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

*(Incorporated in Bermuda with limited liability)*
(Stock Code: 8046)

**ANNUAL RESULTS ANNOUNCEMENT**
**For the year ended 30 June 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.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.



*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.*

* *For identification purposes only*

## HIGHLIGHTS

- The Group recorded a consolidated turnover of approximately HK$653.3 million for the year ended 30 June 2010, representing an increase of approximately 92% when compared with that of approximately HK$339.4 million for the corresponding period in 2009.
- The Group recorded a profit attributable to equity holders of approximately HK$181.0 million for the year ended 30 June 2010 as compared to approximately HK$110.7 million in the previous financial year, representing an increase of about 64%.
- Basic earnings per share of the Company was approximately HK11.96 cents for the year ended 30 June 2010 as compared to approximately HK11.28 cents for the last financial year, representing an increase of approximately 6%.
- The Group's principal businesses recorded rapid development and strong profits during the financial year ended 30 June 2010.
- The Board recommends the payment of a bonus share dividend in respect of the year ended 30 June 2010 on the basis of one bonus share at par for every thirty (30) existing shares of the Company held to shareholders.

## 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 financial year ended 30 June 2010.

### Financial Performance

For the financial year ended 30 June 2010, the Group recorded a consolidated turnover of approximately HK$653.3 million (2009: HK$339.4 million) and a profit attributable to equity holders of the Company of approximately HK$181.0 million (2009: HK$110.7 million). The basic earnings per share was approximately HK11.96 cents, compared to approximately HK11.28 cents of the last financial year. The directors recommend the payment of a bonus share dividend in respect of the year ended 30 June 2010 on the basis of one bonus share at par for every thirty (30) existing shares of the Company held to shareholders (2009: Nil).

### Business Review and Future Prospects

Specializing in advanced encrypted integrated circuits and wireless digital audio integrated circuits and the integrator of its system (equipment) solutions, the Group has continued to focus its business on and increase its capital investment in the technology products of advanced encryption integrated circuits and in the digital television broadcasting industry in mainland China, as well as market development and promotion in this financial year, for which the Group has achieved highly satisfactory results.

In respect of the wireless digital television business, in order to satisfy the substantial demand for the Group's products and the services as provided by the Group from the massive end-users and the market, the Group has increased in the financial year its capital investment in the digital terrestrial television business. The Group also expanded its systems and equipment integration services in the provinces with which contracts had been entered into, and has established a sophisticated business operation model, which builds a stable customer base and partners relationship in respect of the industry chain, creating a advantageous environment for the Group's business development and the economy of scale.

As a renowned and large-scale designer and supplier of wireless audio base band integrated circuits and information security technology products, the Group has continued to explore new customer markets during the financial year. In addition to the consolidation and expansion of the existing customer base, the Group increases its market share, and supplies wireless multimedia transmission base band integrated circuits, which was developed from in-depth research and development, and a series of information security products for various reputable domestic and overseas customers, establishing a certain level of customer base while achieving economies of scale.

In adapting to the policy of the integration of the three networks of broadcasting digital TV business in China and to accommodate the huge market demand, the Group planned and initiated the market expansion activities for the business of the digital cable television two-way conversion in respect of the integration of the three networks during the financial year. The Group proceeded with the development of partnership businesses in the contracted regions and established the patterns of operation and earning for developing the digital cable television, thereby building the foundation for sustainable development of the Group.

The Group will adapt to and capture the immense domestic business opportunities in China by coping with the domestic demand and development of the broadcasting digital television business in the mainland, further strengthening and exploring the market of wireless digital television and digital cable television two-way conversion business, developing relative businesses and providing services of relative businesses in order to achieve economies of scale. The Group will continue to maintain and enhance the leading position in the areas of information security, and in supplying products and solutions to the gaming, PC markets products and multimedia transmission, and identify new markets for new source of growth in revenue.

Capitalizing on the vast domestic business opportunities in China, the Group's aggressive market expansion, effective and sophisticated patterns of business operation and earnings, rapid growth in the favourable partners relationship and customer base, the Group will be able to achieve a more sustaining and competitive foundation of business operation with more comprehensive benefits, which the Board expects 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 all our dedicated staff for their hard work and efforts that have contributed to the sustained growth of the Group over the year.

## RESULTS

**Consolidated Statement of Comprehensive Income**
*For the year ended 30 June 2010*

| | Notes | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|---|
| Turnover | 3 | **653,260** | 339,365 |
| Cost of sales | | **(390,222)** | (176,017) |
| **Gross profit** | | **263,038** | 163,348 |
| Other income | | **1,050** | 11,602 |
| Selling and marketing expenses | | **(4,007)** | (2,261) |
| Other operating expenses | | **(44,657)** | (44,856) |
| Profit from operations | | **215,424** | 127,833 |
| Gain on disposal of subsidiaries | | **—** | 541 |
| Impairment loss on available-for-sale investments | | **—** | (2,174) |
| Loss on disposal of available-for-sale investments | | **—** | (791) |
| Finance costs | | **(11,049)** | (1,974) |
| **Profit before taxation** | 4 | **204,375** | 123,435 |
| Taxation | 5 | **(8,730)** | (5,429) |
| **Profit for the year** | | **195,645** | 118,006 |
| **Other comprehensive income** | | | |
| Exchange differences on translating foreign operations | | **4,424** | (286) |
| **Total comprehensive income for the year** | | **200,069** | 117,720 |
| **Profit attributable to:** | | | |
| Equity holders of the Company | | **181,042** | 110,698 |
| Non-controlling interest | | **14,603** | 7,308 |
| | | **195,645** | 118,006 |
| **Total comprehensive income attributable to:** | | | |
| Equity holders of the Company | | **185,221** | 110,424 |
| Non-controlling interest | | **14,848** | 7,296 |
| | | **200,069** | 117,720 |
| **EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY** | 6 | | |
| **Basic** | | **11.96 cents** | 11.28 cents |
| **Diluted** | | **10.63 cents** | 11.27 cents |

**Consolidated Statement of Financial Position**
*At 30 June 2010*

| | Notes | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | | **7,187** | 1,926 |
| Goodwill | | **753,146** | 284,846 |
| Intangible assets | | **34,107** | 18,415 |
| Trade receivables | 8 | **227,804** | 48,845 |
| | | **1,022,244** | 354,032 |
| **Current assets** | | | |
| Inventories | | **2,889** | 4,004 |
| Trade receivables | 8 | **452,126** | 228,777 |
| Prepayments, deposits and other receivables | | **29,348** | 21,923 |
| Amount due from a related company | | **1,993** | 1,974 |
| Cash at bank and in hand | | **65,401** | 92,410 |
| | | **551,757** | 349,088 |
| **Current liabilities** | | | |
| Trade payables | 9 | **223,689** | 168,746 |
| Other payables and accruals | | **38,173** | 9,232 |
| Obligations under finance leases | | **345** | 78 |
| Loan from a shareholder | | **30,000** | 30,000 |
| Tax payables | | **14,329** | 5,549 |
| | | **306,536** | 213,605 |
| **Net current assets** | | **245,221** | 135,483 |
| **Total assets less current liabilities** | | **1,267,465** | 489,515 |
| **Non-current liabilities** | | | |
| Obligations under finance leases | | **886** | 349 |
| Deferred tax liabilities | | **2,267** | 2,713 |
| Convertible notes payable | | **176,694** | — |
| | | **179,847** | 3,062 |
| **NET ASSETS** | | **1,087,618** | 486,453 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | 10 | **15,639** | 13,857 |
| Reserves | | **1,042,404** | 463,167 |
| | | **1,058,043** | 477,024 |
| Non-controlling interests | | **29,575** | 9,429 |
| | | **1,087,618** | 486,453 |

# Consolidated Statement of Changes in Equity

*For the year ended 30 June 2010*

| | Attributable to equity holders of the Company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Share capital** *HK$'000* | **Share premium** *HK$'000* | **Capital reserve** *HK$'000* | **Exchange fluctuation reserve** *HK$'000* | **Investment valuation reserve** *HK$'000* | **Share option reserve** *HK$'000* | **Convertible notes reserve** *HK$'000* | **(Accumulated losses)/ retained earnings** *HK$'000* | **Total** *HK$'000* | **Non-controlling interests** *HK$'000* | **Total equity** *HK$'000* |
| At 1 July 2008 | 5,580 | 110,320 | (595) | 45 | 5,834 | — | — | (54,856) | 66,328 | — | 66,328 |
| Total comprehensive income for the year | — | — | — | (274) | — | — | — | 110,698 | 110,424 | 7,296 | 117,720 |
| Transfer on disposal of available-for-sale investments | — | — | — | — | (5,362) | — | — | — | (5,362) | — | (5,362) |
| Issue of convertible notes | — | — | — | — | — | — | 156,447 | — | 156,447 | — | 156,447 |
| Issue of new shares on conversion of convertible notes | 7,786 | 264,510 | — | — | — | — | (156,447) | — | 115,849 | — | 115,849 |
| Recognition of share-based payments | — | — | — | — | — | 14,738 | — | — | 14,738 | — | 14,738 |
| Share options exercised | 491 | 21,745 | — | — | — | (4,401) | — | — | 17,835 | — | 17,835 |
| Release upon cancel of vested share options | — | — | — | — | — | (5,825) | — | 5,825 | — | — | — |
| Share issue expenses | — | (15) | — | — | — | — | — | — | (15) | — | (15) |
| Non-controlling interests arising from acquisition of subsidiaries | — | — | — | — | — | — | — | — | — | 5 | 5 |
| Disposal of subsidiaries | — | — | (4) | (45) | (472) | — | — | — | (521) | — | (521) |
| Reserves arising from capital injection to a non-wholly owned subsidiary | — | — | 1,301 | — | — | — | — | — | 1,301 | 2,128 | 3,429 |
| At 30 June 2009 | 13,857 | 396,560 | 702 | (274) | — | 4,512 | — | 61,667 | 477,024 | 9,429 | 486,453 |
| Total comprehensive income for the year | — | — | — | 4,179 | — | — | — | 181,042 | 185,221 | 14,848 | 200,069 |
| Issue of convertible notes | — | — | — | — | — | — | 300,800 | — | 300,800 | — | 300,800 |
| Issue of new shares | 1,000 | 69,000 | — | — | — | — | — | — | 70,000 | — | 70,000 |
| Share issue expenses | — | (2,041) | — | — | — | — | — | — | (2,041) | — | (2,041) |
| Recognition of share-based payments | — | — | — | — | — | 650 | — | — | 650 | — | 650 |
| Share options exercised | 782 | 27,853 | — | — | — | (3,270) | — | — | 25,365 | — | 25,365 |
| Release upon cancel of vested share options | — | — | — | — | — | (196) | — | 196 | — | — | — |
| Release upon deregistration of a subsidiary | — | — | 599 | — | — | — | — | (599) | — | — | — |
| Reserves arising from capital injection to non-wholly owned subsidiaries | — | — | 1,024 | — | — | — | — | — | 1,024 | 5,298 | 6,322 |
| At 30 June 2010 | 15,639 | 491,372 | 2,325 | 3,905 | — | 1,696 | 300,800 | 242,306 | 1,058,043 | 29,575 | 1,087,618 |

*Notes:*

**1. General Information**

Heng Xin China Holdings Limited (the "Company") is an exempted company with limited liability incorporated in Bermuda. The address of its registered office is Clarendon House, 2 Church House, Hamilton HM11, Bermuda and its principal place of business is Unit 3, 43/F., Far East Finance Centre, 16 Harcourt Road, Hong Kong. The Company's shares are listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The principal activity of the Company is investment holding. The principal activities of the Group are engaged in wireless digital terrestrial television network equipment integrated business, digital cable television two-way conversion business, research, design, development on and manufacturing of electronic message security products, integrated circuits, and the integrated circuit solutions and the related services.

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

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

These consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure provisions of the GEM Listing Rules.

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments, which are measured at fair value. The measurement bases are fully described in the accounting policies as stated in the annual report.

The consolidated financial statements have been reviewed by the Company's audit committee.

In the current year, the Group and the Company have applied the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by HKICPA which are or have become effective.

| | |
|---|---|
| HKFRSs (Amendments) | Improvements to HKFRSs issued in 2008 |
| HKFRSs (Amendments) | Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39 |
| HKAS 1 (Revised 2007) | Presentation of Financial Statements |
| HKAS 23 (Revised 2007) | Borrowing Costs |
| HKAS 27 (Revised) | Consolidated and Separate Financial Statements |
| HKAS 32 & 1 (Amendments) | Puttable Financial Instruments and Obligations Arising on Liquidation |
| HKAS 39 (Amendment) | Eligible Hedged Items |
| HKFRS 1 & HKAS 27 (Amendments) | Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate |
| HKFRS 2 (Amendment) | Vesting Conditions and Cancellations |
| HKFRS 3 (Revised) | Business Combinations |
| HKFRS 7 (Amendment) | Improving Disclosures about Financial Instruments |
| HKFRS 8 | Operating Segments |
| HK(IFRIC) - Int 15 | Agreements for the Construction of Real Estate |
| HK(IFRIC) - Int 16 | Hedges of a Net Investment in a Foreign Operation |
| HK(IFRIC) - Int 17 | Distributions of Non-cash Assets to Owners |
| HK(IFRIC) - Int 18 | Transfers of Assets from Customers |

Except as described below, the adoption of the new and revised HKFRSs had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

*HKAS 1 (Revised 2007) Presentation of Financial Statements*

HKAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the consolidated financial statements) and changes in the format and content of the consolidated financial statements.

*HKAS 23 (Revised 2007) Borrowing Costs*

HKAS 23 (Revised 2007) removes the option previously available to expense all the borrowing costs when incurred. The adoption of HKAS 23 (Revised 2007) has resulted in the Group changing its accounting policy to capitalise all such borrowing costs as part of the cost of the qualifying asset. The Group has applied the revised accounting policy to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 July 2009 in accordance with the transitional provisions in HKAS 23 (Revised 2007).

As the revised accounting policy has been applied prospectively from 1 July 2009, this change in accounting policy has not resulted in restatement of amounts reported in respect of prior accounting periods. In the current year, no borrowing costs were capitalised.

*HKFRS 8 Operating Segments*

HKFRS 8 requires the presentation of operating segments in a manner consistent with the internal reports that are regularly reviewed by the Group's chief operating decision maker (see note 3 for details). HKFRS 8 replaces HKAS 14 Segment Reporting which required an entity to identify two sets of segments (business and geographical). The adoption of HKFRS 8 has resulted in a redesignation of the Group's operating segments.

*Improving Disclosures about Financial Instruments (Amendments to HKFRS 7 Financial Instruments: Disclosures)*

The amendments to HKFRS 7 expand the disclosures required in relation to fair value measurements in respect of financial instruments which are measured at fair value. The Group has not provided comparative information for the expanded disclosures in accordance with the transitional provision set out in the amendments.

The Group and the Company have not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

| | |
|---|---|
| HKFRSs (Amendments) | Improvements to HKFRSs 2009[1] |
| HKFRSs (Amendments) | Improvements to HKFRSs 2010[2] |
| HKAS 24 (Revised) | Related Party Disclosures[6] |
| HKAS 32 (Amendment) | Classification of Rights Issues[4] |
| HKFRS 1 (Amendment) | Additional Exemptions for First-time Adopters[3] |
| HKFRS 1 (Amendment) | Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[5] |
| HKFRS 2 (Amendment) | Group Cash-settled Share-based Payment Transaction[3] |
| HKFRS 9 | Financial Instruments[7] |
| HK(IFRIC) - Int 14 (Amendment) | Prepayments of a Minimum Funding Requirement[6] |
| HK(IFRIC) - Int 19 | Extinguishing Financial Liabilities with Equity Instruments[5] |

1 Amendments that are effective for annual periods beginning on or after 1 January 2010
2 Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate
3 Effective for annual periods beginning on or after 1 January 2010
4 Effective for annual periods beginning on or after 1 February 2010
5 Effective for annual periods beginning on or after 1 July 2010
6 Effective for annual periods beginning on or after 1 January 2011
7 Effective for annual periods beginning on or after 1 January 2013

HKFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of Group's financial assets.

The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the consolidated financial statements.

## 3. Turnover and segment information

Turnover represents the aggregate of net invoiced value of sales, after sales allowance for returns and trade discounts, and income from provision of services.

Revenue recognised during the year is as follows:

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Turnover | | |
| Sales of goods | **594,538** | 263,951 |
| Service income | **58,722** | 75,414 |
| | **653,260** | 339,365 |

The segment information for the year ended and as at 30 June 2010 is as follows:

| | Wireless digital terrestrial television network equipment integration *HK$'000* | Digital cable television two-way conversion equipment & services *HK$'000* | Encrypted integrated circuits *HK$'000* | Wireless digital audio integrated circuits *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|---|
| **Revenue** | | | | | |
| Segment turnover from external customers | **333,205** | **103,654** | **108,118** | **108,283** | **653,260** |
| Segment results | **95,686** | **32,620** | **88,120** | **26,068** | **242,494** |
| Unallocated income | | | | | **1,050** |
| Unallocated expenses | | | | | **(28,120)** |
| **Profit from operations** | | | | | **215,424** |
| Finance costs | | | | | **(11,049)** |
| **Profit before taxation** | | | | | **204,375** |
| Taxation | | | | | **(8,730)** |
| **Profit for the year** | | | | | **195,645** |
| **Assets** | | | | | |
| Segment assets | **629,383** | **205,002** | **185,145** | **534,548** | **1,554,078** |
| Unallocated assets | | | | | **19,923** |
| Consolidated total assets | | | | | **1,574,001** |
| **Liabilities** | | | | | |
| Segment liabilities | **112,450** | **48,032** | **41,892** | **72,759** | **275,133** |
| Unallocated liabilities | | | | | **211,250** |
| Consolidated total liabilities | | | | | **486,383** |
| **Other information** | | | | | |
| Capital expenditure | **8,898** | **2,167** | **2,224** | **8,619** | **21,908** |
| Unallocated capital expenditure | | | | | **3,329** |
| Total capital expenditure | | | | | **25,237** |
| Depreciation | **237** | **8** | **23** | **759** | **1,027** |
| Unallocated depreciation | | | | | **804** |
| Total depreciation | | | | | **1,831** |

The segment information for the year ended and as at 30 June 2009 is as follows:

| | Wireless digital terrestrial television network equipment integration *HK$'000* | Encrypted integrated circuits *HK$'000* | Wireless digital audio integrated circuits *HK$'000* | Sales of computer parts *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|---|
| **Revenue** | | | | | |
| Segment turnover from external customers | 223,897 | 53,964 | 56,806 | 4,698 | 339,365 |
| Segment results | 64,410 | 46,989 | 40,874 | (389) | 151,884 |
| Unallocated income | | | | | 11,602 |
| Unallocated expenses | | | | | (35,653) |
| **Profit from operations** | | | | | 127,833 |
| Gain on disposal of subsidiaries | | | | | 541 |
| Impairment loss on available-for-sale investments | | | | | (2,174) |
| Loss on disposal of available-for-sale investments | | | | | (791) |
| Finance costs | | | | | (1,974) |
| **Profit before taxation** | | | | | 123,435 |
| Taxation | | | | | (5,429) |
| **Profit for the year** | | | | | 118,006 |
| **Assets** | | | | | |
| Segment assets | 445,024 | 66,699 | 162,360 | — | 674,083 |
| Unallocated assets | | | | | 29,037 |
| Consolidated total assets | | | | | 703,120 |
| **Liabilities** | | | | | |
| Segment liabilities | 156,985 | 24,164 | 10,725 | — | 191,874 |
| Unallocated liabilities | | | | | 24,793 |
| Consolidated total liabilities | | | | | 216,667 |
| **Other information** | | | | | |
| Capital expenditure | 4,117 | 631 | 109 | — | 4,857 |
| Unallocated capital expenditure | | | | | 1,126 |
| Total capital expenditure | | | | | 5,983 |
| Depreciation | 236 | 18 | 116 | — | 370 |
| Unallocated depreciation | | | | | 423 |
| Total depreciation | | | | | 793 |

*Geographical information*

Over 90% of the Group's revenue and assets are derived from customers and operations based in the PRC and accordingly, no geographical information of the Group is disclosed.

## 4. Profit before Taxation

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

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Auditor's remuneration | **701** | 768 |
| Cost of inventories sold | **380,958** | 169,162 |
| Depreciation | **1,831** | 793 |
| Exchange loss | **128** | 38 |
| Gain on disposal of available-for-sale investments | **—** | (7,138) |
| Gain on disposal of subsidiaries | **—** | (541) |
| Impairment loss | | |
| — available-for-sale investments | **—** | 2,174 |
| — intangible assets | **2,790** | 1,126 |
| — other receivables | **—** | 560 |
| Loss on disposal of property, plant and equipment | **—** | 822 |
| Loss on disposal of available-for-sale investments | **—** | 791 |
| Operating lease charges | | |
| — equipments and motor vehicles | **878** | 321 |
| — office premises | **4,460** | 3,643 |
| — staff quarter | **618** | 159 |
| Research and development costs | **2,911** | 1,252 |
| Staff costs (including directors' remuneration) | | |
| — salaries and allowances | **12,024** | 9,704 |
| — pension scheme contributions | **370** | 263 |
| — share-based payment expenses | **—** | 13,648 |

## 5. Taxation

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Current tax: | | |
| Hong Kong | | |
| — underprovision in prior year | **310** | — |
| Overseas | | |
| — charge for the year | **8,721** | 5,711 |
| — underprovision in prior year | **169** | — |
| Deferred tax: | | |
| Overseas | | |
| — credit for the year | **(470)** | (282) |
| | **8,730** | 5,429 |

The provision for Hong Kong profits tax for 2010 is calculated at 16.5% (2009: 16.5%) of the estimated assessable profits for the year.

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") and Beijing Zhongguang Shitong Technology Company Limited ("Beijing Zhongguang"), 93% owned subsidiaries 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 and 31 December 2010 are the first profit-making year of Beijing Jinqiao and Beijing Zhongguang for the purpose of CIT exemption respectively.

## 6. Earnings per Share

### *(a) Basic*

The calculation of basic earnings per share is based on the consolidated profit attributable to the equity holders of the Company of HK$181,042,000 (2009: HK$110,698,000) and weighted average number of 1,513,495,000 (2009: 981,251,000) ordinary shares in issue during the year.

### *(b) Diluted*

The calculation of diluted earnings per share for the year is based on the adjusted profit attributable to the owners of the Company of HK$190,236,000 (2009: HK$110,698,000) and the weighted average number of ordinary shares of 1,789,133,000 (2009: 982,453,000) outstanding during the year, after adjusting for the effects of all dilutive potential ordinary shares.

The adjusted profit attributable to the owners of the Company is calculated based on the profit attributable to the owners of the Company for the year of HK$181,042,000 (2009: HK$110,698,000) as used in the calculation of basic earnings per share plus effective interest expenses on convertible notes of HK$9,194,000 (2009: Nil).

The weighted average number of ordinary shares used in the calculation of diluted earnings per share is calculated based on the weighted average of 1,513,495,000 (2009: 981,251,000) ordinary shares in issue during the year as used in the calculation of basic earnings per share plus the weighted average of 26,668,000 (2009:1,202,000) ordinary shares deemed to be issued at no consideration as if all the Company's share options had been exercised and the weighted average of 248,970,000 (2009: Nil) ordinary shares deemed to be issued at no consideration as if all the Company's convertible notes had been converted.

## 7. Dividend

The Board of the Company recommends the payment of a final bonus share dividend for the year ended 30 June 2010 on the basis of one bonus share at par for every thirty (30) existing shares of the Company held to shareholders (2009: Nil). The bonus share issue is subject to the passing of the appropriate resolution at the forthcoming annual general meeting.

## 8. Trade Receivables

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trade receivables due from related parties | **1,230** | 313 |
| Other trade receivables | **678,700** | 277,309 |
| | **679,930** | 277,622 |
| Less: portion classified as current assets | **(452,126)** | (228,777) |
| Non-current portion | **227,804** | 48,845 |

The ageing analysis of trade receivables was as follows:

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| 0 — 30 days | **203,795** | 97,289 |
| 31 — 90 days | **19,150** | 82,005 |
| 91 — 180 days | **83,641** | 96,810 |
| Over 180 days | **373,344** | 1,518 |
| | **679,930** | 277,622 |

The ageing analysis of trade receivables that were past due but not impaired are as follows:

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| 0 — 30 days | **68,728** | 3,588 |
| 31 — 90 days | **11,153** | 2,738 |
| 91 — 180 days | **6,016** | 3,066 |
| Over 180 days | **15,957** | 313 |
| | **101,854** | 9,705 |

Given the project phases for the two major customers of the Group in the wireless digital terrestrial television system integration and digitisation span three to five years, corresponding to the infrastructure related upgrades at the provincial level, the credit term granted to these two major customers is within three years from the date of delivery. Accordingly, HK$227,804,000 (2009: HK$48,845,000) is expected to be recovered or settled in more than twelve months from the end of the reporting period.

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.

## 9. Trade Payables

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trade payables due to related parties | **17,471** | 63,366 |
| Other trade payables | **206,218** | 105,380 |
| | **223,689** | 168,746 |

An aged analysis of the trade payables as at the end of the reporting period is as follows:

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 30 days | **145,688** | 58,298 |
| 31 to 60 days | **507** | 57,920 |
| 61 to 90 days | **314** | 50,663 |
| Over 90 days | **77,180** | 1,865 |
| | **223,689** | 168,746 |

## 10. Share Capital

| | **2010** | | 2009 | |
|---|---|---|---|---|
| | **Number of share** | | Number of share | |
| | ***'000*** | ***HK$'000*** | *'000* | *HK$'000* |
| **Authorised:** | | | | |
| Ordinary shares of HK$0.01 each | **10,000,000** | **100,000** | 10,000,000 | 100,000 |
| **Issued and fully paid:** | | | | |
| At beginning of year | **1,385,683** | **13,857** | 558,000 | 5,580 |
| Issue of shares upon placing *(note)* | **100,000** | **1,000** | — | — |
| Issue of shares upon conversion of convertible notes | **—** | **—** | 778,603 | 7,786 |
| Issue of shares upon exercise of share options | **78,220** | **782** | 49,080 | 491 |
| At end of year | **1,563,903** | **15,639** | 1,385,683 | 13,857 |

*Note:*

On 27 August 2009, the Company, Team Effort Investments Limited ("Team Effort") and DBS Asia Capital Limited (the "Placing Agent") entered into a placing agreement pursuant to which Team Effort has agreed to place, and the Placing Agent has agreed to procure not less than six placees, on a best effort basis, for the purchase of up to 100,000,000 shares of the Company at the placing price of HK$0.70 per placing shares ("Placing").

On the same date, the Company and Team Effort entered into a "top-up" subscription agreement pursuant to which Team Effort has agreed to subscribe for such number of subscription shares which is equivalent to the number of shares actually placed under the Placing, being a maximum number of 100,000,000 subscription shares at the subscription price of HK$0.70 per subscription share (the "Subscription"). Details of these transactions are set out in the Company's announcement dated 27 August 2009. The Placing and the Subscription was completed on 1 September 2009 and 9 September 2009 respectively. A total of 100,000,000 new shares were issued and approximately HK$68 million was raised for the general working capital of the Company and its subsidiaries.

## MANAGEMENT DISCUSSION AND ANALYSIS

### I. THE GROUP

In the current financial year, the Group's principal businesses in various fields recorded rapid development and profits. Based on its proprietary core technology accessed to television broadcasting field in Hunan and Hubei provinces, the Group has began promoting wireless digital terrestrial television service since 2009. Coincidentally with the year the PRC government implements the policy that predisposes to terminate the analog television signal, local television operators therefore focus on the development of their businesses in rural areas, which are not covered by the cable television service as the urban cities. The Group's businesses have developed rapidly since. Currently, the Group's core business includes four parts: wireless digital terrestrial television equipment integration business in rural areas, digital cable television two-way conversion business in urban areas, encryption integrated circuit business and wireless digital audio integrated circuit business. The businesses are mainly delivered through PRC television broadcasting communications network to provide brand new services for their customers.

At the beginning of 2010, riding on the national "three-network convergence" policies, the Group has accessed to the cable television segment by virtue of its good cooperation developed with the provincial television operators in 2009. The Group has successfully entered into business cooperation agreements with television operators in Nanchang, Jiangxi and Anhui provinces respectively in relation to the construction and development of digital cable television two-way conversion and value-added business. At this point, the Group has rapidly transformed from a relatively basic projects integrator at the beginning of the business reorganisation into a company with dual role in integration and sustaining operation.

In the two years since completion of the business reorganisation, the Group's business scope has increased significantly. Profit attributable to the shareholders has increased to about HK$181 million for the current year, which reflects the Group management's indulgence to its mission to maximise shareholders' value and achieve maximum benefits for the listed company.

The Group's major markets are in favourable condition and the potential is huge. The promotion of the "three-network convergence" policy will mean the television broadcasting industry will get substantive leap in the next few years. According to the forecasts of the industry experts that under the "three-network convergence" policy, the market size in the television broadcasting will near RMB trillion. The Group's wireless digital terrestrial television market will also expand substantially, resulting from the push of the television broadcasting industry nationally. Before the analog television terminates in 2015, it is expected that the wireless digital terrestrial television market size will near RMB100 billion.

The Group has developed its new businesses in just over two years. Historical financial track record for investors' reference is limited and the Group is a new enterprise in the television broadcasting industry. However, the Group has emerged as the sole PRC state standards wireless digital television CA card suppliers and the most powerful domestic technology design and construction of wireless television solution provider. China has the world's biggest television network and the largest number of subscribers. The Group is operating in an industry with strong market demand and currently at the broadcasting television business transformation movement, under the tight development requirements by the state of digitalisation of the television network and the support of the "three-network convergence" national policy. The Group is in a unique position to reap strong profits as an equipment supplier and operator yielding both short-term and long-term gains. The Group possesses numerous suppliers' support, competent professional management team, and achieved market pioneer status particularly in the central China broadcasting region.

## II. BUSINESS REVIEW

During the year under review, the Group has been focusing on the following core technologies and/or business areas:

**Wireless digital terrestrial TV network equipment integration business**

The wireless digital terrestrial television network equipment integration business, which leverages on the Group's key technology — 32-bit security integrated circuits — that guarantees maximum security of Conditional Access ("CA") system to ensure the security, reliability and efficiency of the wireless digital terrestrial television integrated operating network offered by the Group.

During the year under review, the Group has developed and implemented the provision of technology and equipment integration for wireless digital terrestrial television in Hunan and Hubei provinces. The optimisation of wireless digital terrestrial television network and the growth of end users in Hunan and Hubei provinces are much affected by the rainy season in southern part of China, and the volume of product supplied to Hunan and Hubei provinces during the fourth quarter decreased significantly over the third quarter of the financial year, which affected the sales of wireless digital terrestrial television project, and thus the Group's business for the fourth quarter was adversely impacted.

**Digital cable TV two-way conversion equipment and services**

Following the continuous progress of the integration of the telecommunication network, broadcasting television network and internet platforms（三網合一）throughout China, the network groups in various cities and counties in China have already started to upgrade their networks and investment in terminal products. The Group seized the opportunities in the fourth quarter of the financial year to provide customers with module products of over HK$100 million, which are applicable to two-way conversion project, in view of the practical needs of customers and the Group's research and development strengths, which brought promising benefits to the Group.

Pursuant to the business cooperation agreement in relation to the cable television network in Jiangxi Province, PRC, the Group will provide digital cable television two-way conversion equipment and services and jointly develop and operate the value-added services for 15 years in return for revenue sharing in Jiangxi. The initial subscriber base under the agreement is approximately 0.5 million at present and is expected to reach 1.5 million for the Nanchang area alone and allow the Group to gain entrance to the TV value-added business, to share net revenues ranging from 50% to 70% on the new value-added services.

Pursuant to the business cooperation agreement in relation to the cable television network in Anhui, Province, PRC, the Group will provide digital cable television two-way conversion equipment and services and jointly develop and operate the value-added services for 12 years (from the launch of the value-added services in each administrative areas) in return for revenue sharing in Anhui. The subscriber base under the Agreement covering Huainan City, Huaibei City, Shuzhou City and Bozhou City in Anhui Province is approximately 1 million. After the conversions for these cities, the conversion and business cooperation will be extended to cover the whole of Anhui Province with a total coverage of approximately 4 million subscribers expected within two years. The Group will also share net revenues ranging from 40% to 70% on the new value-added services.

The implementation and development of the Group's digital cable television two-way conversion and value-added business require significant capital investment. For instance, building a network of two-way conversion in the scale of millions of users needs approximately RMB400 million, of which part of the funding can be provided by the equipment suppliers according to the supplier contracts. A terminal- or television set-top box on average ranges between RMB400 (SDTV set-top box) to RMB600 (HDTV set-top box) per end-user subscriber. The partial investments in the terminal set-top boxes can be returned in full or by installments after the end-users subscribe the cable television value-added services, while the partial investments in the network construction recover acceleratedly as the volume of end-users increases.

**Information safety technology business**

The Group maintained satisfactory sales performance in system integration business, especially in remote medical project. The Group also got new breakthroughs in the energy saving and emission reduction technologies. New software products had been launched for sale and will generate considerable revenue. The Group also increased its investment in technical development and technical services projects. Thanks to the development results contributed by external parties, the Group strengthened its research and development strengths and actively explored new customers in order to maintain a steady and sustainable growth of our business. The Group not only increased the investment in research and development on new products and technologies in terms of manpower, material and financial resources, but also leveraged on the development results of external parties to fulfill the needs of customers and reinforce the developmental upgrade of its products, in order to maintain its leading position in technologies and secure the sustainable development.

**Wireless multimedia transmission baseband integrated circuits**

The Group is an integrated supplier of wireless short-range products from chips to solutions. The segment includes the home wireless multimedia products, such as wireless stereo headphones and education products; products for games and PC market and wireless communication products. Since the world has been recovered from the global financial crisis, the export market of the Group rebounded. Significant increase in the export sales in the fourth quarter was resulted when compared with that of the third quarter, and the project approval and initiation has been increased two to three folds. The market share increased following a growth in the number of domestic and overseas customers in cooperation in these few years, which provided the Group with an effective protection and profit driver for high revenue for the years to come.

## III. PROSPECTS

With the Chinese government's positive attitude and the implementation of proactive policies, China maintains steady economic growth. By seizing the opportunity of the integration of the telecommunication network, broadcasting television network and internet platforms, the Group studied actively the developmental upgrade of self-developed products which cater for the network integration and carried out technological research and development of system integration products in order to provide customers with superior services and meet their utmost need. Due to the three networks integration, the Group expects to generate sustainable new revenues from its digital cable television two-way conversion business.

For the wireless digital terrestrial TV projects, the Group proactively optimized the network services for customers and provided the required network and terminal products. For the systems integration projects, it is expected that the Group will benefit from the products required by three major network operators, namely China Telecom, China Mobile and China Unicom. In addition, the government and group purchases will generate satisfactory revenue for the Group. The Group will continue to explore new customers base and develop quality technical services in order to maintain a better profit margin.

The orders for the wireless digital audio integrated circuit products will commence its mass production in the coming quarters and many enterprises will explore new profit drivers after the financial crisis. The number of customers of the Group in the export segment has been significantly increased. It is expected that the Group can greatly expand its market share. Apple accessories project will become a highlight to our business growth. The Group has been planning to explore the domestic market to expand the domestic market share before it suffered from the adverse impact of the export market, and has achieved remarkable results in terms of its market share and sales volume. While commencing its mass production for the projects of two domestic listed companies in the coming quarter, it will be a great start for the domestic sales market. The Group will strive to enter into new consumer and automotive electronic markets in order to bring a new and rapid profit driver for the Group.

The Group will strive to achieve ten million subscribers digital cable television value-added business and to cover 6 to 8 provinces in the wireless digital terrestrial television network integration business in the next few years.

The Group targets to:

- become China's largest wireless devices integrator, it is expected that the sales scope of equipment to achieve RMB20 billion in the next five years;
- become China's largest two-way multi-facet value-added service operator;
- become China's largest wireless digital terrestrial television service operator; and
- maintain superior profit level and over the next five years the total profit will grow significantly.

## FINANCIAL REVIEW

For the year ended 30 June 2010, the Group recorded a consolidated turnover of approximately HK$653.3 million, representing an increase of approximately 92% as compared to HK$339.4 million in the last financial year. Profit attributable to shareholders of the Company was approximately HK$181.0 million, compared to approximately HK$110.7 million in the last financial year. Basic earnings per share was approximately HK11.96 cents, compared to approximately HK11.28 cents for the last financial year.

### Turnover

During the year ended 30 June 2010, the turnover of the Group was principally derived from the following business segments. All segments contributed significant increases in turnover when compared to the previous year.

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

The turnover for the year ended 30 June 2010 generated from the wireless digital terrestrial television network equipment integration business amounted to approximately HK$333.2 million (2009: HK$223.9 million) or approximately 51% (2009: 66%) of the total turnover.

*(ii) Digital cable television two-way conversion equipment and services business*

The turnover for the year ended 30 June 2010 generated from the digital cable television two-way conversion equipment and services business amounted to approximately HK$103.7 million (2009: Nil) or approximately 16% (2009: Nil) of the total turnover. This segment of business started to contribute to the Group in the fourth quarter.

*(iii) Encrypted integrated circuits and the derived integrated business*

The turnover for the year ended 30 June 2010 generated from the encrypted integrated circuits and the derived integrated business amounted to approximately HK$108.1 million (2009: HK$54.0 million) or approximately 16% (2009: 16%) of the total turnover.

*(iv) Wireless digital audio products business*

The turnover for the year ended 30 June 2010 generated from the wireless digital audio products business and the related technical services amounted to approximately HK$108.3 million (2009: HK$56.8 million) or approximately 17% (2009: 17%) of the total turnover.

**Gross Profit Margin**

Gross profit margin of the Group was approximately 40.3% (2009: 48.1%).

**Other Income**

Other income amounted to approximately HK$1.1 million (2009: HK$11.6 million), representing a drop of about 91% when compared to that of last financial year. The drop is attributable to the fact that no gain on disposal of available-for-sale investments was recorded during the financial year as all the available-for-sale investments have been disposed of in the previous financial year. For the same reason, no impairment loss on/ loss on disposal of available-for-sale investments was recorded in the financial year compared to approximately HK$3.0 million loss was recorded in the last financial year.

**Other Operating Expenses**

Other operating expenses were approximately HK$44.7 million for the financial year ended 30 June 2010, compared to approximately HK$44.9 million for the financial year ended 30 June 2009.

**Finance Costs**

Finance costs amounted to approximately HK$11.0 million (2009: HK$2.0 million), of which approximately HK$9.2 million represents non-cash effective interest expenses on convertible notes issued by the Company before their full conversions.

**Trade receivables**

Total trade receivables amounted to approximately HK$679.9 million (2009: HK$277.6 million). The trade receivables and their recoverability resulting from the cooperation of the Group and the provincial television broadcasting operators follow with the business practices of domestic business enterprises. To ensure the recovery of these trade receivables, the Group has taken the appropriate measures as follows: (1) the Group and local television broadcasting operators has established joint management account; and (2) the Group's encrypted integrated circuit CA system can effectively control the television signals transmitted to fee paying subscribers imposing a cross check on the operators.

## EMPLOYEE INFORMATION

As at 30 June 2010, the Group had 117 full-time employees in Hong Kong and the PRC (2009: 83). The total employees' remuneration, including that of the Directors, amounted to approximately HK$12.4 million (2009: HK$23.6 million). The decrease in staff costs recorded for the financial year was primarily attributable to the inclusion in the accounts of share based payment of approximately HK$13.6 million related to the grant of the share options under the share option scheme of the Company in the last financial year.

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 year ended 30 June 2010.

## CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

The Group primarily financed its operations with internally generated cash flows. As at 30 June 2010, the cash and bank balances of the Group amounted to approximately HK$65.4 million (2009: HK$92.4 million). The Renminbi denominated balances of HK$37.8 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.

As at 30 June 2010, the Group had current assets of approximately HK$551.8 million (2009: HK$349.1 million), while its current liabilities were approximately HK$306.5 million (2009: HK$213.6 million). The current ratio (current assets to current liabilities) of the Group was approximately 1.8 (2009: 1.6); and its gearing ratio (total borrowings over shareholders' funds) was approximately 0.03 (2009: 0.06).

On 27 August 2009, the Company, Team Effort Investments Limited ("Team Effort") and DBS Asia Capital Limited (the "Placing Agent") entered into a placing agreement pursuant to which Team Effort has agreed to place, and the Placing Agent has agreed to procure not less than six placees, on a best effort basis, for the purchase of up to 100,000,000 shares of the Company at the placing price of HK$0.70 per placing shares (the "Placing"). On the same date, the Company and Team Effort entered into a "top-up" subscription agreement pursuant to which Team Effort has agreed to subscribe for such number of subscription shares which is equivalent to the number of shares actually placed under the Placing, being a maximum number of 100,000,000 subscription shares at the subscription price of HK$0.70 per subscription share (the "Subscription"). Details of these transactions are set out in the Company's announcement dated 27 August 2009. The Placing and the Subscription was completed on 1 September 2009 and 9 September 2009 respectively. Approximately HK$68 million was raised for the general working capital of the Company.

On 14 September 2010, the Company, Team Effort and the Placing Agent entered into another placing agreement pursuant to which Team Effort has agreed to place, and the Placing Agent has agreed to procure not less than six placees, on a best effort basis, for the purchase of up to 200,000,000 shares of the Company at the placing price of HK$0.75 per placing shares (the "2010 Placing"). On the same date, the Company and Team Effort entered into a "top-up" subscription agreement pursuant to which Team Effort has agreed to subscribe for such number of subscription shares which is equivalent to the number of shares actually placed under the Placing, being a maximum number of 200,000,000 subscription shares at the subscription price of HK$0.75 per subscription share (the "2010 Subscription"). Details of these transactions are set out in the Company's announcement dated 14 September 2010. The 2010 Placing was completed on 16 September 2010 and the 2010 Subscription was completed on 24 September 2010 respectively. Approximately HK$148 million was raised from the placing for the digital cable television two-way conversion business and the general working capital of the Group.

On 4 December 2009, the Company issued HK$264,725,020 zero coupon convertible notes (the "Convertible Notes") pursuant to the terms of the sale and purchase agreements dated 19 June 2008 respectively as part of the consideration for the acquisitions of its subsidiaries. The Convertible Notes are convertible at the initial conversion price of HK$0.34 per share, and upon full conversion a total of 778,603,000 conversion shares will be issued by the Company. The Convertible Notes have not been converted into shares as at 30 June 2010.

## FOREIGN EXCHANGE EXPOSURE

During the year ended 30 June 2010, the majority of the Group's income and expenses were denominated in Renminbi and Hong Kong dollars. Up to 30 June 2010, 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 year ended 30 June 2010. 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 30 June 2010, the Group did not have any charge on its assets.

## CONTINGENT LIABILITIES

The Company was named as a co-defendant in a writ of summons on 20 December 2007. The plaintiff alleged that the Company:

(i) failed to honour a joint and several guarantee in respect of the liability of the Defendants under a forbearance agreement to the extent of HK$25,000,000; and

(ii) failed to honour two cheques dated 30 June 2007 and 31 October 2007 in the sum of HK$2,500,000 each, totaling HK$5,000,000 plus interests and costs given by a former Director in his personal capacity out of a bank account which by then had been formally closed by the Company.

Based on the advice from the Group's legal counsel, the Directors are of the view that the Company has a valid defence to the claims and, accordingly, have not made provision for any claim arising from the litigation, other than the related legal and other costs. The Company filed its defence on 28 March 2008 and witness statement on 30 July 2009. The witness statements had been exchanged. The trial hearing has been scheduled on 24 November 2010 to 9 December 2010.

Apart from the action against the Company disclosed above, there were no other material outstanding writ and litigation against the Group and/or the Company. As at 30 June 2010, the Group had no other significant contingent liabilities.

## ACQUISITIONS, DISPOSALS AND SIGNIFICANT INVESTMENT

Save as disclosed in the announcements of the Company in relation to the digital cable television two-way conversion business dated 23 April 2010 and 3 May 2010 respectively, the Group had no material acquisitions or disposals of subsidiaries or significant investment during the year ended 30 June 2010.

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

As at 30 June 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 | Number of 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 | 0.06% |
| Mr. Wu Fred Fong | Chief Financial Officer | Beneficial owner | 1,000,000 | 4,000,000 | 0.32% |

*Note:*

The Directors and the chief executive 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 March 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.

Save as disclosed above, at no time during the year ended 30 June 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 maintained by the Company pursuant to section 336 of the SFO recorded that, as at 30 June 2010, 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 *(Note 1)* | 674,044,706 (L) | Interest in controlled corporation | 43.10% |
| Team Effort Investments Limited *(Note 1)* | 672,044,706 (L) | Interest in controlled corporation | 42.97% |
| Mind Smart Group Limited *(Note 1)* | 469,706,000 (L) | Beneficial owner | 30.03% |
| Li Haoping *(Note 2)* | 348,151,353 (L) | Interest in controlled corporation | 22.26% |
| Lomond Group Limited *(Note 2)* | 348,151,353 (L) | Interest in controlled corporation | 22.26% |
| Easy Mount Enterprises Limited *(Note 2)* | 308,897,000 (L) | Beneficial owner | 19.75% |

*L: Long Position*

*Notes:*

1. Mind Smart Group Limited ("Mind Smart") is a company incorporated in the British Virgin Islands ("BVI") with limited liability. The entire issued share capital of Mind Smart is owned as to 85% by Team Effort Investments Limited ("Team Effort") and 15% by Mr. Lu Xing. Team Effort is wholly owned by Mr. Choi ("Mr. Choi"). Team Effort and Mr. Choi 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. The convertible notes are part of the consideration issued to Mind Smart upon satisfaction of certain conditions pursuant to a sale and purchase agreement in relation to shares of Sino Will Limited entered by the Company, among others, and Mind Smart on 19 June 2008. The convertible note is transferable provided that each of the transfer shall not be less than HK$5,000,000.00 or its multiples. The 469,706,000 shares represent the remaining shares to be allotted and issued upon full conversion of the aforesaid convertible notes. Mr. Choi personally owns 2,000,000 shares and is also deemed to be interested in the 202,338,706 shares held by Team Effort.

2. Easy Mount Enterprises Limited ("Easy Mount") is a company incorporated in the BVI with limited liability. The entire issued share capital of Easy Mount is owned as to 85% by Lomond Group Limited ("Lomond Group") and 15% by Mr. Ho Wai Jung. Lomond Group is wholly owned by Mr. Li Haoping ("Mr. Li"). Lomond Group and Mr. Li are deemed to be interested in the 308,897,000 shares to be issue upon the exercising of the conversion rights attaching to convertible notes. The convertible notes are part of the consideration issued to Easy Mount upon satisfaction of certain conditions pursuant to a sale and purchase agreement in relation to shares of Star Hub Investments Limited entered by the Company, among others, and Easy Mount on 19 June 2008. The convertible note is transferable provided that each of the transfer shall not be less than HK$5,000,000.00 or its multiples. The 308,897,000 shares represent the remaining shares to be allotted and issued upon full conversion of the aforesaid convertible notes. Mr. Li is also deemed to be interested in the 39,254,353 shares held by Lomond Group.

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. Throughout the financial year ended 30 June 2010, the Group has applied the principles set out in the Code on Corporate Governance Practices ("HKSE Code") contained in Appendix 15 of the GEM Listing Rules except the code provision A2.1:

### Distinctive Roles of Chairman and Chief Executive Officer

The code provision A2.1 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 Board has not appointed an individual to the post of Chairman. In view of the current operations of the Group, the management considered that there is no imminent need to change the arrangement. Further announcement will be made by the Company with regard to the appointment of a new Chairman of the Company in due course.

## 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 of the date, 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 year ended 30 June 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 year ended 30 June 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 year ended 30 June 2010.

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

Hong Kong, 27 September 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.*