

*Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness, and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.*

*This announcement appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the Shares.*



**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)*

### **SUBSCRIPTION FOR CONVERTIBLE BONDS UNDER GENERAL MANDATE**

#### **THE SUBSCRIPTION AGREEMENT**

On 17 December 2010 (after trading hours), the Company and the Subscriber entered into the Subscription Agreement pursuant to which the Subscriber has agreed to subscribe for the Bonds in the aggregate principal amount of HK\$200,000,000.

The Subscription is conditional upon satisfaction of the Conditions Precedent as set out under the paragraph headed “Conditions Precedent to the Subscription Agreement” below.

Assuming the conversion rights attaching to the Bonds are exercised in full at the initial Conversion Price, a maximum of 100,000,000 Conversion Shares will be allotted and issued, representing approximately 5.22% of the entire issued share capital of the Company as at the date of this announcement and approximately 4.96% of the entire issued share capital as enlarged by the issue of the Conversion Shares.

The Conversion Shares, upon issue, shall rank pari passu in all respects with the Shares then in issue.

The Company will allot and issue the Conversion Shares under the General Mandate.

#### **THE SUBSCRIPTION AGREEMENT**

On 17 December 2010 (after trading hours), the Company and the Subscriber entered into the Subscription Agreement pursuant to which the Subscriber has agreed to subscribe for the Bonds in the aggregate principal amount of HK\$200,000,000.

#### **Parties**

Issuer: The Company

Subscriber: Sandmartin International Holdings Limited, a company incorporated in Bermuda with limited liability

\* *For identification purposes only*

To the best of the knowledge, information and belief of the Directors having made all reasonably enquiry, the Subscriber and its ultimate beneficial owners are Independent Third Parties. The Subscriber is an investment holding company and its group is principally engaged in manufacture and trading of media entertainment platform related products, and connectors, cables and assorted electronic accessories. Its shares are listed on the Main Board of the Stock Exchange (stock code 482).

## **MAJOR TERMS OF THE BONDS**

### **Total Principal Amount**

HK\$200,000,000

### **Issue Price**

HK\$200,000,000

### **Interest**

The Bonds do not bear any interest on the outstanding principal amount thereof.

### **Maturity Date**

The date falling two years after the Issue Date or, if that is not a Business Day, the first Business Day thereafter.

### **Conversion Rights**

- (1) The Subscriber will have the right to convert the principal amount of the Bonds into Conversion Shares at the Conversion Price at any time during the Conversion Period, provided that the Bondholder may convert their Bonds into Shares prior to the commencement of the Conversion Period with the prior written consent of the Company.
- (2) To the extent that the Conversion Right has not been exercised (and the Bonds have not otherwise been redeemed in accordance with the Conditions), if during any of the Mandatory Conversion Period, the Closing Price of each Share is HK\$2.40 (or such price as adjusted as a result of consolidation or sub-division or reclassification of the Shares and in accordance with the adjustment formula set out in the Conditions) or more for 10 consecutive Trading Days (“**10-day Period**”),
  - (a) in the First Mandatory Conversion Period, the Conversion Rights attaching to HK\$66,666,666 of the outstanding principal amount of the Bonds (or such amount equal to the difference between (i) HK\$66,666,666 and (ii) the principal amount of the Bonds which has been converted into Shares during the First Mandatory Conversion Period provided that where the difference is a negative figure, the principal amount of the Bonds subject to mandatory conversion under this paragraph shall be deemed to be “0(zero)”), shall be deemed to be automatically exercised at 5:00 p.m. on the last day of the relevant 10-day Period;

- (b) in the Second Mandatory Conversion Period, the Conversion Rights attaching to HK\$133,333,333 of the outstanding principal amount of the Bonds (or such amount equal to the difference between (i) HK\$133,333,333 and (ii) the principal amount of the Bonds which has been converted into Shares during the First Mandatory Conversion Period and/or the Second Mandatory Conversion Period provided that where the difference is a negative figure, the principal amount of the Bonds subject to mandatory conversion under this paragraph shall be deemed to be “0(zero)”), shall be deemed to be automatically exercised at 5:00 p.m. on the last day of the relevant 10-day Period;
- (c) in the Third Mandatory Conversion Period, the Conversion Rights attaching to the whole of the outstanding principal amount of the Bonds shall be deemed to be automatically exercised at 5:00 p.m. on the last day of the 10-day Period; and

in each case, no further notice is required from the Company to the Bondholders or vice versa.

### **Conversion Shares**

Assuming the conversion rights attaching to the Bonds are all exercised in full at the Conversion Price of HK\$2.00 per Conversion Share, a maximum of 100,000,000 Shares will be allotted and issued, representing approximately 5.22% of the entire issued share capital of the Company as at the date of this announcement and approximately 4.96% of the entire issued share capital as enlarged by the Conversion Shares.

### **Conversion Price**

The Conversion Price shall be HK\$2.00, subject to adjustments for, inter alia, the anti-dilution provisions summarized below.

The Conversion Price represents:

- (i) a premium of approximately 24.22% to the closing price of HK\$1.61 per Share as quoted on the Stock Exchange on the date of the Subscription Agreement;
- (ii) a premium of approximately 22.70% to the average closing price of HK\$1.63 per Share as quoted on the Stock Exchange for the last five trading days ended on and including the Last Trading Day;
- (iii) a premium of approximately 22.70% to the average closing price of HK\$1.63 per Share for the last ten trading days ended on and including the Last Trading Day; and
- (iv) a premium of approximately 252.73% to the audited net asset value per share of approximately HK\$0.567 based on the number of issued shares as at the Last Trading Day.

The Conversion Price was determined after arm's length negotiations between the Company and the Subscriber with reference to the prevailing market price of the Shares.

### **Conversion Period**

The period commencing from the day immediately after the expiry of six months from the Issue Date up to 4:00 p.m. on the Maturity Date.

## **Redemption**

### *Early Redemption*

From the day immediately after the expiry of six months from the Issue Date, at the sole discretion of the Company, the Company may cancel and redeem all the outstanding Bonds in whole at 110% of the principal amount of the outstanding Bonds to be redeemed with interest accrued (if any) until payment in full. The decision of the Company to cancel and to redeem the Bonds shall become effective on the 15th Business Day after its service (“**Redemption Effective Date**”). Notwithstanding anything aforesaid, the Bondholder may exercise the right to convert all (but not part only) the outstanding Bonds by depositing the conversion notice at anytime prior to the Redemption Effective Date provided that the relevant conversion notice must be deposited at the specified office of the Company at least two Business Days immediately before the Redemption Effective Date and in such case, the notice to redeem given by the Company shall be treated as revoked and cease to have effect.

### *Mandatory Redemption*

The Bonds shall be mandatorily redeemed by the Company:

- (i) upon the occurrence of an Event of Default and at any time thereafter, the Subscriber may, unless such Event of Default has been waived in writing by it, by notice in writing require the Company to redeem the whole (but not part) of the outstanding principal amount of the Bonds at 110% of the principal amount of the outstanding Bonds to be redeemed with interest accrued (if any) until payment in full; or
- (ii) any Bond which remains outstanding by 4:00 p.m. (Hong Kong time) on the Maturity Date shall be redeemed by the Company at a redemption amount equal to the principal amount of the Bonds together with interest accrued thereon.

### **Adjustments to the Conversion Price**

The Conversion Price shall from time to time be adjusted upon the occurrence of certain events including but not limited to the following:

- (i) consolidation or sub-division or reclassification of the Shares;
- (ii) capitalisation of profits or reserves;
- (iii) capital distribution to the shareholders of the Company;
- (iv) rights issues of Shares or options, etc. over Shares;
- (v) rights issue of other securities;
- (vi) issue of Shares at less than current market price;
- (vii) issues of other securities at less than current market price;
- (viii) modification of rights of conversion of other securities; and
- (ix) other offers of securities to the shareholders of the Company.

## **Lock-up period for Conversion Shares and Bonds**

Not applicable.

## **Transferability**

The Bonds are not transferable

## **Voting**

The Bondholder will not be entitled to attend or vote at any meetings of the Company by reason only of its being a Bondholder.

## **Listing**

No application will be made for the listing of the Bonds. An application will be made to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares that may be allotted and issued upon conversion of the Bonds.

## **Ranking of Conversion Shares**

The Conversion Shares will rank pari passu in all respects among themselves and with other Shares in issue on the conversion date of the Bonds.

## **Events of Default**

Any Bondholder may give notice to the Company that the Bonds are immediately due and repayable if:

- (1) a default is made in the payment of any principal or interest due in respect of the Bonds;
- (2) any failure by the Company to deliver any Shares as and when the Shares are required to be delivered following conversion of the Bonds;
- (3) a default is made by the Company in the performance or observance of any covenant, condition or provision contained in the Instrument or in the Bonds and on its part to be performed or observed (other than the covenant to pay the principal, premium (if any) and interest in respect of any of the Bonds) and such default continues for the period of 30 days next following the service by any Bondholder on the Company of notice specifying brief details of such default and requiring such default to be remedied; or
- (4) the Company defaults under any loan agreement, facility letter, other agreement or obligation relating to borrowing or credit, any hire-purchase credit sale, conditional sale leasing or similar agreement or any guarantee in respect of the obligations of any third party or if any borrowing or other money payable under any of the foregoing becomes or is capable of being declared payable prior to its stated maturity or is not paid within 20 days after the due date or if any mortgage charge or other security now or after the date of the Instrument created by the Company becomes enforceable;
- (5) a resolution is passed or an order of a court of competent jurisdiction is made that the Company be wound up or dissolved or the Company disposes of all or substantially all of its assets, otherwise, in any such case, than for the purposes of or pursuant to and followed by a consolidation, amalgamation, merger or reorganisation, the terms of which shall have previously been approved in writing by the Bondholder; or
- (6) an Encumbrancer takes possession or a receiver is appointed of the whole or a material part of the assets or undertaking of the Company or any of its subsidiaries; or

- (7) a distress, execution or seizure before judgment is levied or enforced upon or sued out against a material part of the assets or undertaking or property of the Company or any of its subsidiaries and is not discharged within seven days thereof; or
- (8) if the Shares are suspended by the Stock Exchange for a period of 30 consecutive trading days (other than any suspension of trading pending the release of any announcement as required under Chapter 19 or Chapter 20 of the GEM Listing Rules) or listing of the Shares on the Stock Exchange are being revoked or withdrawn; or
- (9) if there is not a sufficient number of Shares of the Company available for the fulfilment of the obligations regarding the conversion of the Bonds.

#### **Mandate to issue the Conversion Shares:**

The Conversion Shares will be issued pursuant to the General Mandate granted to the Directors at the annual general meeting of the Company held on 9 November 2010. The Directors were authorised to allot and issue up to 365,540,600 Shares pursuant to the General Mandate. Up to the date of the Announcement, the Directors have utilised part of the General Mandate to issue 168,138,443 Shares. Accordingly, the issue of the Conversion Shares is not subject to any approval by the Shareholders.

Given that the Conversion Price may in the future be adjusted as a result of the happening of adjustment events as mentioned above, the number of Conversion Shares which may fall to be issued upon exercise of the Conversion Rights may exceed 100,000,000. In such case, the Company will ensure that it will have sufficient mandate, either from available unused General Mandate or by specific mandate to be obtained from Shareholders, to cover the issue of all Conversion Shares based on the adjusted Conversion Price before carrying out any transaction which will trigger any adjustment to the Conversion Price.

#### **Conditions precedent to the Subscription Agreement:**

The subscription by the Subscriber of the Bonds shall be conditional upon the following conditions being fulfilled at or before 5:00 p.m. on the Longstop Date:

- (a) the Stock Exchange having granted listing of and permission to deal in the Conversion Shares;
- (b) (if required) the Bermuda Monetary Authority granting its permission to the allotment and the issue of the Conversion Shares; and
- (c) the warranties given by the Company under the Subscription Agreement being true, accurate and correct as at the date of the Subscription Agreement and the Completion Date.

If the conditions specified above are not fulfilled by 5:00 p.m. (Hong Kong time) on the Longstop Date, the Subscription Agreement shall terminate and the respective obligations of the parties to the Subscription Agreement shall forthwith cease and terminate and none of the Company or the Subscriber shall have any claim against the other of them.

#### **Completion of the issue of the Bonds:**

Completion of the issue of the Bonds is scheduled to take place at 11:00 a.m. (Hong Kong time) on the third Business Day after the date on which all the Conditions Precedent have been fulfilled.

On Completion Date, the Company shall issue to the Subscriber the Bonds and the Subscriber shall make payment for the principal amount of the Bonds.

## FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

The Company has conducted the following fund raising activities during the past 12 months immediately before the date of this announcement:

<b>Date of announcement</b>	<b>Fund-raising activities</b>	<b>Net proceeds raised</b>	<b>Intended use of proceeds as announced</b>	<b>Actual use of proceeds</b>
14 September 2010	Placing of 200,000,000 Shares at HK\$0.75 each	HK\$148 million	Providing capital for the Company's expansion initiatives and general working capital purpose	HK\$83 million used for business expansion
30 November 2010	Grant of option to subscribe for 90,000,000 Shares at HK\$1.32 each	HK\$119 million if the option is exercised in full	Providing general working capital and business expansion purposes	option is not yet exercised

## SHAREHOLDING STRUCTURE

Assuming that there will be no other change in the shareholding structure of the Company immediately before the exercise in full of the conversion rights attaching to the Bonds, the shareholding structure of the Company (i) as at the date of this announcement; and (ii) immediately after the exercise in full of the conversion rights attaching to the Bonds (based on the initial Conversion Price of HK\$2 per Conversion Share) are as follows:

<b>Shareholder</b>	<b>As at the date of this announcement</b>		<b>Immediately after the exercise in full of conversion rights attaching to the Bonds</b>	
	<i>No. of Shares</i>	<i>%</i>	<i>No. of Shares</i>	<i>%</i>
Team Effort Investments Limited (Note 1)	208,049,996	10.85	208,049,996	10.32
Lomond Group Limited (Note 2)	39,164,000	2.04	39,164,000	1.94
Subscriber	—	—	100,000,000	4.96
Other public Shareholders	1,669,612,431	87.11	1,669,612,431	82.78
<b>Total</b>	<b>1,916,826,427</b>	<b>100.00</b>	<b>2,016,826,427</b>	<b>100.00</b>

*Note:*

1. Team Effort Investments Limited is wholly owned by Mr. Choi Chung Lam (“Mr. Choi”). Team Effort Investments Limited and Mr. Choi are deemed to be interested in the 485,410,456 shares to be issued upon the exercising of the conversion rights attaching to convertible notes issued by the Company to Mind Smart Group Limited which is owned as to 85% by Team Effort Investments Limited and 15% by Mr. Lu Xing.
2. Lomond Group Limited is wholly owned by Mr. Li Haoping (“Mr. Li”). Lomond Group Limited and Mr. Li are deemed to be interested in the 319,224,863 shares to be issued upon the exercising of the conversion rights attaching to convertible notes issued by the Company to Easy Mount Enterprises Limited which is owned as to 85% by Lomond Group Limited and 15% by Mr. Ho Wai Jung.

## **REASON FOR ENTERING INTO THE SUBSCRIPTION AGREEMENT**

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

Assuming of the Bonds have been subscribed by the Subscriber under the Subscription, the aggregate gross proceeds and net proceeds to the Company from the issue of the Bonds will be HK\$200 million and approximately HK\$199 million respectively. The net price of each Conversion Share is approximately HK\$1.99. The Directors consider various ways of raising funds and consider that the Subscription represent an opportunity to enlarge the equity base of the Company and provide general working capital for the Company’s business expansion. The Company currently does not have any specific plans of investments or business development at present.

The Directors consider that the terms of the Subscription Agreement are fair and reasonable based on the current market conditions and in the interests of the Company and its shareholders as a whole.

## **DEFINITION**

In this announcement, unless the context otherwise requires, the following expressions have the following meanings:

“Bonds”	bonds in the denomination of HK\$10,000,000.00 each in registered form comprising HK\$200,000,000.00 zero coupon convertible bonds to be issued by the Company in accordance with the provisions of the Subscription Agreement and constituted by the Instrument and for the time being outstanding or, as the context may require, any number of them
“Bondholder”	a person in whose name a Bond is registered in the register of Bondholders, and “ <b>holder</b> ” in relation to a Bond has a corresponding meaning
“Business Day(s)”	any day(s) (except any Saturday, Sunday or public holiday) on which licensed banks in Hong Kong are open for business throughout their normal business hours
“Closing Price”	in respect of a Share, the closing price published in the Stock Exchange’s Daily Quotations Sheet

“Company”	Heng Xin China Holdings Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the GEM
“Completion Date”	the third Business Day after the date on which all the Conditions Precedent are fulfilled
“Conditions”	the terms and conditions endorsed on the Bonds in definitive form as they may from time to time be modified in accordance with their provisions and/or of the Instrument and reference in the Subscription Agreement to a particular numbered Condition shall be construed accordingly.
“Conditions Precedent”	conditions precedent to the Subscription Agreement as set out in the paragraph headed “Conditions Precedent to the Subscription Agreement” above
“connected person(s)”	has the meaning ascribed thereto under the GEM Listing Rules
“Conversion Period”	the period commencing from the day immediately after the expiry of six months from the Issue Date up to 4:00 p.m. on the Maturity Date
“Conversion Price”	HK\$2.00 per Conversion Share, subject to adjustments, in the manner provided in the Instrument and the Conditions
“Conversion Right”	the right of a Bondholder to convert the whole or part of the principal amount of any Bond into Shares subject to and in accordance with the Conditions
“Conversion Shares”	Shares to be issued upon conversion of the Bonds
“Directors”	the directors of the Company
“Encumbrances”	any mortgage, charge, pledge, lien (otherwise than arising by statute or operation of law), hypothecation, equities, adverse claims, or other encumbrances, priority or security interest, deferred purchase, title retention, leasing, sale-and-purchase, sale-and-leaseback arrangement over or in any property, assets or rights of whatsoever nature or interest or any agreement for any of same and “ <b>Encumbrancer</b> ” shall be construed accordingly
“Events of Default”	events of default to the Subscription Agreement as set out in the paragraph headed “ <b>Events of Default</b> ”
“First Mandatory Conversion Period”	the first six-month period of the Conversion Period (i.e. from the date immediately following the expiry of six months from the Issue Date to the date which falls on the expiry of 12 months from the Issue Date)
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on the Growth Enterprise Market of Stock Exchange, as amended from time to time

“General Mandate”	the general mandate granted to the Directors at the annual general meeting of the Company held on 9 November 2010 to allot or otherwise deal with the unissued Shares
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Third Party(ies)”	third party(ies) who is/are not connected person(s) of the Company and is/are independent of and not connected with the Company and its connected persons
“Instrument”	the instrument to be executed by the Company by way of a deed poll constituting the Bonds, together with the schedules (as from time to time altered in accordance with the instrument) and any other document executed in accordance with the instrument (as from time to time so altered) and expressed to be supplemental to the instrument
“Issue Date”	the date of first issue of the Bonds
“Last Trading Day”	16 December 2010, being the last trading date prior to the date of the Subscription Agreement
“Longstop Date”	16 January 2011, being 30 days after the date of the Subscription Agreement or such other date as the Company and the Subscriber shall agree in writing
“Mandatory Conversion Period”	the First Mandatory Conversion Period, the Second Mandatory Conversion Period and the Third Mandatory Conversion Period
“Maturity Date”	the date falling two years after the Issue Date or, if that is not a business day, the first business day thereafter
“Second Mandatory Conversion Period”	the second six-month period of the Conversion Period (i.e. from the date immediately following the expiry of 12 months from the Issue Date to the date which falls on the expiry of 18 months from the Issue Date)
“Share(s)”	share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	the holder(s) of Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber”	Sandmartin International Holdings Limited, a company incorporated in Bermuda with limited liability and listed on the Main Board of the Stock Exchange
“Subscription”	the subscription for the Bonds pursuant to the Subscription Agreement
“Subscription Agreement”	the agreement entered into by the Company and the Subscriber on 17 December 2010 pursuant to which the Subscriber has agreed to subscribe for the Bonds in the aggregate principal amount of HK\$200,000,000

“Third Mandatory Conversion Period”	the third six-month period of the Conversion Period (i.e. from the date immediately following the expiry of 18 months from the Issue Date to the date which falls on the Maturity Date)
“Trading Day(s)”	any day(s) (other than a Saturday or Sunday) on which the Stock Exchange is open for dealing business, provided that if the Stock Exchange is closed for part of such day, or if no Closing Price in respect of the Shares is published in the Stock Exchange’s Daily Quotations Sheet for one or more consecutive dealing days trading of Shares is suspended on such day(s), such day or days will be disregarded
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent

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

Hong Kong, 17 December 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, for which 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 for the purpose of giving information with regard to the issuer. The directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.*

*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)*