



**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)

## **ANNUAL RESULTS ANNOUNCEMENT**

**For the year ended 30 June 2009**

### **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 and no assurance is given that there will be a liquid market in the securities traded on GEM.

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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 a consolidated turnover of approximately HK\$339.4 million for the year ended 30 June 2009, representing an increase of approximately ten times when compared with that of approximately HK\$32.8 million for the corresponding period in 2008.
- The Group recorded a profit attributable to equity holders of approximately HK\$110.7 million for the year ended 30 June 2009 as compared to loss attributable to equity holders of approximately HK\$15.8 million in the previous financial year.
- Earnings per share of the Company was approximately HK11.28 cents for the year ended 30 June 2009 as compared to basic loss per share of approximately HK2.86 cents for the last financial year.
- Significant increase in turnover and net profit was predominantly attributable to the success of implementing the newly acquired businesses since late September 2008; the contribution of the contract revenues of the mobile TV project in Hunan to the results of the Group; and the generally significantly higher profit margin of such businesses.
- The Board does not recommend the payment of a final dividend for the year ended 30 June 2009.

## STATEMENT FROM CHIEF EXECUTIVE OFFICER

On behalf of the board of Directors (the “Board”) of Heng Xin China Holdings Limited (formerly known as Tiger Tech Holdings Limited) (the “Company”), I am pleased to present the consolidated results of the Company and its subsidiaries (collectively the “Group”) for the financial year ended 30 June 2009.

### Financial Performance

I am very pleased to report that the financial year ended 30 June 2009 has proved to be a major turnaround year for the Group as a result of the two major acquisitions completed on 23 September 2008. The Group has entered into new business areas that provide significantly improved profit margin and prospects.

For the financial year ended 30 June 2009, the Company and its subsidiaries (collectively the “Group”) recorded a significant increase in consolidated turnover and profit attributable to equity holders of approximately HK\$339.4 million and approximately HK\$110.7 million respectively, compared to a consolidated turnover of approximately HK\$32.8 million and a loss attributable to equity holders of approximately HK\$15.8 million in the previous financial year. The basic earnings per share was approximately HK11.28 cents, compared to the basic loss per share of approximately HK2.86 cents of the last financial year.

### Business Review and Future Prospects

The Group has become the biggest wireless digital TV equipment integrator and integrated circuits (“IC”) designer in China, specialising in advanced encryption IC, wireless digital audio IC, and system solutions. Governments, businesses and end-users have great demand for our products and services. Our corporate identity is better known today and associates well with many name brand giants domestically and internationally.

During the year, the Group continues to provide security IC and a range of information safety products for a number of reputable customers in China and, as the largest wireless audio baseband IC supplier in the world, provide wireless multimedia transmission baseband IC, which was developed from in-depth research and development of the Group. Based on the successful model in Hunan, the Group has recently signed a contract with Hubei province and plans to further engage in two or three provinces in the PRC in the coming year.

We are optimistic that the business opportunities in mainland China will remain buoyant. The Group will further consolidate its leading position in the information safety, gaming and PC markets products, multimedia transmission, and will more aggressively expand applications in the wireless digital TV and mobile communication markets. Our fast growing partnership and customer base calls for a more advanced and cost effective operational base for the Group. The Board envisioned that these collaborations will bring long-term 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 over the year.

## RESULTS

### Consolidated Income Statement

For the year ended 30 June 2009

	<i>Notes</i>	<b>2009</b> <i>HK\$'000</i>	2008 <i>HK\$'000</i> (Restated)
Turnover	3	<b>339,365</b>	32,821
Cost of sales		<b>(176,017)</b>	(32,312)
Gross profit		<b>163,348</b>	509
Other income		<b>11,602</b>	10,105
Selling and marketing expenses		<b>(2,261)</b>	—
Other operating expenses		<b>(44,856)</b>	(16,102)
Profit/(Loss) from operations		<b>127,833</b>	(5,488)
Gain on disposal of subsidiaries		<b>541</b>	—
Impairment loss on available-for-sale investments		<b>(2,174)</b>	(10,350)
Loss on disposal of available-for-sale investments		<b>(791)</b>	—
Finance costs		<b>(1,974)</b>	—
Profit/(Loss) before taxation	4	<b>123,435</b>	(15,838)
Taxation	5	<b>(5,429)</b>	—
Profit/(Loss) for the year		<b>118,006</b>	(15,838)
Attributable to:			
Equity holders of the Company		<b>110,698</b>	(15,838)
Minority interest		<b>7,308</b>	—
		<b>118,006</b>	(15,838)
<b>EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY</b>	<b>6</b>		
Basic		<b>11.28 cents</b>	(2.86 cents)
Diluted		<b>11.27 cents</b>	N/A

## Consolidated Balance Sheet

At 30 June 2009

	Notes	2009 HK\$'000	2008 HK\$'000
<b>Non-currents assets</b>			
Property, plant and equipment		1,926	1,817
Goodwill		284,846	—
Intangible assets		18,415	—
Available-for-sale investments		—	15,499
Deposits for acquisition of subsidiaries		—	20,000
Trade receivables	8	48,845	—
		<u>354,032</u>	<u>37,316</u>
<b>Current assets</b>			
Inventories		4,004	—
Trade receivables	8	228,777	—
Prepayments, deposits and other receivables		21,923	1,885
Amount due from a related company		1,974	—
Pledged deposits		—	4,394
Cash at bank and in hand		92,410	24,073
		<u>349,088</u>	<u>30,352</u>
<b>Current liabilities</b>			
Trade payables	9	168,746	—
Other payables and accruals		9,232	955
Bank overdrafts		—	385
Obligation under finance lease		78	—
Loan from a shareholder		30,000	—
Tax payables		5,549	—
		<u>213,605</u>	<u>1,340</u>
<b>Net current assets</b>		<u>135,483</u>	<u>29,012</u>
<b>Total assets less current liabilities</b>		<u>489,515</u>	<u>66,328</u>
<b>Non-current liabilities</b>			
Obligation under finance lease		349	—
Deferred tax liabilities		2,713	—
		<u>3,062</u>	<u>—</u>
<b>NET ASSETS</b>		<u>486,453</u>	<u>66,328</u>
<b>CAPITAL AND RESERVE</b>			
Share capital	10	13,857	5,580
Reserves		463,167	60,748
		<u>477,024</u>	<u>66,328</u>
Minority interests		9,429	—
		<u>486,453</u>	<u>66,328</u>

## Consolidated Statement of Changes in Equity

For the year ended 30 June 2009

Attributable to equity holders of the Company

	(Accumulated)									Total HK\$'000	Minority interests HK\$'000	Total equity HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Warrant reserve 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	Retained earnings/ losses/ HK\$'000			
At 1 July 2007	4,650	36,850	—	(595)	45	—	—	—	(39,018)	1,932	—	1,932
Gain on fair value changes of available-for-sale investments	—	—	—	—	—	5,834	—	—	—	5,834	—	5,834
Warrants issued	—	—	7,440	—	—	—	—	—	—	7,440	—	7,440
Exercise of warrants	930	73,470	(7,440)	—	—	—	—	—	—	66,960	—	66,960
Net loss for the year	—	—	—	—	—	—	—	—	(15,838)	(15,838)	—	(15,838)
At 30 June 2008	5,580	110,320	—	(595)	45	5,834	—	—	(54,856)	66,328	—	66,328
Exchange realignments	—	—	—	—	(274)	—	—	—	—	(274)	(12)	(286)
Total income and expenses recognised directly in equity	—	—	—	—	(274)	—	—	—	—	(274)	(12)	(286)
Profit for the year	—	—	—	—	—	—	—	—	110,698	110,698	7,308	118,006
Total income and expenses 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)
Minority 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	<u>13,857</u>	<u>396,560</u>	<u>—</u>	<u>702</u>	<u>(274)</u>	<u>—</u>	<u>4,512</u>	<u>—</u>	<u>61,667</u>	<u>477,024</u>	<u>9,429</u>	<u>486,453</u>

Notes:

## 1. General information

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.

The name of the Company was changed from "Tiger Tech Holdings Limited" to "Heng Xin China Holdings Limited" and the Chinese name was changed correspondingly from "老虎科技(控股)有限公司" to "恒芯中國控股有限公司" with effective from 24 November 2008.

The principal activity of the Company is investment holding. The principal activities of the subsidiaries acquired during the year are engaged in ground wireless digital television 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. In the previous year, the principal activities of the Group were trading of computer parts.

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 amendments and interpretations ("new HKFRSs") issued by the HKICPA which are or have become effective.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC) - Int 9 & HKAS 39 (Amendments)	Embedded Derivatives
HK(IFRIC) - Int 12	Service Concession Arrangements
HK(IFRIC) - Int 13	Customer Loyalty Programmes
HK(IFRIC) - Int 14	HKAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting years have been prepared and presented. Accordingly, no prior year adjustment has been required.

### 3. Turnover and revenue

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:

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Turnover		
Sales of goods	263,951	32,821
Service income	75,414	—
	<u>339,365</u>	<u>32,821</u>

#### **SEGMENT INFORMATION**

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

##### *Business segment*

The Group comprises the following main business segments:

#### **2009**

	Contracting revenue from ground wireless digital television <i>HK\$'000</i>	Encrypted integrated circuits <i>HK\$'000</i>	Wireless digital audio integrated circuits <i>HK\$'000</i>	Technical solutions and service income <i>HK\$'000</i>	Other income <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Revenue</b>						
Segment turnover from external customers	<u>223,897</u>	<u>2,736</u>	<u>23,770</u>	<u>75,414</u>	<u>13,548</u>	<u>339,365</u>
Segment results	64,410	448	14,524	67,288	5,214	151,884
Unallocated income						11,602
Unallocated expenses						<u>(35,653)</u>
<b>Profit from operations</b>						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						<u>(1,974)</u>
<b>Profit before taxation</b>						123,435
Taxation						<u>(5,429)</u>
<b>Profit for the year</b>						<u>118,006</u>

## 2008

	Trading of computer parts <i>HK\$'000</i>	Enterprise Thin Client Solutions <i>HK\$'000</i>	Customised Thin Client Application Solutions <i>HK\$'000</i>	Investment holding <i>HK\$'000</i>	Total <i>HK\$'000</i>
Revenue					
Segment turnover from external customers	32,821	—	—	—	32,821
Segment results	(452)	(1,547)	(739)	(1,649)	(4,387)
Unallocated expenses					(1,101)
Loss from operations					(5,488)
Impairment loss on available-for-sale investments					(10,350)
Finance costs					—
Loss before taxation					(15,838)
Taxation					—
Loss for the year					<u>(15,838)</u>

*Geographical segment*

Over 90% of the Group's revenue and assets are derived from customers and operations based in the PRC (2008: in Hong Kong) and accordingly, no further analysis of the Group's geographical segment is disclosed.

#### 4. Profit/ (loss) before taxation

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

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Auditors' remuneration	768	267
Cost of inventories sold	169,162	32,312
Depreciation	793	476
Exchange loss	38	—
Gain on disposal of available-for-sale investments	(7,138)	(8,933)
Gain on disposal of subsidiaries	(541)	—
Impairment loss		
– available-for-sale investments	2,174	10,350
– other receivables	560	—
– trade receivables	—	2,286
Loss on disposal of property, plant and equipment	822	1
Loss on disposal of available-for-sale investments	791	—
Operating lease charges		
– equipments and motor vehicles	321	—
– office premises	3,643	1,050
– staff quarter	159	—
Research and development costs	1,252	—
Staff costs (including directors' remuneration)		
– salaries and allowances	9,704	3,638
– pension scheme contributions	263	94
– share-based payment expenses	13,648	—
	<u>13,648</u>	<u>—</u>

#### 5. Taxation

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Current tax:		
Overseas		
– charge for the year	<u>5,711</u>	<u>—</u>
Deferred tax:		
Overseas		
– credit for the year	<u>(282)</u>	<u>—</u>
	<u>5,429</u>	<u>—</u>

The provision for Hong Kong profits tax for 2009 is calculated at 16.5% (2008: 16.5%) of the estimated assessable profits for the year.

No Hong Kong profits tax have been provided as the Group had sufficient tax losses brought forward to set off against the assessable profits for the year (2008: Nil).

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. Accordingly, no CIT was provided for the year ended 30 June 2009.

## **6. Earnings/ (loss) per share**

### **(a) Basic**

The calculation of basic earnings/(loss) per share is based on the consolidated profit attributable to the equity holders of the Company of HK\$110,698,000 (2008: a loss of HK\$15,838,000) and weighted average number of 981,251,000 (2008: 554,418,000) ordinary shares in issue during the year.

### **(b) Diluted**

The calculation of diluted earnings per share for the year ended 30 June 2009 was based on HK\$110,698,000, being the profit attributable to equity holders of the Company. The weighted average number of ordinary shares used in the calculation of diluted earnings per share was 982,453,000 ordinary shares, calculated based on the weighted average of 981,251,000 ordinary shares in issue during the year as used in the calculation of the basic earnings per share plus the weighted average of 1,202,000 ordinary shares deemed to be issued at no consideration assuming all the Company’s share options had been exercised.

No diluted loss per share has been presented for the year ended 30 June 2008 as the warrants issued during the year ended 30 June 2008 have immaterial dilutive effect on the basic loss per share.

## **7. Dividend**

The Board of the Company does not recommend the payment of a final dividend for the year ended 30 June 2009 (2008: Nil).

## 8. TRADE RECEIVABLES

The Group's credit terms are negotiated at terms determined and agreed with its customers (2008: due on date of delivery).

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Trade receivables due from related parties	313	—
Other trade receivables	277,309	—
	<u>277,622</u>	<u>—</u>
Less: portion classified as current assets	<u>(228,777)</u>	<u>—</u>
Non-current portion	<u><u>48,845</u></u>	<u><u>—</u></u>

The ageing analysis of trade receivables was as follows:

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
0 - 30 days	97,289	—
31 - 90 days	82,005	—
91 - 180 days	96,810	—
Over 180 days	1,518	—
	<u><u>277,622</u></u>	<u><u>—</u></u>

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

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
0 - 30 days	3,588	—
31 - 90 days	2,738	—
91 - 180 days	3,066	—
Over 180 days	313	—
	<u><u>9,705</u></u>	<u><u>—</u></u>

The credit term of the largest customer of the Group is 80% of total contracted amount due within one year from the balance sheet date and the remaining 20% due within the second year from the balance sheet date. Accordingly, HK\$48,845,000 (2008: Nil) is expected to be recovered or settled in more than twelve months from the balance sheet date.

## 9. TRADE PAYABLES

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Trade payables due to related parties	63,366	—
Other trade payables	105,380	—
	<u>168,746</u>	<u>—</u>

An aged analysis of the trade payables as at the balance sheet date is as follows:

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Within 30 days	58,298	—
31 to 60 days	57,920	—
61 to 90 days	50,663	—
Over 90 days	1,865	—
	<u>168,746</u>	<u>—</u>

The carrying amounts of the Group's trade payables approximate to their fair values.

## 10. SHARE CAPITAL

	2009		2008	
	Number of share '000	<i>HK\$'000</i>	Number of share '000	<i>HK\$'000</i>
<b>Authorised:</b>				
Ordinary shares of HK\$0.01 each	<u>1,000,000</u>	<u>100,000</u>	<u>10,000,000</u>	<u>100,000</u>
<b>Issued and fully paid:</b>				
At beginning of year, at HK\$0.01 each	558,000	5,580	465,000	4,650
Issue of shares upon exercise of warrants	—	—	93,000	930
Issue of shares upon conversion of convertible notes	778,603	7,786	—	—
Issue of shares upon exercise of share options	49,080	491	—	—
At balance sheet date	<u>1,385,683</u>	<u>13,857</u>	<u>558,000</u>	<u>5,580</u>

## MANAGEMENT DISCUSSIONS AND ANALYSIS

### I. THE GROUP

The Group is in the business of providing high performance, high safety standards and cost effective integrated circuits and systems. Leveraging on its advance proprietary core technology, the Group is successful in breaking into new markets which deploy its technology serving clients such as government enterprises, businesses and the public consumers in the PRC.

The principal businesses of the Group include the design of advanced security CPU chips dedicated for government enterprises; information safety software design and systems; wireless multimedia transmission baseband integrated circuits and product design services, and state standards ground wireless digital TV network equipment integration systems and services.

At present, the Group has identified a very significant business opportunity in the ground wireless digital TV network equipment integration and system solution sector and hence has appropriately been dedicating resources to capture the significant economic benefits from this opportunity.

### II. BUSINESS REVIEW

Since the completion of the two major acquisitions in September 2008, the Group has been focusing on the following core technologies and/or business areas:

- 1) The information safety technology business. The technology and its intellectual property rights are mainly inherited from and further developed based on the 32-bit security CPU design technology of Beijing Hengtai Technologies Co., Ltd. (“Beijing Hengtai”), which granted a licence in 2008 to the Group’s subsidiary, Beijing Jinqiao Hengtai Technology Company Limited (“Beijing Jinqiao”) for its use under an exclusive agreement for a term of 20 years. As a result of this, the Group is one of the few suppliers in the PRC information safety field which is able to mass-produce 32-bit security CPU chips.
- 2) The design technology and the intellectual property rights of the wireless multimedia transmission baseband integrated circuits. The technology and IP rights which were developed from in-depth research and development in Huzhou Maxium IC Design Co., Limited (“Huzhou Maxium”) since 2005, were contributed as capital contribution upon the establishment of Huzhou Maxium.
- 3) The ground wireless digital TV 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 TV integrated operating network offered by the Group. The Group also has a vast resource of experienced professionals for network design, planning and construction under various geographical conditions. These professionals mostly are recruited from prominent enterprises in China and overseas with relevant technical training and experience. They have deep understanding of and practical experience in the state standards, and can assist the TV operators in planning and construction of the best ground wireless transmission network.

During the year, the Group has developed and implemented the provision of technology and equipment integration for ground wireless digital TV. The Group has entered into an agreement with Hunan Mobile TV Co., Ltd. (“Hunan MTV”) to exclusively undertaking the provision of network systems and related hardwares for ground wireless digital TV project in the Hunan province. It has completed the construction of front end of the wireless digital TV platform in the province and has commenced bulk sales of the terminals/set-up-boxes, which will be a large profit contributor to the Group for the next few years. Based on the already established model in Hunan, the Group has also signed a contract with Hubei province and plans to further engage in two or three provinces in the PRC in the coming year. In addition, the Group is well positioned and plans to expand into the markets of cable digital TV, two-way upgrade and digital satellite television.

As a leading hi-tech company, the Group has successfully implemented a “four in one” network to provide seamless video, audio, data and mobile communication. With regard to the wireless digital TV project in Hunan, the Group integrated the world advanced TANDBERG encoders and HARRIS high-power wireless transmitters with the PRC ground digital TV standards into an integrated platform supporting wireless digital TV business through innovative application of its proprietary automatic equipment recognition software, access right setting software, wireless networks optimizing technology and high-speed data access technology. In addition, the Group’s 32-bit LOADER software is installed in set-up-boxes to ensure the needed balance between the openness of STB and CA and the security of the controlled transmission platform of wireless digital TV.

During the year under review, the Group entered into the wireless digital audio integrated circuits business. Growth was mainly driven by the following three types of wireless peripheral products:

1. *Home wireless multimedia products, such as wireless stereo headphones and education products*

The Group has a number of core technologies in the wireless audio baseband integrated circuits and the products design, including high fidelity compression calculation, baseband transmission protocol, audio processing, security transmission, data error correction and anti-interference treatment, which are the major factors considered when its clients choose its products. These core technologies are also the solid foundation for the Group to continue to launch wireless audio high-definition integrated circuits to maintain its leadership in terms of the technologies and the volume of shipments of its products in the global market.

In addition to its existing major customers, such as Philips, the Group strives to strengthen its marketing effort to further increase its market shares and build up its brand recognition among high-end customers. The Group employs similar cooperation model with Philips to introduce its product design with certain famous domestic brands in the home wireless multimedia market.

2. *Products for games and PC market*

Although the Group has established strategic cooperation with Shouhua and My-Power Technology, both of which are the world’s largest wireless accessory solution providers in the game market, it did not record a significant growth of business due mainly to the adverse effect of the global financial crisis. However, the Group has commenced to supply its products to the largest dealer of wireless game accessories in the world, and the economic results of which will be better felt in the coming quarters.

### 3. *Wireless communication products*

The Group enters this new market as it compliments its existing product lines. With better preparation for entering the 3G communication market, the Group has made a good start and partnered with China's biggest mobile phone operator to become its sole provider of wireless solution for terminals for mobile home multimedia systems in China.

This business segment has been focusing on export sales market and developing domestic sales market and has established various strategic partnerships with, and makes bulk supply to, its major customers, including Philips, Taiwan Shouhua, My-power Technology and 飛揚無限. Benefiting from the positive stimulation of favourable government policies and increase in domestic demand for its products this year, this business segment is growing rapidly despite the severe global financial crisis. The number of its new customers in the overseas markets has also experienced a substantial increase in recent months responding to the early signs of economic recovery. The Group will make further effort to identify other overseas first-class customers and well-known domestic customers to increase its market share and brand recognition.

### **III. FUTURE GROWTH DRIVER**

Currently, there are more than 400 million TV subscribers in the PRC, among which, 150 million subscribers in urban areas are covered mainly by cable. About 70 million subscribers in 9 remote border provinces and remote mountainous areas are covered by satellite benefiting from the Central Government's "village to village" project, which was funded and constructed by the government. In addition, 200 million home subscribers in inland plains and hilly areas will be covered by ground wireless digital TV network.

In order to promote ground wireless digital TV business, Ministry of Information Industry issued the PRC's own Digital Terrestrial Television Broadcasting Transmission Standards (referred to as "National Standards") (GB20600-2006) in August 2006, which paved the way for migrating the ground wireless TV to full digitization (ground wireless digital TV). By 2015, analog TV transmission will completely be phased out.

Following the issue of the National Standards, the local broadcasting and TV authorities have implemented the construction plans. However, as upfront implementation focused in the construction of cable digital TV networks in urban cities. The digitalization migration for ground wireless digital TV networks for the rural areas was largely neglected.

The spokesman of the State Administration of Radio, Film and Television ("SARFT") recently announced that the ground wireless digital TV will be rolled out in a broad scale and it plans to take three to five years for the construction of the ground wireless digital TV and broadcasting system across the country. According to SARFT's plan, the wireless ground digital TV construction will be carried out in two phases: the first phase will cover 37 large and medium cities; and the second phase will cover 333 local cities and 2,861 municipals. Excluded the remote mountainous areas, the ground wireless digital TV signal is scheduled to cover 90% of the TV subscribers in the PRC in three years.

The design and construction of ground wireless TV network requires to use completely new design concepts, special technology and most important of all, the in-depth understanding of industry specific knowledge, application know-how and experience. The Group's professional team is well equipped with the required credentials to participate in the design and implementation of provincial-wide integrated wireless transmission systems.

As of the end of 2008, a total of 800,000 to 900,000 subscribers have subscribed for these networks and the subscriber base is expected to reach 1,500,000 to 2,000,000 in 2009. This will be a great start for the Group to proactively explore this extensive market as in the subsequent three to five years, 200 million subscribers will eventually be required to migrate to the ground wireless digital TV transmission.

Taking advantages of its advanced core technology, possessing the largest professional implementation team in the PRC and good partnership alliances with domestic and foreign enterprises, the Group has become the largest wireless ground digital TV business network equipment integrator in the PRC with resourceful financial capability and leading technologies and know-how. At present, the Group is the most famous provincial level wireless TV operating networks and equipments integrator. The total contracted amount entered into with Hunan and Hubei provinces reached RMB4,500 million, and the proposed contracted amount from MOUs from other provinces reached RMB5,500 million. By 2015, the Group hopes to have completed the construction of wireless digital TV networks in 8 to 10 provinces with a total business that could reach RMB20 billion.

#### **IV. RESEARCH & DEVELOPMENT**

The Group accelerated its R&D efforts during the year. Beijing Jinqiao has obtained the status as software enterprise approved by Ministry of Industry and Information Technology and has obtained the certification as an integrated circuit designer.

Each of the Group's R&D research achievements have obtained proprietary intellectual property rights in China. These R&D achievements are now being commercialized and starting to generate revenues for the Group. The Group also has numerous R&D projects underway, a number of which are in the process of applying for protection under the intellectual property rights.

Information security and wireless communication, the two core technologies of the Group, are under continuous in-depth research and development to enhance the competitiveness of the Group and to improve its products mainly in terms of, among others, costs, performance and wider application. Of the on-going R&D activities/products, the activities below are worthy of mentioning:

- the Group is putting resources in the development of new CA encrypted chips. The affiliated companies of the Group have offered great assistance in the technology, marketing and project planning of the product. Two products will be launched in the near future: a low cost CA encrypted chip for the existing market and compatible with DVB, and a high-end convertible CA encrypted chip of high performance available to the high-end market which is scheduled to be put on the market next year.
- as an integrated supplier of wireless audio short-range products from integrated circuits to solutions, the Group is committed to develop higher standard of transmission chips to and has designed an audio transmission chip with super low power consumption and significantly reduced cost.
- the Group is developing a wireless video transmission chip, a brand new and high tech product, in collaboration with industry leader in the world. Such development would be trend setting for the wireless video transmission industry in China and will be recognized by leading companies in the world.

- the Group's new wireless communication power integrated circuits have been applied to support in mobile phones. The research and development of new chips of higher level of integration is also underway.

The Group will further consolidate its leading position in the information safety, gaming and PC markets products, multimedia transmission, and will more aggressively expand the applications in the wireless digital TV and mobile communication markets.

## V. PROSPECTS

Taking advantage of its state of the art technology and its license in the security field and under the support of relevant government authorities, the Group has identified and is engaging in the a huge market in the wireless digital TV field.

The prospects of PRC digital TV market is significantly promising and is still at its infancy stage. As planned by SARFT, completion of switch from analog to digital TV will take place by 2015, which means digital transformation for the television equipment of more than 400 million TV viewers. At present, the Group has reallocated its resources from the lower margin consumer electronics to focus on technology development and network equipment integration of ground wireless digital TV. The Group intends to further capture this market by engaging two or three provinces in the next year and plans to complete the construction a ground wireless TV transmission network in 8 to 10 provinces before the migration deadline of 2015. The integration of wireless digital TV, satellite digital TV and cable digital TV two-way upgrade will also be a market, which the Group will aggressively pursue in the very near future. Consequently, the Group will become the largest provider of overall design, technology and equipment integration and total solutions for digital TV sector in the PRC.

## FINANCIAL REVIEW

For the year ended 30 June 2009, the Group recorded a consolidated turnover of approximately HK\$339.4 million, representing an increase of approximately ten times as compared to HK\$32.8 million in the last financial year. Profit attributable to shareholders of the Company was approximately HK\$110.7 million, compared to loss of approximately HK\$15.8 million in 2008. Basic earnings per share was approximately HK11.28 cents, compared to basic loss per share of approximately HK2.86 cents for the last financial year.

### Turnover

During the year ended 30 June 2008, the turnover of the Group was entirely derived from the trading of computer parts in Hong Kong.

During the year ended 30 June 2009, the turnover of the Group was principally derived from the following new business segments:

- (i) Ground wireless digital television equipment integration business

The turnover for the year ended 30 June 2009 generated from the ground wireless digital television equipment integration business amounted to approximately HK\$223.9 million or approximately 66% of the total turnover.

(ii) Encrypted integrated circuits and the derived integrated business

The turnover for the year ended 30 June 2009 generated from the encrypted integrated circuits and the derived integrated business amounted to approximately HK\$45.1 million or approximately 13% of the total turnover.

(iii) Wireless digital audio products business

The turnover for the year ended 30 June 2009 generated from the wireless digital audio products business and the related technical services amounted to approximately HK\$54.0 million or approximately 16% of the total turnover.

### **Gross Profit Margin**

In light of the Group's focus on higher margin business after the introduction of the new businesses, gross profit margin of the Group improved significantly to 48.1% for the financial year ended 30 June 2009 from approximately 1.6% for the last financial year. However, it is expected that as the products/services mix of the Group changes over the phases of the underlying contracts, notably between device sales and system/software sales, the profit margin of the Group may, as a consequence, fluctuate due to the nature of such sales mix.

### **Other Income**

Other income amounted to approximately HK\$11.6 million, representing an increase of approximately 14.8% when compared to HK\$10.1 million.

### **Other Operating Expenses**

Other operating expenses were approximately HK\$44.9 million for the financial year ended 30 June 2009, compared to approximately HK\$16.1 million for the financial year ended 30 June 2008, representing an increase of 179% over of the previous financial year. The increase was mainly due to the expansion in size of the Group, increase in staff costs (see below "Employee Information") and increase in general and administration expenses.

### **Finance Costs**

Finance costs amounted to approximately HK\$2.0 million, of which approximately HK\$1.7 million represents effective interest expenses on convertible notes issued by the Company before their full conversions.

### **Available-for-sale Investments**

Impairment loss on available-for-sale investments amounted to approximately HK\$2.2 million for the year ended 30 June 2009 (2008: HK\$10.4 million), representing loss resulted from changes in fair values of available-for-sale investments held by the Group. Such investments were subsequently all disposed of before the year end.

## **EMPLOYEE INFORMATION**

As at 30 June 2009, the Group had 83 full-time employees in Hong Kong and the PRC (2008: 15). The total employees' remuneration, including that of the Directors, amounted to approximately HK\$23.6 million (2008: HK\$3.7 million). The increase in employee benefits expense recorded for the year was primarily attributable to (i) an additional number of employees and an increase in average pay to employees; (ii) increase in Directors' emoluments to approximately HK\$3.7 million (2008: HK\$1.8 million); and (iii) the inclusion in the accounts of share based payment of approximately HK\$5.8 million and HK\$7.8 million related to the grant of the share options under the share option scheme of the Company of 55,000,000 in July 2008 (which were cancelled in October 2008) and 80,000,000 in February 2009 respectively. Though the 55,000,000 share options were subsequently cancelled, the related expenses being previously recognised could not be reversed in the accounts in accordance with the prevailing accounting standards.

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 which will be revised from time to time when performances of staff are warranted. Other benefits include contribution of statutory mandatory provident fund for the employees. There has been no major change in staff remuneration policies during the year.

## **CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES**

The Group primarily financed its operations with internally generated cash flows. As at 30 June 2009, the cash and bank balances of the Group amounted to approximately HK\$92.4 million (2008: HK\$28.4 million). The Renminbi denominated balances of HK\$31.7 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 2009, the Group had current assets of approximately HK\$349.1 million (2008: HK\$30.4 million), while its current liabilities were approximately HK\$213.6 million (2008: HK\$1.3 million). The current ratio (current assets to current liabilities) of the Group was approximately 1.6 (2008: 22.7); and its gearing ratio (total borrowings over shareholders' funds) was approximately 0.06 (2008: 0.01).

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.

## **FOREIGN EXCHANGE EXPOSURE**

During the year ended 30 June 2009, the majority of the Group's income and expenses were denominated in Renminbi and Hong Kong dollars. Up to 30 June 2009, 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 2009. 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 2008, the Group's fixed deposits amounting to HK\$4.3 million were pledged as securities for an operating lease agreement of the Company. After the Company has changed its principal office address on 24 November 2008, such operating lease agreement was terminated. As at 30 June 2009, 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 the liability of the Defendants under a forbearance agreement to the extent of HK\$25,000,000; and
- (ii) failed to honour two cheques in the sum of HK\$2,500,000 each, totaling HK\$5,000,000 plus interests and costs.

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 High Court of Hong Kong ordered the matter to be adjourned to 30 September 2009.

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 2009, the Group had no other significant contingent liabilities.

## **ACQUISITIONS, DISPOSALS AND SIGNIFICANT INVESTMENT**

On 19 June 2008, Rich Summit Enterprises Limited ("Rich Summit"), a wholly owned subsidiary of the Company, together with the Company entered into a sale and purchase agreement with Easy Mount Enterprises Limited (the "Jinqiao Vendor"), Lomond Group Limited, Mr. Li Haoping and Mr. Ho Wai Jung pursuant to which Rich Summit has conditionally agreed to acquire the entire equity interest in Star Hub Investments Limited ("Star Hub") from the Jinqiao Vendor at a consideration of approximately HK\$215.05 million (the "Jinqiao Acquisition"). Star Hub is the holding company of Beijing Jinqiao.

On the same date, Merit Power Enterprises Limited ("Merit Power"), a wholly owned subsidiary of the Company, together with the Company entered into a sale and purchase agreement with Mind Smart Group Limited (the "Maxium Vendor"), Team Effort, Mr. Choi Chung Lam and Mr. Lu Xing pursuant to which Merit Power has conditionally agreed to acquire the entire equity interest in Sino Will Limited ("Sino Will") from the Maxium Vendor at a consideration of HK\$334.4 million (the "Maxium Acquisition"). Sino Will is the holding company of Huzhou Maxium.

The Jinqiao Acquisition and the Maxium Acquisition constituted major transactions for the Company under the GEM Listing Rules and would require the approval of the shareholders of the Company. Details of the Jinqiao Acquisition and Maxium Acquisition are set out in the announcement of the Company dated 15 July 2008 and the circular of the Company dated 29 August 2008. Both the Jinqiao Acquisition and the Maxium Acquisition were approved by the shareholders of the Company on 16 September 2008 and were completed on 23 September 2008. Since then, Star Hub and Sino Will have become wholly owned subsidiaries of the Company.

Save as disclosed above, the Group had no other material acquisitions or disposals of subsidiaries during the year ended 30 June 2009.

#### **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 2009, 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:

<b>Name</b>	<b>Position</b>	<b>Capacity</b>	<b>Shares</b>	<b>Number of underlying Shares (Note 1)</b>	<b>Approximate percentage of interests in the issued share capital</b>
Mr. Xiao Yan	Chief Executive Officer/ Executive Director	Beneficial owner	—	2,200,000	0.16%
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	0.36%
Mr. Chan Wai Dune (Note 2)	Independent non-executive Director	Beneficial owner	—	1,000,000	0.07%

*Notes:*

1. 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 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.
2. Mr. Chan Wai Dune has resigned as an independent non-executive Director with effect from 11 August 2009.

Save as disclosed above, at no time during the year ended 30 June 2009 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 2009, 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**

<b>Name of shareholder</b>	<b>Number or attributable number of shares or underlying shares held</b>	<b>Type of interests</b>	<b>Approximate percentage of interests</b>
Choi Chung Lam ( <i>Note 1</i> )	626,728,706 (L)	Interest in controlled corporation	45.23%
Team Effort Investments Limited ( <i>Note 1</i> )	624,728,706 (L)	Interest in controlled corporation	45.08%
Mind Smart Group Limited ( <i>Note 1</i> )	469,706,000 (L)	Beneficial owner	33.90%
Li Haoping ( <i>Note 2</i> )	389,527,353 (L)	Interest in controlled corporation	28.11%
Lomond Group Limited ( <i>Note 2</i> )	388,527,353 (L)	Interest in controlled corporation	28.04%
Easy Mount Enterprises Limited ( <i>Note 2</i> )	308,897,000 (L)	Beneficial owner	22.29%

*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 155,022,706 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 issued 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 personally owns 1,000,000 shares and is also deemed to be interested in the 79,630,353 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 2009, the Group has applied the principles set out in the Code on Corporate Governance Practices 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. The Board has appointed Mr. Xiao Yan as the Chief Executive Officer of the Company with effect from 1 March 2009 being responsible for the management of the daily operations of the Group and the execution of the Board decisions. Up to the date of

this announcement, the Board has not appointed 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 a appointment of 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 it Code of Conduct for Securities Transactions by Directors throughout the year ended 30 June 2009. 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 2009.

## **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 2009.

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

Hong Kong, 15 September 2009

*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. 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).*