



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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 31 DECEMBER 2009

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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\$340.4 million for the six months ended 31 December 2009, representing an increase of approximately 5 times when compared with that of the same period in 2008.
- The Group recorded an unaudited profit attributable to the owners of the parent of approximately HK\$90.8 million for the six months ended 31 December 2009, representing an increase of approximately 3 times when compared with that of the same period in 2008.
- Earnings per share of the Company was approximately HK\$0.0613 for the six months ended 31 December 2009, representing approximately 1.6 times when compared to HK\$0.0373 of the same period in 2008.
- The Board does not recommend the payment of an interim dividend for the six months ended 31 December 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 and six months ended 31 December 2009 together with the comparative unaudited figures for the corresponding periods in 2008.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	<i>Note</i>	Three months ended 31 December		Six months ended 31 December	
		2009 (Unaudited) <i>HK\$'000</i>	2008 (Unaudited) <i>HK\$'000</i>	2009 (Unaudited) <i>HK\$'000</i>	2008 (Unaudited) <i>HK\$'000</i>
Turnover	3	160,640	58,807	340,350	65,088
Cost of sales		(94,184)	(9,929)	(215,171)	(15,578)
Gross profit		66,456	48,878	125,179	49,510
Other income	3	266	4,409	546	9,131
Selling and marketing expenses		(1,486)	(804)	(2,364)	(950)
Other operating expenses		(10,988)	(6,549)	(20,679)	(19,179)
Profit from operations		54,248	45,934	102,682	38,512
Impairment loss on available-for-sale investments		—	(619)	—	(2,462)
Finance costs	4	(3,336)	(49)	(3,759)	(49)
Profit before taxation	5	50,912	45,266	98,923	36,001
Taxation	6	—	(4,096)	(853)	(4,096)
PROFIT FOR THE PERIOD		50,912	41,170	98,070	31,905
Other comprehensive income:					
Exchange differences on translating foreign operations		181	275	565	275
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		51,093	41,445	98,635	32,180

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Continued)

	Note	Three months ended 31 December		Six months ended 31 December	
		2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
Profit attributable to:					
Owners of the parent		47,068	40,223	90,770	30,958
Non-controlling interests		3,844	947	7,300	947
		<u>50,912</u>	<u>41,170</u>	<u>98,070</u>	<u>31,905</u>
Total comprehensive income attributable to:					
Owners of the parent		47,240	40,494	91,307	31,229
Non-controlling interests		3,853	951	7,328	951
		<u>51,093</u>	<u>41,445</u>	<u>98,635</u>	<u>32,180</u>
Earnings per share (expressed in HK cent)	7				
— basic		<u>3.07</u>	<u>3.65</u>	<u>6.13</u>	<u>3.73</u>
— diluted		<u>3.05</u>	<u>3.01</u>	<u>6.09</u>	<u>3.25</u>
Dividends	8	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 31 December 2009 (Unaudited) <i>HK\$'000</i>	As at 30 June 2009 (Audited) <i>HK\$'000</i>
	<i>Note</i>		
Non-current assets			
Property, plant and equipment	9	7,934	1,926
Goodwill	10	753,146	284,846
Intangible assets	11	32,407	18,415
Trade receivables	12	185,775	48,845
		979,262	354,032
Current assets			
Inventories		3,345	4,004
Trade receivables	12	308,970	228,777
Prepayment, deposits and other receivables		12,268	21,923
Amount due from a related company		1,977	1,974
Pledged deposits		2,677	—
Cash at bank and in hand		80,712	92,410
		409,949	349,088
Current liabilities			
Trade payables	13	177,875	168,746
Other payables and accruals		22,266	9,232
Obligation under finance lease		329	78
Short term loan		2,389	—
Loan from a shareholder		30,000	30,000
Convertible notes	14	170,433	—
Tax payables		6,185	5,549
		409,477	213,605
Net current assets		472	135,483
Total assets less current liabilities		979,734	489,515
Non-current liabilities			
Obligation under finance lease		1,062	349
Deferred tax liabilities		2,713	2,713
		3,775	3,062
NET ASSETS		975,959	486,453
Capital and reserves			
Share capital	15	15,331	13,857
Reserves		938,894	463,167
Equity attributable to owners of the parent		954,225	477,024
Non-controlling interests		21,734	9,429
TOTAL EQUITY		975,959	486,453

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited										
	Attributable to the owners of the parent										
	Share capital	Share premium	Capital reserve	Exchange fluctuation reserve	Investment valuation reserve	Share options reserve	Convertible notes reserve	(Accumulated losses)/ Retained earnings	Total	Non-controlling interests	Total equity
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at											
1 July 2008	5,580	110,320	(595)	45	5,834	—	—	(54,856)	66,328	—	66,328
Issue of new shares	5,450	186,162	—	—	—	—	—	—	191,612	—	191,612
Recognition of equity settled share-based payments	—	—	—	—	—	5,825	—	—	5,825	—	5,825
Transfer on disposal of available-for-sale investments	—	—	—	—	(5,640)	—	—	—	(5,640)	—	(5,640)
Other comprehensive income:											
Exchange difference on translating foreign operations	—	—	—	271	—	—	—	—	271	4	275
Profit for the six months ended 31 December 2008	—	—	—	—	—	—	—	30,958	30,958	947	31,905
Balance at 31 December 2008	11,030	296,482	(595)	316	194	5,825	—	(23,898)	289,354	951	290,305
Balance at											
1 July 2009	13,857	396,560	702	(274)	—	4,512	—	61,667	477,024	9,429	486,453
Issue of new shares	1,474	69,000	—	—	—	—	—	—	70,474	—	70,474
Issue of convertible notes	—	—	—	—	—	—	300,800	—	300,800	—	300,800
Recognition of share-based payments	—	—	—	—	—	650	—	—	650	—	650
Share options exercised	—	16,490	—	—	—	(1,506)	—	—	14,984	—	14,984
Share issue expenses	—	(2,039)	—	—	—	—	—	—	(2,039)	—	(2,039)
Reserves arising from capital injection to a non-wholly owned subsidiary	—	—	1,025	—	—	—	—	—	1,025	4,977	6,002
Other comprehensive income:											
Exchange differences on translating foreign operations	—	—	—	537	—	—	—	—	537	28	565
Profit for the six months ended 31 December 2009	—	—	—	—	—	—	—	90,770	90,770	7,300	98,070
Balance at 31 December 2009	15,331	480,011	1,727	263	—	3,656	300,800	152,437	954,225	21,734	975,959

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 31 December	
	2009	2008
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Net cash used in operating activities	(81,558)	(14,522)
Net cash (used in)/from investing activities	(17,415)	7,405
Net cash from financing activities	86,772	—
Net decrease in cash and cash equivalents	(12,201)	(7,117)
Cash and cash equivalents at 1 July	92,410	23,688
Effect of foreign exchange rate changes	503	—
Cash and cash equivalents at 31 December	80,712	16,571
Analysis of balances of cash and cash equivalents		
Cash at bank and in hand	80,712	16,571

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 financial statements for the six months ended 31 December 2009 have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants and comply with the applicable disclosure provisions of the GEM Listing Rules.

The unaudited consolidated financial statements 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 financial statements 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, revenue and segment information

Turnover and revenue recognised by category during the three and six months ended 31 December 2009 are as follows:

	Three months ended		Six months ended	
	31 December		31 December	
	2009	2008	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Turnover				
Ground wireless digital television network equipment integration business	69,075	—	205,429	—
Encrypted integrated circuits and the derived integrated business	56,107	22,785	76,894	22,785
Wireless digital audio products business	35,458	36,022	58,027	37,605
Sales of computer parts	—	—	—	4,698
	<u>160,640</u>	<u>58,807</u>	<u>340,350</u>	<u>65,088</u>
Other income				
Bank interest income	16	30	22	57
Other interest income	43	—	206	—
Other income	207	1,779	318	1,779
Realised gain on disposal of available-for-sale investments	—	2,600	—	7,295
	<u>266</u>	<u>4,409</u>	<u>546</u>	<u>9,131</u>

The segment results for the six months ended 31 December 2009 are as follows:

	Contracting revenue from ground wireless digital television HK\$'000 (Unaudited)	Encrypted integrated circuits HK\$'000 (Unaudited)	Wireless digital audio integrated circuits HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
Revenue				
Segment turnover from external customers	<u>205,429</u>	<u>76,894</u>	<u>58,027</u>	<u>340,350</u>
Segment results	47,946	58,823	7,810	114,579
Unallocated income				546
Unallocated expenses				<u>(12,443)</u>
Profit from operations				102,682
Finance costs				<u>(3,759)</u>
Profit before taxation				98,923
Taxation				<u>(853)</u>
Profit for the six months ended 31 December 2009				<u>98,070</u>

The segment results for the six months ended 31 December 2008 are as follows:

	Encrypted integrated circuits HK\$'000 (Unaudited)	Wireless digital audio integrated circuits HK\$'000 (Unaudited)	Trading of computer parts HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
Revenue				
Segment turnover from external customers	<u>22,785</u>	<u>37,605</u>	<u>4,698</u>	<u>65,088</u>
Segment results	12,535	29,857	58	42,450
Unallocated income				9,131
Unallocated expenses				<u>(13,069)</u>
Profit from operations				38,512
Impairment loss on available-for-sale investments				(2,462)
Finance costs				<u>(49)</u>
Profit before taxation				36,001
Taxation				<u>(4,096)</u>
Profit for the six months ended 31 December 2008				<u>31,905</u>

4. Finance costs

	Three months ended		Six months ended	
	31 December		31 December	
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Effective interest expenses				
on convertible bonds (<i>note 14</i>)	2,933	—	2,933	—
Interest on loan from a shareholder	397	—	794	—
Interest on other loans	6	49	32	49
	<u>3,336</u>	<u>49</u>	<u>3,759</u>	<u>49</u>

5. Profit before taxation

The Group's profit before taxation is arrived at after charging:

	Three months ended		Six months ended	
	31 December		31 December	
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Cost of inventories sold	92,919	9,929	213,248	15,578
Depreciation	427	112	821	506
Impairment loss on available-for-sale investments	—	619	—	2,462
Operating lease charges-office premises	610	1,512	1,560	1,401
Research and development costs	854	—	1,849	—
Staff costs (including Directors' remuneration)				
— salaries and allowances	3,224	2,129	5,715	4,620
— pension scheme contributions	339	132	348	164
— share-based payment expenses	—	—	—	5,825
	<u>92,919</u>	<u>9,929</u>	<u>213,248</u>	<u>15,578</u>

6. Taxation

	Three months ended		Six months ended	
	31 December		31 December	
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Current tax:				
Hong Kong				
— charge for the period	—	—	310	—
Overseas				
— charge for the period	—	4,096	543	4,096
	<u>—</u>	<u>4,096</u>	<u>853</u>	<u>4,096</u>

The provision for Hong Kong profits tax for the six months ended 31 December 2009 is calculated at 16.5% (2008: 16.5%) of the estimated assessable profits for the period.

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

In accordance with the approval from the relevant tax authorities, Beijing Jinqiao Hengtai Technology Company Limited (“Beijing Jinqiao”), a 93% owned subsidiary of the Group operating in the PRC, is entitled to two years’ exemption from the PRC corporate income tax (“CIT”) followed by three years’ 50% relief from the CIT. The year ended 31 December 2008 is the first profit-making year of Beijing Jinqiao for the purpose of CIT exemption. Accordingly, no CIT was provided for the six months ended 31 December 2009.

7. Earnings per share

(a) Basic earnings per share

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

	Three months ended		Six months ended	
	31 December		31 December	
	2009	2008	2009	2008
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Profit attributable to the owners of the parent (HK\$’000)	<u>47,068</u>	<u>40,223</u>	<u>90,770</u>	<u>30,958</u>
Weighted average number of ordinary shares in issue (thousands)	<u>1,533,083</u>	<u>1,103,022</u>	<u>1,481,512</u>	<u>828,968</u>
Basic earnings per share (HK cent)	<u><u>3.07</u></u>	<u><u>3.65</u></u>	<u><u>6.13</u></u>	<u><u>3.73</u></u>

(b) Diluted earnings per share

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

	Three months ended		Six months ended	
	31 December		31 December	
	2009	2008	2009	2008
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Profit attributable to the owners of the parent (HK\$'000)	<u>47,068</u>	<u>40,223</u>	<u>90,770</u>	<u>30,958</u>
Weighted average number of ordinary shares in issue (thousands)	1,533,083	1,103,022	1,481,512	828,968
Weighted average number of ordinary shares in issue on the deemed conversion of all convertible notes and exercise of all share options outstanding during the period (thousands)	<u>7,651</u>	<u>233,581</u>	<u>8,156</u>	<u>124,997</u>
	<u>1,540,734</u>	<u>1,336,603</u>	<u>1,489,668</u>	<u>953,965</u>
Diluted earnings per share (HK cent)	<u>3.05</u>	<u>3.01</u>	<u>6.09</u>	<u>3.25</u>

8. Interim dividend

The Board does not recommend the payment of an interim dividend for the six months ended 31 December 2009 (2008: Nil).

9. Property, plant and equipment

	31 December 2009	30 June 2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Opening net book amount	1,926	1,817
Acquisition of subsidiaries	—	1,051
Additions	6,825	1,433
Disposals/write off	(2)	(1,577)
Depreciation	(821)	(793)
Exchange realignment	<u>6</u>	<u>(5)</u>
Closing net book amount	<u>7,934</u>	<u>1,926</u>

10. Goodwill

	31 December 2009 <i>HK\$'000</i> (Unaudited)	30 June 2009 <i>HK\$'000</i> (Audited)
Opening net book amount	284,846	—
Acquisition of subsidiaries (<i>Note below</i>)	468,300	284,846
Closing net book amount	753,146	284,846

Note:

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 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 “Maxium Acquisition”), the balances of the total considerations for the Hengtai Acquisition and the Maxium Acquisition had been satisfied as to HK\$105.0 million and HK\$159.7 million by the issue of the convertible notes at the initial conversion price of HK\$0.34 on 4 December 2009 respectively. Details are set out in the announcement of the Company dated 4 December 2009.

11. Intangible assets

	31 December 2009 <i>HK\$'000</i> (Unaudited)	30 June 2009 <i>HK\$'000</i> (Audited)
Technology fee and development costs		
Opening net book amount	18,415	—
Acquisition of subsidiaries	—	15,070
Additions	13,967	4,550
Impairment	—	(1,126)
Exchange realignment	25	(79)
Closing net book amount	32,407	18,415

12. Trade receivables

The Group's credit terms are negotiated at terms determined and agreed with its customers.

	31 December 2009 HK\$'000 (Unaudited)	30 June 2009 HK\$'000 (Audited)
Trade receivables due from related parties (<i>Note 16(i)</i>)	100	313
Other trade receivables	494,645	277,309
	494,745	277,622
Less: portion classified as current assets	(308,970)	(228,777)
Non-current portion	185,775	48,845

The ageing analysis of the trade receivables is as follows:

	31 December 2009 HK\$'000 (Unaudited)	30 June 2009 HK\$'000 (Audited)
0 - 30 days	210,669	97,289
31 - 90 days	11,400	82,005
91 - 180 days	149,220	96,810
Over 180 days	123,456	1,518
	494,745	277,622

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

	31 December 2009 HK\$'000 (Unaudited)	30 June 2009 HK\$'000 (Audited)
0 - 30 days	1,900	3,588
31 - 90 days	5,850	2,738
91 - 180 days	—	3,066
Over 180 days	189	313
	7,939	9,705

Except for the above past due amounts of approximately HK\$7.9 million, all other trade receivables were not yet due for settlements as at 31 December 2009 according to the contracts.

13. Trade payables

	31 December 2009 HK\$'000 (Unaudited)	30 June 2009 HK\$'000 (Audited)
Trade payables due to related parties (<i>note 16(i)</i>)	58,488	63,366
Other trade payables	119,387	105,380
	<u>177,875</u>	<u>168,746</u>

The ageing analysis of the trade payables is as follow:

	31 December 2009 HK\$'000 (Unaudited)	30 June 2009 HK\$'000 (Audited)
0 - 30 days	95,237	58,298
31 - 90 days	9,040	57,920
91 - 180 days	38,121	50,663
Over 180 days	35,477	1,865
	<u>177,875</u>	<u>168,746</u>

14. Convertible notes

On 4 December 2009, an aggregate of HK\$264,725,020 principal amount of redeemable convertible notes were issued upon fulfillment of the fourth payment condition of the “Jinqiao Acquisition” and “Maximum Acquisition”. Further details are set out in the Company’s announcement dated 4 December 2009.

The notes carry zero coupon and convertible into ordinary shares of the Company at an initial conversion price of HK\$0.34 per conversion share (subject to pro-rata adjustments on capital structure changes) at any time during the period commencing from the date of issue of convertible notes. Unless previously converted, lapsed or redeemed by the Company, any outstanding convertible notes shall be redeemed on the fifth anniversary of the issue date of the convertible notes.

The fair value of the liability component, included in the convertible notes, was calculated using a market interest rate for an equivalent non-convertible note. The fair value of the equity conversion component, which is included in shareholders’ equity in convertible notes reserve, was valued by the Black-Scholes-Merton option pricing model.

The liability component of the convertible notes recognised under non-current liabilities of the balance sheet are calculated as follows:

	<i>HK\$'000</i>
	(Unaudited)
At 1 July 2009	—
Issuance of notes by the Company	167,500
Effective interest expenses for the period	2,933
	<hr/>
At 31 December 2009	<u>170,433</u>

Interest expenses on the convertible notes issued are calculated using the effective interest method by applying the effective interest rate of approximately 22.8% to the liability components.

15. Share capital

	Number of shares	<i>HK\$'000</i>
	<i>'000</i>	
Ordinary shares of HK\$0.01 each		
Authorised		
At 30 June 2009 and 31 December 2009	<u>10,000,000</u>	<u>100,000</u>
Issued and fully paid		
At 30 June 2009	1,385,683	13,857
Issue of shares upon Placing (<i>Note below</i>)	100,000	1,000
Issue of shares upon exercise of share options	<u>47,400</u>	<u>474</u>
As at 31 December 2009	<u>1,533,083</u>	<u>15,331</u>

Note:

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

16. Related party transactions

- (i) The Group has carried out the following transactions with related parties:

	Six months ended 31 December	
	2009	2008
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Sales of goods/services to Beijing Hengtai Technologies Co., Ltd.	<u>100</u>	<u>264</u>
Purchase of goods/services from Beijing Hengtai Technologies Co., Ltd.	<u>141,515</u>	<u>—</u>

Note:

Beijing Hengtai Technologies Co., Ltd. holds 7% equity interest of Beijing Jinqiao Hengtai Technology Company Limited. 93% of equity interest of Beijing Jinqiao Hengtai Technology Company Limited was owned by Cambridge International Development Limited, an indirect wholly owned subsidiary of the Company.

The Directors are of the opinion that the above transactions were carried out in the ordinary course of the Group's business based on normal commercial terms.

- (ii) Compensation of key management personnel of the Group:

	Six months ended 31 December	
	2009	2008
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Fees, salaries and other short-term employee benefits	2,233	881
Pension costs-defined contribution plans	<u>8</u>	<u>12</u>
	<u>2,241</u>	<u>893</u>

MANAGEMENT DISCUSSIONS AND ANALYSIS

Financial review

For the six months ended 31 December 2009, the Group recorded a consolidated turnover of approximately HK\$340.4 million, representing an increase of approximately 423% when compared to approximately HK\$65.1 million for the corresponding period in the last financial year. Turnover for the three months ended 31 December 2009 amounted to approximately HK\$160.6 million, representing a decrease of approximately 11% when compared to HK\$179.7 million of the last quarter as resources were allocated to set up the Hubei mobile TV project.

Gross profit margin of the Group dropped from approximately 76.1% for the corresponding period of last financial year to 36.8% for the current six-month period. Given that the products/services mix of the Group changes over the phases of the underlying contracts, the profit margin of the Group may fluctuate due to the nature of such sales mix. The Group's second mobile TV project had kicked off in Hubei since the last quarter and as a consequence, initial costs had been incurred.

Other income amounted to approximately HK\$0.5 million for the current six-month period, representing a drop of 94% when compared to approximately HK\$9.1 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\$2.5 million loss was recorded in the same period of last year.

Other operating expenses amounted to approximately HK\$20.7 million for the six months ended 31 December 2009, representing a slight increase of 8% when compared to HK\$19.2 million for the six months ended 31 December 2008. The increase was mainly due to the increase in general and administration costs including staff costs as a result of the expansion of the size of the Group.

Finance costs amounted to approximately HK\$3.8 million, of which approximately HK\$2.9 million represents effective interest expenses on convertible notes issued by the Company in December 2009.

The profit attributable to the owners of the parent amounted to approximately HK\$90.8 million for the six months ended 31 December 2009, representing an increase of approximately 193% compared to approximately HK\$31.0 million in the corresponding period in the previous financial year. The profit attributable to the owners of the parent amounted to approximately HK\$47.1 million for the current three-month period ended 31 December 2009, representing an increase of approximately 8% compared to approximately HK\$43.7 million in the previous quarter.

Basic earnings per share for the six months ended 31 December 2009 was approximately HK6.13 cents, compared to HK3.73 cents for the corresponding period of the last year.

Business review and prospects

During the second quarter, attempts were also made to apply the Group's technology to other areas while continuing its mobile TV integration business for broadening the revenue base of the Group. The Group has attained highly satisfactory results when compared to the corresponding period of the previous year.

(i) Ground wireless digital TV network equipment integration business

Approximately HK\$205.4 million or 60% of the total turnover of the Group in the six months ended 31 December 2009 was derived from the construction project of the ground wireless digital television operating platform.

In line with the actual development of ground digital TV in Hubei province, Hubei Chutian CTV Network Co., Ltd. (湖北省楚天中視網絡有限責任公司) was provided with main equipment and auxiliary equipment for its four transmitters and additional auxiliary equipment for its early stage of transmitters. The number of terminal set-top boxes increased by 150,000 new sets.

With the anticipation of the slight delay in the construction of the broadcasting base station in Hunan, and for the purpose of reducing the initial stocks, the supply cycle of the set-top boxes was thus slowed down in the second quarter, and the construction of base station for the provincial network was still in progress.

(ii) Information safety products business

The turnover for the six months ended 31 December 2009 generated from the information safety products business and the related technical services amounted to approximately HK\$76.9 million or approximately 23% of the total turnover.

While putting a great effort in the research and development of products for wireless TV market, the Group also focused on the research and development and sales of products for cable TV market. It has developed the cable TV two-way upgrade products (MoCA and EPON) with free intellectual property right and were manufactured under OEM. The products were sold in Yichang, Sichuan, Zhejiang. The contracted amount for the first contract was approximately RMB10 million.

Taking advantages of the existing technology of the Group with integration of the technology resources from other parties, the Group entered into sale contracts for Ministry of Health's project for the provision of medical services to the rural areas in the second quarter after a long period of development and negotiation. Products include audio and video diagnosis terminals for medical use, PIN management products, digitization equipment for medical data, human medical data collector. The project has started to contribute to the Group's revenue and profit for this quarter.

During the second quarter, the Group has strengthened its sales to the government and successfully completed the first contract for large amount purchase by Beijing University of Technology in the short period of time for software products, IP core, data collection products, simulators for research and development. The profit margin of those products was as high as 45%.

(iii) Wireless digital audio products business

The turnover for the six months ended 31 December 2009 generated from the wireless digital audio products business and the related technical services amounted to approximately HK\$58.0 million or approximately 17% of the total turnover, mainly contributed by the revenues from domestic customers. However, with the effort of the Group, overseas sales recovered to a certain extent.

During the second quarter, as there was a further increase in domestic demand, demand from domestic customers of the Group was rising further, which provided the Group with an effective protection and profit driver for high revenue for the years to come.

With further recovery of the global economy, the segment's overseas business operation also experienced a rebound and both the new projects from the clients and sales orders also increased. All of its customers have confidence in the prospects of the wireless product market and accelerate the progress of their projects, which are undergoing a fast pace. All of the overseas customers are speeding up the research and development of their new projects in 2010 while some of the suspended projects have also been restarted. The number of customers in the export segment has been significantly increased.

Prospects

Looking forward, the Group will continue to strengthen its existing businesses.

In addition, the Group continues to identify new business opportunity and actively carries out marketing activities specially for the operators in the mainland China. By taking advantages of the government's favorable policy on broadcasting and the successful experience, the Group will be able to capture such prime opportunity to expand its cable TV market. It is expected that the Group will cooperate and enter into contract(s) with one to two provincial government(s) and generate sales in the coming quarter. During the second quarter, the Group has strengthened the cooperation with a number of provinces for cable TV markets, the negotiations with Jiangxi, Shanxi and Yunnan governments are at the final stages.

With the implementation of integration of the telecommunication network, broadcasting TV network and internet, it is estimated that the scale of national investment will reach 60 billion by the end of 2015. The integration of the three networks will force the broadcasting operators to accelerate their inter-regional integration, to upgrade their networks and to operate in a more market oriented way. To capture such good opportunity, the Group will actively carry out specific, high value-added product development, production and sales so as to gain its presence in cable TV markets and the three networks integrated market in the future.

The Group will draw on its existing advantages in technology and social resources, focusing on government procurement business and group purchase business. Those technical products developed by the Group, such as EPON products (the optical access technology in metropolitan-area networks) and MOCA technical products (coaxial cable high-speed and effective access technology), can also be used by such customers as China Mobile, China Unicom and China Telecom. Currently, negotiations with these customers are under way. The business potential would be significant if co-operation with even some of these parties could materialise.

With the introduction of the state's energy saving and emission reduction policy, the demand for green energy saving products has been in rapid increase. Taking advantage with its existing technology and technology being developed and their cooperation with the hardware manufacturers, the Group will carry out its marketing activities targeting the PRC's three largest operators, namely China Mobile, China Unicom, China Telecom and such other customers as Agricultural Bank of China and Bank of China, and orders are expected in the near future.

For home wireless multimedia products, such as wireless stereo headphones and education products, while retaining 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 will employ similar cooperation model with Philips to introduce its product design with certain famous domestic brands in the home wireless multimedia market.

Though the Group has established strategic cooperation with 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. The Group will put hold more promotion activities to bring its products into the games and PC market.

Liquidity and Financial Resources

As at 31 December 2009, the cash and bank balances of the Group amounted to approximately HK\$80.7 million (30 June 2009: 92.4 million). The Renminbi denominated balances of HK\$70.3 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.

During the six months ended 31 December 2009, the Group has net cash outflow of approximately HK\$81.6 million and HK\$17.4 million for its operating activities and investing activities respectively and cash inflow of approximately HK\$86.8 million from financing activities.

As at 31 December 2009, the gearing ratio of the Group, calculated as total borrowings over shareholders' funds, was approximately 0.03 (30 June 2009: 0.06).

Exposure to fluctuations in exchange rates and related hedges

The Company's revenues and expenses are primarily transacted in Hong Kong dollar and Renminbi. As at 31 December 2009, the Group has no outstanding foreign currency hedge contract.

Charge on Group Assets

As at 31 December 2009, the Group did not have any charge on its assets.

Contingent liabilities

Apart from the actions against the Company disclosed in the "Litigation" section of this announcement, there were no other material outstanding writs and litigations against the Group and/or the Company.

Capital Structure

During the six months ended 31 December 2009, an aggregate of 147,400,000 new shares were issued by the Company, of which 100,000,000 from share placements and 47,400,000 from exercise of share options.

Acquisition/Disposal and Significant Investments

The Group had no material acquisition or disposal of subsidiaries during the six months ended 31 December 2009.

Employee Information

As at 31 December 2009, the Group employed a total of 113 (30 June 2009: 83) full-time employees. The Group's remuneration policy remained the same as detailed in the Annual Report for 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 31 December 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 shares	underlying shares (Note)	Approximate percentage of interests in the issued share capital
Mr. Xiao Yan	Chief Executive Officer/ Executive Director	Beneficial owner	—	2,200,000	0.14%
Mr. Feng Yongming	Executive Director	Beneficial owner	—	1,000,000	0.07%
Mr. Wu Fred Fong	Chief Financial Officer	Beneficial owner	1,000,000	4,000,000	0.33%

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

Save as disclosed above, at no time during the six months ended 31 December 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 31 December 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>)	647,236,706 (L)	Interest in controlled corporation	42.22%
Team Effort Investments Limited (<i>Note 1</i>)	645,236,706 (L)	Interest in controlled corporation	42.09%
Mind Smart Group Limited (<i>Note 1</i>)	469,706,000 (L)	Beneficial owner	30.64%
Li Haoping (<i>Note 2</i>)	346,687,353 (L)	Interest in controlled corporation	22.61%
Lomond Group Limited (<i>Note 2</i>)	345,687,353 (L)	Interest in controlled corporation	22.55%
Easy Mount Enterprises Limited (<i>Note 2</i>)	308,897,000 (L)	Beneficial owner	20.15%
Atlantis Investment Management Limited	170,494,000 (L)	Investment manager	10.50%

L: Long Position

Notes:

- The entire issued share capital of Mind Smart Group Limited is owned as to 85% by Team Effort Investments Limited and 15% by Mr. Lu Xing. Team Effort Investments Limited is wholly owned by Mr. Choi Chung Lam. Team Effort Investments Limited and Mr. Choi Chung Lam are deemed to be interested in the 469,706,000 shares to be issued upon the exercising of the conversion rights attaching to convertible notes. Mr. Choi Chung Lam is also deemed to be interested in the 175,530,706 shares held by Team Effort Investments Limited.
- The entire issued share capital of Easy Mount Enterprises Limited is owned as to 85% by Lomond Group Limited and 15% by Mr. Ho Wai Jung. Lomond Group Limited is wholly owned by Mr. Li Haoping. Lomond Group Limited and Mr. Li Haoping are deemed to be interested in the 308,897,000 shares to be issue upon the exercising of the conversion rights attaching to convertible notes. Mr. Li Haoping is also deemed to be interested in the 36,790,353 shares held by Lomond Group Limited.

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

Participants	Number of Shares (Note)				As of 31 December 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”) is claiming against Precision Assets Limited, being the first defendant, Mr. Tony Hoo, being the second defendant (the “2nd Defendant”) and the Company, being the third defendant (together called the “Defendants”). The Plaintiff claims against the Company under a forbearance agreement which was allegedly made partly orally and partly in writing between the Plaintiff and the 2nd Defendant for and on behalf of the Defendants. Mr. Tony Hoo was a former executive Director who was appointed on 11 September 2002 and resigned on 5 June 2007.

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

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

Save as disclosed above, the Group was not engaged in any litigation or arbitration or claims of material importance which is known to the Directors to be pending or threatened by or against the Group as at 31 December 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 at the date of this announcement, the audit committee comprises three independent non-executive Directors, namely, Mr. Leung Wo Ping JP (Chairman), Mr. Dong Shi and Mr. Hu Dingdong.

The duties of the audit committee include reviewing the Group's annual reports and accounts, half-year 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.

CORPORATE GOVERNANCE REPORT

Throughout the six months ended 31 December 2009, the Group has applied the principles set out in the Code on Corporate Governance Practices ("HKSE Code") contained in Appendix 15 of the GEM Listing Rules except the code provisions A2.1 and A4.1 stipulated in the following paragraph.

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 new appointment of Chairman of the Company in due course.

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 six months ended 31 December 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 six months ended 31 December 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 six months ended 31 December 2009.

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

Hong Kong, 12 February 2010

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

This announcement will remain on the GEM website on the "Latest Company Announcement" page for at least 7 days from the date of its posting and on the website of the Company at www.hengxinchina.com.hk.