



**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)

## **FIRST QUARTERLY RESULTS ANNOUNCEMENT** **For the three months ended 30 September 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 an unaudited turnover of approximately HK\$179.7 million for the three months ended 30 September 2009, representing an increase of approximately 28 times when compared with that of the corresponding period in 2008.
- The second mobile TV project of the Group in Hubei had kicked off and contributed to the revenues of the Group.
- The Group recorded an unaudited profit before income tax of approximately HK\$48.0 million and unaudited profit after income tax of approximately HK\$47.2 million for the three months ended 30 September 2009 as compared to loss before and after income tax of approximately HK\$9.3 million for the corresponding period in 2008.
- Earnings per share of the Company was approximately HK\$2.77 cents for the three months ended 30 September 2009 as compared to basic loss per share of approximately HK 1.66 cents.
- The Board does not recommend the payment of an interim dividend for the three months ended 30 September 2009.

## RESULTS

The board of Directors (the “Board”) of Heng Xin China Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the three months ended 30 September 2009 together with the comparative unaudited figures for the corresponding period in 2008.

	<i>Note</i>	<b>Three months ended</b>	
		<b>2009</b>	<b>2008</b>
		<b>(Unaudited)</b>	<b>(Unaudited)</b>
		<b>HK\$'000</b>	<b>HK\$'000</b>
Turnover	3	<b>179,710</b>	6,281
Cost of sales		<b>(120,987)</b>	(5,649)
Gross profit		<b>58,723</b>	632
Other income	3	<b>280</b>	4,722
Selling and marketing expenses		<b>(878)</b>	(146)
Other operating expenses		<b>(9,691)</b>	(12,630)
Profit/(loss) from operations		<b>48,434</b>	(7,422)
Impairment loss on available-for-sale investments		<b>—</b>	(1,843)
Finance costs		<b>(423)</b>	—
Profit/(loss) before income tax		<b>48,011</b>	(9,265)
Income tax expenses	5	<b>(853)</b>	—
Profit/(loss) for the period		<b>47,158</b>	(9,265)
Attributable to:			
Equity holders of the Company		<b>43,702</b>	(9,265)
Minority interests		<b>3,456</b>	—
		<b>47,158</b>	(9,265)
Earnings/(loss) per share attributable to equity holders of the Company (expressed in HK cent)	6		
— basic		<b>2.77</b>	(1.66)
— diluted		<b>2.77</b>	N/A
Dividends	7	<b>—</b>	—

Notes:

## 1. General information

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

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

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

## 2. Basis of preparation and accounting policies

The unaudited consolidated results for the three months ended 30 September 2009 have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRSs) issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosure requirements of the GEM Listing Rules.

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

The unaudited consolidated accounts have not been audited by the auditors of the Company, but have been reviewed by the Company's audit committee.

## 3. Turnover and revenue

Turnover and revenue recognised by category during the three months ended 30 September 2009 are as follows:

	<b>Three months ended</b>	
	<b>30 September</b>	
	<b>2009</b>	2008
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Unaudited)
Turnover		
Ground wireless digital television network equipment integration	<b>136,354</b>	—
Encrypted integrated circuits and the derived integrated business	<b>20,787</b>	—
Wireless digital audio products business	<b>22,569</b>	1,583
Sales of computer parts	—	4,698
	<b>179,710</b>	6,281
Other income		
Bank interest income	<b>6</b>	27
Other interest income	<b>163</b>	—
Other income	<b>111</b>	—
Realised gain on disposal of available-for-sale investments	—	4,695
	<b>280</b>	4,722

#### 4. Profit/(loss) before income tax

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

	Three months ended 30 September	
	2009 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)
Cost of inventories sold	120,329	5,649
Depreciation	394	141
Impairment loss on available-for-sale investments	—	1,843
Operating lease charges		
— office premises	950	407
Research and development costs	995	—
Staff costs (including Directors' remuneration)		
— salaries and allowances	2,491	1,435
— pension scheme contributions	9	32
— share-based payment expenses	—	5,825
	<u>          </u>	<u>          </u>

#### 5. Income tax

	Three months ended 30 September	
	2009 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)
Current tax:		
Hong Kong		
— charge for the year	310	—
Overseas		
— charge for the year	543	—
	<u>          </u>	<u>          </u>
	<u>853</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.

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 three months ended 30 September 2009.

## 6. Earnings/(loss) per share

### (a) *Basic earnings/(loss) per share*

Basic earnings/(loss) per share is calculated by dividing the profit/(loss) attributable to the equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

	<b>Three months ended 30 September</b>	
	<b>2009</b>	2008
	<b>(Unaudited)</b>	(Unaudited)
Profit/(loss) attributable to the equity holders of the Company (HK\$'000)	<u>43,702</u>	<u>(9,265)</u>
Weighted average number of ordinary shares in issue (thousands)	<u>1,577,341</u>	<u>557,860</u>
Basic earnings/(loss) per share (HK cent)	<u><u>2.77</u></u>	<u><u>(1.66)</u></u>

### (b) *Diluted earnings per share*

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

	<b>Three months ended 30 September 2009 (Unaudited)</b>
Profit attributable to the equity holders of the Company (HK\$'000)	<u>43,702</u>
Weighted average number of ordinary shares in issue (thousands)	<u>1,577,341</u>
Weighted average number of ordinary shares in issue on the deemed exercise of all share options outstanding during the period (thousands)	<u>1,142</u>
	<u>1,578,483</u>
Diluted earnings per share (HK cent)	<u><u>2.77</u></u>

No diluted loss per share has been presented for the three months ended 30 September 2008 because the only potential dilutive shares are those of the share options granted under the share option scheme of the Company but the conditions for the exercise of such options have not been met during the three months ended 30 September 2008.

## 7. Interim dividend

The Board does not recommend the payment of an interim dividend for the three months ended 30 September 2009 (2008: Nil).

## 8. Reserves

	Attributable to the equity holders of the Company						Total HK\$'000
	Share premium HK\$'000	Capital reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Investment valuation reserve HK\$'000	Share options reserve HK\$'000	(Accumulated losses)/ Retained earnings HK\$'000	
Balance at 1 July 2008	110,320	(595)	45	5,834	—	(54,856)	(60,748)
Issue of new shares on conversion of convertible notes	186,162	—	—	—	—	—	186,162
Change in fair value of available-for-sale investment	—	—	—	(5,153)	—	—	(5,153)
Recognition of share-based payments	—	—	—	—	5,825	—	5,825
Loss for the period	—	—	—	—	—	(9,265)	(9,265)
<b>Balance at 30 September 2008</b>	<b>296,482</b>	<b>(595)</b>	<b>45</b>	<b>681</b>	<b>5,825</b>	<b>(64,121)</b>	<b>238,317</b>
Balance at 1 July 2009	396,560	702	(274)	—	4,512	61,667	463,167
Issue of new shares	69,000	—	—	—	—	—	69,000
Share options exercised	16,490	—	—	—	(1,506)	—	14,984
Share issue expenses	(2,039)	—	—	—	—	—	(2,039)
Exchange adjustment on translation of financial statements of overseas subsidiaries	—	—	354	—	—	—	354
Reserves arising from capital injection to a non-wholly owned subsidiary	—	1,025	—	—	—	—	1,025
Profit for the period	—	—	—	—	—	43,702	43,702
<b>Balance at 30 September 2009</b>	<b>480,011</b>	<b>1,727</b>	<b>80</b>	<b>—</b>	<b>3,006</b>	<b>105,369</b>	<b>590,193</b>

## MANAGEMENT DISCUSSIONS AND ANALYSIS

### Financial review

For the three months ended 30 September 2009, the Group recorded a consolidated turnover of approximately HK\$179.7 million, representing an increase of approximately 28 times when compared to approximately HK\$6.3 million for the corresponding period in the last financial year. Approximately 76% of the turnover is generated from the contract revenues of the ground wireless digital television network equipment integrated business

In light of the Group's focus on higher margin business since the acquisitions, gross profit margin of the Group improved significantly from approximately 10.1% for the corresponding period of last financial year to 32.7% for the current three-month period. 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. At the period end, the second mobile TV project of the Group in Hubei had kicked off and the first shipment was delivered during the quarter. Total design and preparation time had shortened compared to the first Hunan project.

Other income amounted to approximately HK\$0.3 million for the current three-month period, representing a drop of 94% when compared to approximately HK\$4.7 million for the corresponding period in last year. The drop is attributable to the fact that no gain on disposal of available-for-sale investments was recorded during the current period as all the available-for-sale investments have been disposed of in the previous financial year. For the same reason, no impairment loss on available-for-sale investments was recorded in the current period compared to approximately HK\$1.8 million loss was recorded in the same period of last year.

Other operating expenses amounted to approximately HK\$9.7 million for the three months ended 30 September 2009, representing a decrease of 23% when compared to HK\$12.6 million for the three months ended 30 September 2008. The decrease was mainly due to the decrease in legal and professional fee incurred during the period.

The profit attributable to equity holders amounted to approximately HK\$43.7 million for the three months ended 30 September 2009, compared to loss attributable to equity holders of approximately HK\$9.3 million in the corresponding period in the previous financial year. Basic earnings per share was approximately HK 2.77 cents, compared to basic loss per share of approximately HK 1.66 cents for the corresponding period of the last year.

As at 30 September 2009, the cash and bank balances of the Group amounted to approximately HK\$114.4 million (30 June 2009: HK\$92.4 million). The gearing ratio of the Group, calculated as total borrowings over shareholders' funds, was approximately 0.06 (30 June 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. 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. Part of the proceeds were used in the injection as the additional capital of Beijing Jinqiao

Hengtai Technology Company Limited by the Company in the amount of HK\$70 million and Shenzhen Champion Maxium Technology Limited in the amount of RMB16.6 million (equivalent to approximately HK\$18.9 million) during the period.

### **Convertible notes**

Pursuant to the circular of the Company dated 29 August 2008, and (i) a sale and purchase agreement dated 19 June 2008 entered into among the Group, Easy Mount Enterprises Limited (“Easy Mount”), Lomond Group Limited, Mr. Li Haoping and Mr. Ho Wai Jung (collectively the “Jinqiao Vendor”) to acquire the entire equity interest of Star Hub Investments Limited at a total maximum consideration of HK\$215.05 million (the “Jinqiao Hengtai Acquisition”) and (ii) a sale and purchase agreement dated 19 June 2008 entered into among the Group, Mind Smart Group Limited (“Mind Smart”), Team Effort Investments Limited, Mr. Choi Chung Lam, and Mr. Lu Xing (collectively the “Maxium Vendor”) to acquire the entire equity interest of Sino Will Limited at a total maximum consideration of HK\$334.4 million (the “Huzhou Maxium Acquisition”), the balance of the total consideration for the Jinqiao Hengtai Acquisition is to be satisfied as to HK\$105.0 million by the issue of the convertible notes at the initial conversion price of HK\$0.34 (the “Convertible Notes”) on 9 December 2009, the 70th day after 30 September 2009, the last day of the month encompassing the anniversary of the Completion Date (23 September 2008), if the earnings before interest, taxes, depreciation and amortisation (“EBITDA”) of the audited consolidated financial statement (to be prepared based on HKFRSs) of the Star Hub Group would not be less than an equivalent Hong Kong dollar amount of RMB24 million from the Completion Date to 30 September 2009; and the balance of the total consideration for the Huzhou Maxium Acquisition is to be satisfied as to HK\$159.7 million by the issue of the Convertible Notes on 9 December 2009, if the EBITDA of the audited consolidated financial statement (to be prepared based on HKFRSs) of the Sino Will Group would not be less than an equivalent Hong Kong dollar amount of RMB36 million from the Completion Date to 30 September 2009.

The Board will announce the audited results of the Star Hub Group and the Sino Will Group when formally available and the issue of the Convertible Notes in due course.

Details of the acquisitions are set out in the circular dated 29 August 2008 and the announcements dated 23 September 2008 and 26 March 2009 of the Company respectively.

### **Business review**

The Group continues to put in enormous efforts in developing its principal businesses during the three months ended 30 September 2009 and attained highly satisfactory results when compared to the corresponding period of the previous year. Due to the heavier weighting of revenues from the ground wireless digital TV network equipment integration business during the period, which has a relatively higher profit margin, the three-month average gross profit margin increased to approximately 32.7% from approximately 10.1% when compared to that of the last year.

#### *(i) Ground wireless digital TV network equipment integration business*

Approximately HK\$136.4 million or 76% of the total turnover of the Group in the first quarter ended 30 September 2009 was derived from the construction project of the ground wireless digital television operating platform. During the first quarter, the Group has provided further resources for developing the terminals/set-up boxes market; and as for its front-end value-added service, namely programme production, the Group has emphasised on the technology and equipment integration of front-end programme production, thereby contributed to the revenues of the Group.

To secure a larger market share in the digital TV market and make good use of the established business model in Hunan, the Group has signed a five-year strategic cooperation agreement with Hubei Chutian CTV Network Co., Ltd. (湖北省楚天中視網絡有限責任公司) after a lengthy incubation and planning period. The Group has commenced to provide total solutions such as technology and equipment for the Hubei MTV project since September 2009. This segment of business has brought in higher profit growth for the Group. The Group had been in discussion with a few other provincial mobile TV operators and hopes to sign more contracts in the months to come.

(ii) *Information safety products business*

The turnover for the three months ended 30 September 2009 generated from the information safety products business and the related technical services amounted to approximately HK\$20.8 million or approximately 12% of the total turnover. The Group attached importance to the development of integration business, manufacture of security products and provision of software development service for cooperative partners leveraging on its core technical competence to provide business solutions to its partners. All of these co-operative partners had made significant contributions to the operating results of the Group during this quarter.

(iii) *Wireless digital audio products business*

The turnover for the three months ended 30 September 2009 generated from the wireless digital audio products business and the related technical services amounted to approximately HK\$22.6 million or approximately 12% of the total turnover.

During the first quarter, a further increase in domestic demand fuelled the business volume of the domestic customers of the Group. With the expansion of the domestic customers in cooperation for these few years and an increasing market share, aided by state policies, the Group is provided with a strong impetus for high revenue and profit growth in the future. Moreover, with the recovery of the global economy, the business of the Group showed improvements and new products of the customers yielded satisfactory results.

## **Prospects**

The ground wireless digital TV business has an enormous potential for development. The existing wireless digital TV projects in the two markets in Hunan and Hubei had been initiated one after another and there will be a steady growth in the demand of the terminals/set-up boxes. In addition, the integration project of the accessory value-added project business will also become additional profit drivers for the Group. Except for the two provinces aforesaid, the Group plans to start cloning the successful business model of Hunan and Hubei and expand it to three to four provinces for ground wireless digital TV business prior to the end of 2010.

In the near future, the Group attempts to engage in the cable TV market and cooperate with one to two cable operators to develop new revenue sources for the total transformation of cable digital TV and cable two-way upgrades. The Group will strive for becoming one of the largest domestic providers of total solutions in the fields of ground wireless digital TV, migration transformation of cable TV, transformation from single-way to two-way, digital TV and its value-added service in the short to medium term.

The Group has incubated a number of cooperative partners at the early stage of projects of development of its software technology service and system integration, and the cooperative partners will have a healthy development under the favourable changes in the overall economy and, hence, the Group will be able to pioneer into more new businesses.

In respect of the market of wireless digital audio products, more orders will be secured during the next quarter and most enterprises had found their new profit drivers amid the crisis. There will be a significant increase in the number of new export customers of the Group, following the economic recovery as expected in the industry. The Group will seize the chance to increase its market share and make remarked progress with its major customers. The Group has also embarked on planning to develop new products and new applications for the domestic market to enlarge its market share, and has achieved marked results with an increase in both market share and sales volume. The Group is preparing to advance on the 3G communication market, which poses a good start as it has become the sole provider for wireless solution for terminal equipment of household multimedia system of a major telecommunication operator in China. The Group will intensify its efforts in supporting and providing wireless solution for the new 3G market so as to secure new and high profit growth.

## **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 September 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:

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

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

Save as disclosed above, at no time during the three months ended 30 September 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 of substantial shareholders maintained under Section 336 of the SFO shows that as at 30 September 2009, the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital:

### Interests in the shares of the Company

Name of shareholder	Number or attributable number of shares or underlying shares held	Type of interests	Approximate percentage of interests
Choi Chung Lam ( <i>Note 1</i> )	637,236,706 (L)	Interest in controlled corporation	41.57%
Team Effort Investments Limited ( <i>Note 1</i> )	635,236,706 (L)	Interest in controlled corporation	41.44%
Mind Smart Group Limited ( <i>Note 1</i> )	469,706,000 (L)	Beneficial owner	30.64%
Li Haoping ( <i>Note 2</i> )	349,287,353 (L)	Interest in controlled corporation	22.78%
Lomond Group Limited ( <i>Note 2</i> )	348,287,353 (L)	Interest in controlled corporation	22.72%
Easy Mount Enterprises Limited ( <i>Note 2</i> )	308,897,000 (L)	Beneficial owner	20.15%
Atlantis Investment Management Limited	152,000,000 (L)	Investment manager	9.91%

*L: Long Position*

*Notes:*

1. The entire issued share capital of Mind Smart Group Limited is owned as to 85% by Team Effort Investments Limited and 15% by Mr. Lu Xing. Team Effort Investments Limited is wholly owned by Mr. Choi Chung Lam. Team Effort Investments Limited and Mr. Choi Chung Lam are deemed to be interested in the 469,706,000 shares to be issued upon the exercising of the conversion rights attaching to convertible notes. Mr. Choi Chung Lam is also deemed to be interested in the 165,530,706 shares held by Team Effort Investments Limited.
2. The entire issued share capital of Easy Mount Enterprises Limited is owned as to 85% by Lomond Group Limited and 15% by Mr. Ho Wai Jung. Lomond Group Limited is wholly owned by Mr. Li Haoping. Lomond Group Limited and Mr. Li Haoping are deemed to be interested in the 308,897,000 shares to be issued upon the exercising of the conversion rights attaching to convertible notes. Mr. Li Haoping is also deemed to be interested in the 39,390,353 shares held by Lomond Group Limited.

Save as disclosed above, as at 30 September 2009, the Directors or chief executives of the Company were not aware of any other person (other than the Directors or chief executives of the Company) who had an interest or short position in the shares or underlying shares of the Company under Section 336 of the SFO.

## EMPLOYEE SHARE OPTION SCHEME

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

Participants	Number of Shares ( <i>Note</i> )				As of 30 September 2009	Date of Grant	Exercise period	Subscription Price
	As of 1 July 2009	Exercised during the period	Cancelled during the period	Lapsed during the period				
Eligible persons	35,920,000	15,400,000	—	—	20,520,000	18/02/2009	18/03/2009- 17/03/2012	0.37

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

## LITIGATION

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

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

The Company has been advised by its legal adviser that the Plaintiff had no grounds for the Claim and the Company filed its defence on 28 March 2008 and witness statement on 30 July 2008. Since then, witness statements had been exchanged and the case is pending for the setting of a trial date at the high court. The Company will keep its shareholders and potential investors informed of any further significant developments.

Save as disclosed above, the Group was not engaged in any litigation or arbitration or claims of material importance which is known to the Directors to be pending or threatened by or against the Group as at 30 September 2009.

## **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 three months ended 30 September 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 three months ended 30 September 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 three months ended 30 September 2009.

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

Hong Kong, 13 November 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).*