	—	(2,124)	—	—	15,574
Share issue expenses	(2,041)	—	—	—	—	—	—	(2,041)
Reserves arising from capital injection to a non-wholly owned subsidiary	—	1,025	—	—	—	—	—	1,025
Other comprehensive income:								
Exchange differences on translation foreign operations	—	—	1,178	—	—	—	—	1,178
Profit for the nine months ended 31 March 2010	—	—	—	—	—	—	140,813	140,813
<b>Balance at 31 March 2010</b>	<b>481,217</b>	<b>1,727</b>	<b>904</b>	<b>—</b>	<b>3,038</b>	<b>265,302</b>	<b>202,480</b>	<b>954,668</b>



## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial review

For the nine months ended 31 March 2010, the Group recorded a consolidated turnover of approximately HK\$455.7 million, representing an increase of approximately 164.8% when compared to approximately HK\$172.1 million for the corresponding period in the last financial year. Approximately 57% of the turnover is generated from the wireless digital terrestrial television network equipment integration business.

Gross profit margin of the Group dropped from approximately 60.5% for the corresponding period of last financial year to approximately 42.2% for the current nine-month period. The Group's second mobile TV project had kicked off in Hubei since the first quarter of the current financial year and as a consequence, initial costs had been incurred.

Other operating expenses amounted to HK\$28.7 million for the nine months ended 31 March 2010, representing a drop of 16% when compared to approximately HK\$34.2 million for the corresponding period of the last financial year. The drop is partially due to the fact that the other operating expenses of last year included non-cash costs of equity-settled share options of approximately HK\$13.6 million related to the grants of share options under the share option scheme of the Company.

The profit attributable to owners of the parent amounted to approximately HK\$140.8 million for the nine months ended 31 March 2010, representing an increase of 100% when compared to HK\$70.4 million over the corresponding period in the previous financial year. Basic earnings per share was approximately HK\$0.0939 for the nine months ended 31 March 2010, representing an increase of approximately 23% compared to approximately HK\$0.0766 for the corresponding period of the last year.

As at 31 March 2010, the cash and bank balances of the Group amounted to approximately HK\$95.6 million, representing an increase of approximately 18% when compared to approximately HK\$80.7 million as at 31 December 2009. The gearing ratio of the Group, calculated as total borrowings over total assets, was approximately 0.03 (31 March 2009: Nil).

### Business review

The Company put in enormous efforts in developing its principal businesses during the nine months ended 31 March 2010 and attained satisfactory sales performance.

#### (i) *Wireless digital terrestrial TV network equipment integration business*

Approximately HK\$261.3 million or 57% of the total turnover of the Group in the nine months ended 31 March 2010 was derived from the construction project of the wireless digital terrestrial television operating platform.

The overall wireless digital terrestrial television construction solution of Hubei Chutian CTV Network Co., Ltd. (湖北省楚天中視網絡有限責任公司) further optimised and improved during the quarter. During the third quarter, 200,000 sets of set-top boxes were supplied. Taking advantages of the established mobile TV projects in Hunan and Hubei, the Group is well prepared to expand its market share in the overall solution for the new wireless television market.

(ii) *Information safety products business*

The turnover for the nine months ended 31 March 2010 generated from the information safety products business and the related technical services amounted to approximately HK\$127.0 million or approximately 28% of the total turnover.

While experiencing significant breakthroughs in the sales of proprietary software products, the Group also generated higher profit by capitalising on its pre-stage technological reserves and technological and R&D strengths of its business partner, as well as good customer relationships, which enabled it to provide customers with software related technical services and technical development.

(iii) *Wireless digital audio products business*

The turnover for the nine months ended 31 March 2010 generated from the wireless digital audio products business and the related technical services amounted to approximately HK\$67.4 million or approximately 15% of the total turnover, mainly contributed by the revenues from domestic customers.

While revenue is mainly contributed from domestic customers, the overseas markets recovered considerably after the endeavours made by the Group. During the third quarter, business demand of the Group expanded given that there was a further increase in domestic and overseas demand. Besides, the market share has been growing as more domestic customers were secured, as well as the positive impact brought by the government's policy, provided the Group with more protection and became a profit driver for the years to come. The results of the Group recovered to a certain extent and new products to customers attained favourable results as the global economy rebounded further.

## **Prospects**

The Group will further develop the existing wireless market to meet the demand of customers while exploring business opportunities in the new provincial markets.

The Group will also develop technology and products to cater for the cable market that meet the integration of the telecommunication network, broadcasting TV network and internet platforms (三網融合) by taking advantage of its own technological strength to cooperate with the partners. The Group has developed "two-way conversion products" (EPON and EOC) with its own intellectual property right, which has commenced production and sales. It has organised its first product promotion and technological exchange in the third quarter, the date of opening of the "CCBN" — China Content Broadcasting Network Expo, which was well received.

As announced by the Company on 23 April 2010 and 3 May 2010 respectively, the Group has entered into business cooperation agreements to provide cable digital television two-way conversion equipment and services and develop and operate value-added services in Jiangxi and Anhui Provinces, PRC in return for revenue sharing. The cooperation builds the foundation for the Group to become the exclusive partner with the Anhui and Jiangxi Provinces for the two-way conversion and value-added services. It also enables the Group to become an operator and extend its presence in the cable digital TV conversion market and the three networks integrated markets. The management expects that the cooperation will benefit to the Company's revenue and profit in the future.

## 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 March 2010, 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	Position	Capacity	Number of shares	underlying shares (Note)	Approximate percentage of interests in the issued share capital
Mr. Xiao Yan	Chief Executive Officer/Executive Director	Beneficial owner	—	2,200,000	0.14%
Mr. Feng Yongming	Executive Director	Beneficial owner	—	1,000,000	0.07%
Mr. Wu Fred Fong	Chief Financial Officer	Beneficial owner	1,000,000	4,000,000	0.33%

*Note:*

The Directors and the chief executives of the Company were granted share options at the exercise price of HK\$0.37 per share on 18 February 2009. The share options would be exercisable during the period from 18 March 2009 to 17 October 2012. These individuals were deemed to be interested in shares of HK\$0.01 each which would fall to be issued upon exercise of their respective share options of the Company under the share option scheme adopted by the Company on 13 March 2003.

Save as disclosed above, at no time during the nine months ended 31 March 2010 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 of substantial shareholders maintained under Section 336 of the SFO shows that as at 31 March 2010, the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital:

### Interests in the shares 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 1</i> )	649,844,706 (L)	Interest in controlled corporation	42.33%
Team Effort Investments Limited ( <i>Note 1</i> )	647,844,706 (L)	Interest in controlled corporation	42.20%
Mind Smart Group Limited ( <i>Note 1</i> )	469,706,000 (L)	Beneficial owner	30.60%
Li Haoping ( <i>Note 2</i> )	348,351,353 (L)	Interest in controlled corporation	22.69%
Lomond Group Limited ( <i>Note 2</i> )	348,151,353 (L)	Interest in controlled corporation	22.68%
Easy Mount Enterprises Limited ( <i>Note 2</i> )	308,897,000 (L)	Beneficial owner	20.12%
Atlantis Investment Management Limited ( <i>Note 3</i> )	166,430,000 (L)	Investment manager	10.84%

*L: Long Position*

*Notes:*

- The entire issued share capital of Mind Smart Group Limited is owned as to 85% by Team Effort Investments Limited and 15% by Mr. Lu Xing. Team Effort Investments Limited is wholly owned by Mr. Choi Chung Lam. Team Effort Investments Limited and Mr. Choi Chung Lam are deemed to be interested in the 469,706,000 shares to be issued upon the exercising of the conversion rights attaching to convertible notes. Mr. Choi Chung Lam is also deemed to be interested in the 178,138,706 shares held by Team Effort Investments Limited.
- The entire issued share capital of Easy Mount Enterprises Limited is owned as to 85% by Lomond Group Limited and 15% by Mr. Ho Wai Jung. Lomond Group Limited is wholly owned by Mr. Li Haoping. Lomond Group Limited and Mr. Li Haoping are deemed to be interested in the 308,897,000 shares to be issued upon the exercising of the conversion rights attaching to convertible notes. Mr. Li Haoping is also deemed to be interested in the 39,254,353 shares held by Lomond Group Limited.
- Subsequent to 31 March 2010, Atlantis Investment Management Limited has been reduced its interest under 5%.

Save as disclosed above, as at 31 March 2010, the Directors or chief executives of the Company were not aware of any other person (other than the Directors or chief executives of the Company) who had an interest or short position in the shares or underlying shares of the Company under Section 336 of the SFO.

## EMPLOYEE SHARE OPTION SCHEME

Details of the employee share option scheme (“Share Option Scheme”) approved by the then sole shareholder of the Company on 13 March 2003 were disclosed in the annual report of the Company for the year ended 30 June 2009. The following shows the outstanding positions of the eligible persons as at 31 March 2010 with respect to their share options granted under the scheme:

Participants	Number of Shares <i>(Note)</i>				As of 31 March 2010	Date of Grant	Exercise period	Subscription Price
	As of 1 July 2009	Exercised during the period	Cancelled during the period	Lapsed during the period				
Eligible persons	35,920,000	15,400,000	—	—	20,520,000	18/02/2009	18/03/2009- 17/03/2012	0.37

*Note:*

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

## LITIGATION

The Company was served on 20 December 2007 a writ of summons (the “Writ”) whereby Mr. Chan Hak Kim, the plaintiff (the “Plaintiff”) is claiming against Precision Assets Limited, being the first defendant, Mr. Tony Hoo, being the second defendant (the “2nd Defendant”) and the Company, being the third defendant (together referred to the “Defendants”). The Plaintiff claims against the Company under a forbearance agreement which was allegedly made partly orally and partly in writing between the Plaintiff and the 2nd Defendant for and on behalf of the Defendants. Mr. Tony Hoo was a former executive Director who was appointed on 11 September 2002 and resigned on 5 June 2007.

The Plaintiff claims (the “Claim”) against (1) the Company in the total sum of HK\$5,000,000 together with interest and costs by way of two cheques of the Company each being in the amount of HK\$2,500,000 respectively dated 30 June 2007 and 31 October 2007 given to the Plaintiff by the 2nd Defendant which were dishonoured due to account close; and (2) against the Defendants jointly and severally damages in the sum of HK\$25,000,000 and further or in the alternative, the total sum of HK\$5,000,000 due under the afore-mentioned cheques together with interest and costs.

The Company has been advised by its legal adviser that the Plaintiff had no grounds for the Claim and the Company filed its defence on 28 March 2008 and witness statement on 30 July 2009. Since then, witness statements had been exchanged. The trial hearing has been scheduled on 24 November 2010 to 9 December 2010. The Company will keep its shareholders and potential investors informed of any further significant developments.

Save as disclosed above, the Group was not engaged in any litigation or arbitration or claims of material importance which is known to the Directors to be pending or threatened by or against the Group as at 31 March 2010.

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

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

## **AUDIT COMMITTEE**

The Company has established an audit committee with written terms of reference in compliance with Rules 5.28 to 5.29 of the GEM Listing Rules. As at the date of this announcement, the audit committee comprises three independent non-executive Directors, namely, Mr. Leung Wo Ping *JP* (Chairman), Mr. Dong Shi and Mr. Hu Dingdong.

The duties of the audit committee include reviewing the Group's annual reports and accounts, half-yearly reports and quarterly reports and providing advice and comments thereon to the Board. The audit committee is also responsible for reviewing and supervising the financial reporting process and internal control procedures of the Company, and to review the appointment of external auditors on an annual basis as well as to ensure independence of the continuing auditor.

## **CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules as its Code of Conduct for Securities Transactions by Directors throughout the nine months ended 31 March 2010. 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 nine months ended 31 March 2010.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the nine months ended 31 March 2010.

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

Hong Kong, 14 May 2010

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

*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).*